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I.C.C. DOCKET NO. 00-0763

Petitioner's Exhibit No. 1 **HOLIDAY HILLS UTILITIES, INC.**

Witness Nicholas

Date 2/15/01 Person gn

**Direct Testimony of**

**Erin L. Nicholas**

1 **Q. Please state your name, occupation and business address**  
2 **for the record.**

3 A. My name is Erin L. Nicholas. I am a Regulatory Analyst  
4 for Utilities, Inc. and subsidiaries, including Holiday  
5 Hills Utilities, Inc. (HHUI). My business address is 2335  
6 Sanders Road, Northbrook, Illinois.

7

8 **Q. Please state your professional and educational**  
9 **background and experience.**

10 A. I have been employed by Utilities, Inc. since 1996.  
11 Since that time I have been involved in both the  
12 accounting and rate-making aspects of the utility  
13 business. I have been responsible for rate filings in  
14 Florida, New Jersey, North Carolina, Pennsylvania and  
15 Virginia.

16

17 I earned a Bachelor of Business Administration degree in  
18 accounting from the University of Notre Dame in South  
19 Bend, Indiana. I am currently enrolled in the Masters  
20 of Business Administration Program at Kellogg Graduate  
21 School of Management at Northwestern University in  
22 Chicago, Illinois. I am a Certified Public Accountant  
23 and I have attended the NARUC Utility Rate Seminar as  
24 well as other related independently sponsored seminars.

1

2 **Q. Please explain your job responsibilities at Utilities,**  
3 **Inc.**

4 A. My responsibilities include: financial analysis of  
5 individual subsidiaries of Utilities, Inc., preparation  
6 of applications for rate relief, facilitation of  
7 commission audits, and the submission of financial  
8 testimony and schedules to support a request for an  
9 increase in rates.

10

11 **Q. Please describe Utilities, Inc.**

12 A. Utilities, Inc. (UI), the parent company of Holiday  
13 Hills Utilities, Inc., has been involved in the water  
14 and sewer industry for over 35 years. UI is a privately  
15 held company that owns approximately 75 operating  
16 companies. These facilities are spread throughout 16  
17 states including: Illinois, Arizona, Florida, Georgia,  
18 Indiana, Louisiana, Maryland, Mississippi, North  
19 Carolina, Nevada, New Jersey, Ohio, Pennsylvania, South  
20 Carolina, Tennessee, Virginia.

21

22 **Q. Please describe Holiday Hills Utilities, Inc.**

23 A. Holiday Hills Utilities, Inc. is a wholly owned  
24 subsidiary of Utilities, Inc. Utilities, Inc. is in the  
25 process of incorporating HHUI under the laws of the  
26 State of Illinois. Because this new subsidiary had not  
27 been formed at the time the purchase agreement was  
28 signed, concurrent with the approval to purchase,  
29 Utilities, Inc. requests permission to assign the rights  
30 under the agreement to this new corporation. A copy of

1 the certificate of incorporation will be submitted as a  
2 late filed exhibit once it is obtained.

3  
4 HHUI will provide water service to the 240 water  
5 customers in the Holiday Hills subdivision near Island  
6 Lake in McHenry County, Illinois. The system is situated  
7 approximately 12 miles south of Utilities, Inc.'s  
8 Northern Properties operations. The water system is  
9 approximately 42 years old. HHUI requests the  
10 Commission to grant to it a Certificate of Public  
11 Convenience and Necessity to operate and maintain the  
12 water system and to engage in the business of furnishing  
13 water public utility service in the Community Service  
14 Corporation's service area. In addition, HHUI requests  
15 that the current certificates held by Community Service  
16 Corporation be canceled. HHUI further requests that  
17 this area be defined in the Order entered in this  
18 proceeding and that the Certificate of Public  
19 Convenience and Necessity be effective from and after  
20 the closing date of the purchase transaction.

