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1 **Q. Please state your name and business address.**

2 A. My name is Dhvani S Mehta. My business address is 2335, Sanders Road, Northbrook, IL 60062.

3

4 **Q. What is your occupation?**

5 A. I am the Regulatory Staff Accountant.

6

7 **Q. Please summarize your professional background?**

8 A. I worked as a staff accountant for a small firm called Unified Barcode and RFID from August 2007 to  
9 November 2008. I was employed by Utilities, Inc. from November 2008, since November 2008 I  
10 have been involved in many phases of rate-making in several regulatory jurisdictions. I completed my  
11 bachelors and Masters in Accounting from India. I earned my Master of Business Administration  
12 from Roosevelt University Illinois in May 2007.

13

14 **Background**

15

16 **Q. Please describe Northern Hills Water and Sewer Company.**

17 A. Northern Hills Water and Sewer Company is a wholly owned subsidiary of Utilities, Inc. (UI). Water  
18 Service Corporation (WSC) manages the operation for all of UI's water and wastewater systems,  
19 including Northern Hills. WSC provides management, administration, engineering, accounting,  
20 billing, data processing, and regulatory services for the utility systems. WSC's expenses are assigned  
21 directly to