21  
22 **A. Will the utility business be operated in a substantially**  
23 **unchanged manner?**

24 A. Yes, HHUI intends to continue Community Service  
25 Corporation's public utility business in a substantially  
26 unchanged manner, except that the business will be  
27 operated as a subsidiary of Utilities, Inc. As such,  
28 the utility will be operated within the long-term goal  
29 of providing high quality water service. To accomplish  
30 this, the facilities will be maintained to a high

1 standard, certified operators will be employed and  
2 necessary capital expenditures will be made.

3

4 **Q. Is the proposed transfer in the public interest?**

5 A. Yes, this transfer is in the best interest of the using  
6 and consuming public. Utilities, Inc. has over 35 years  
7 of experience in the utility business. Utilities, Inc.  
8 was formed in 1965 with the objective of acquiring small  
9 water and sewer companies. These companies are often  
10 troubled and undercapitalized. They are primarily  
11 developer owned with little experience in operating  
12 utilities. Utilities, Inc. provides safe and reliable  
13 water and sewer service to approximately 231,000  
14 customers in 16 states resulting in significant  
15 operational economies of scale. HHUI's customers will  
16 certainly benefit from these economies of scale and the  
17 level of expertise gained by their affiliation with UI.  
18 While operating only water and sewer systems, UI  
19 personnel have the ability to meet the challenges of the  
20 rapidly changing utility industry. One major advantage  
21 is that capital is available for improvements and  
22 expansion at reasonable rates. In addition, the  
23 Utilities, Inc. group of companies has national  
24 purchasing power on expenditures such as insurance,  
25 vehicles and meters which result in lower costs to  
26 ratepayers. In addition, Utilities, Inc. has both the  
27 regulatory experience and financial wherewithal to  
28 ensure consistent compliance with environmental  
29 protection regulations. Utilities, Inc.'s experience in  
30 operating water and sewer utilities will provide depth  
31 to HHUI on both a day to day basis as well as during

1 emergencies. For these reasons, the public interest  
2 would be best served by the transfer of the water  
3 franchise to HHUI.  
4

5 **Q. Does HHUI wish to enter into the service contract with**  
6 **Water Service Corp.?**

7 A. Yes, it does. The Commission approved the existing  
8 contract for all of Utilities, Inc.'s Illinois  
9 subsidiaries on March 14, 1979. This agreement was  
10 slightly amended and again approved by the Commission in  
11 Docket No. 94-0157. The Order states that Staff  
12 recommends that the service agreement method utilized to  
13 allocate costs be reviewed for reasonableness and  
14 appropriateness in subsequent rate cases, and that in  
15 all other respects, Staff supported Commission approval  
16 of the amendment. Detail regarding the amended service  
17 agreement can be found in that docket. Please see a copy  
18 of the WSC agreement attached as **ELN Exhibit 1**.  
19

20 **Q. Please describe the relationship between Utilities, Inc.**  
21 **and Water Service Corp.**

22 A. WSC is the affiliated service company that provides  
23 centralized billing, accounting, data processing,  
24 engineering, management, and regulatory services for the  
25 greater than 350 water and wastewater systems supported  
26 by the 75 operating companies held by Utilities, Inc.,  
27 including Holiday Hills Utilities, Inc.  
28

29 One of the primary benefits of the Water Service Corp.  
30 agreement will be HHUI's access to a large pool of human  
31 resources from which to draw upon. As indicated above,

1           there are experts in various areas such as construction,  
2           engineering, operations, accounting, regulation, data  
3           processing, customer service, etc.

4

5   **Q. Does WSC charge a management fee or profit for these**  
6   **services?**

7   A. No, it does not.

8

9   **Q. How are costs assigned to the individual companies?**

10  A. Pursuant to the approved contract, wherever practical,  
11   the costs of these essential services are typically  
12   assigned directly to the company that benefits from the  
13   service provided. However, costs that cannot be  
14   identified to a specific company are allocated to the  
15   operating companies primarily based on the number of  
16   customers served. This methodology has been in use and  
17   accepted by each affected regulatory jurisdiction for  
18   many years.

19

20  **Q. How will the WSC allocations change as a result of this**  
21  **acquisition?**

22  A. The addition of HHUI to the Utilities, Inc. group of  
23   companies will result in a 0.137% allocation to HHUI and  
24   a very insignificant decrease of customer allocation  
25   percentages to all other utilities, less than a fraction  
26   of one percent. This is shown on the attached **ELN**  
27   **Exhibit 2**, page 2 of 2.

28

29

30

1 Q. Will the system be operated using existing personnel of  
2 Water Service Corp.?

3 A. Yes it will. Water Service Corp. employs approximately  
4 11 full-time Illinois operating personnel. This will  
5 provide depth to HHUI. Should an employee become ill or  
6 leave the area on vacation, another employee can be  
7 brought in. In addition, in emergencies additional  
8 staff will be made available.

9  
10 Q. How will the expenses for HHUI change as a result of this  
11 purchase?

12 A. Expenses may increase as the system is brought up to our  
13 operating standards. The exact amount of any increase  
14 is unknown since we are not operating the system at this  
15 time. However, we expect maintenance and repair expense  
16 as well as capital costs to increase. Since a new 4"  
17 well has recently been put in service, electric expense  
18 is expected to increase to provide additional power. In  
19 addition, plans to install approximately 20,000 gallons  
20 of new storage capacity will be considered and the  
21 current 10,000-gallon storage tank will likely be moved.  
22 Depreciation expense will increase as a result of the  
23 above-mentioned capital projects and improvements.  
24 Furthermore, WSC expenses will be incurred on behalf of  
25 HHUI as discussed above. Please see **ELN Exhibit 3** for a  
26 comparison of the previous owner's 1999 operating  
27 statement and an estimated pro forma operating statement  
28 as a subsidiary of Utilities, Inc.

29  
30  
31

1 Q. Will there be an acquisition adjustment?

2 A. Yes. At this time, I estimate that the acquisition  
3 adjustment will be approximately \$20,225 which is the  
4 difference between the net book value of the plant  
5 assets of \$151,776 plus the net Contributions in Aid of  
6 Construction of \$22,001 and the purchase price of  
7 \$150,000. These dollar amounts are based on the 1999  
8 annual report plus an estimate for the costs associated  
9 with capital improvements that were incurred in 2000,  
10 including the new well. I have also included an  
11 estimate for 2000 additions to accumulated depreciation.  
12 These figures could change based on information obtained  
13 at the closing. The acquisition adjustment will be  
14 recorded as a debit in the acquisition entry as follows:

15  
16 Water Plant \$293,102  
17 Accumulated Depreciation 141,326  
18 Contributions in Aid of Construction 36,678  
19 Accumulated Amortization of CIAC 14,677  
20  
21  
22 Plant acquisition adjustment 20,225  
23 Cash 150,000  
24  
25

26 Q. How will the acquisition adjustment be amortized?

27 B. Amortization of the acquisition adjustment will be  
28 booked below the line at 2% per year as a credit to  
29 Amortization of Utility Plant Acquisition Adjustments,  
30 and a debit to Accumulated Provision for Amortization of

1 Utility Plant Acquisition Adjustments. This rate equals  
2 the depreciation rate.

3

4 **Q. Is HHUI proposing a rate change at this time?**

5 A. No, HHUI proposes to provide water service pursuant to  
6 the rates, rules, regulations, and terms and conditions  
7 of service which have been approved by this Commission  
8 and which are currently in effect in the service area,  
9 subject to any changes hereafter approved by the  
10 Commission, and to continue all services currently  
11 provided by Community Service Corporation without  
12 interruption or change. The Company will file new  
13 tariff sheets under the name of Holiday Hills Utilities,  
14 Inc.

15

16 However, it is likely that the system will require a  
17 rate adjustment once various improvements are made and  
18 an operating history is obtained.

19

20 **Q. Should the proposed transfer be approved by the**  
21 **Commission?**

22 A. Yes. The transfer is in the best interest of the  
23 customers as noted above.

24

25 **Q. Does this conclude your testimony?**

26 A. Yes, it does.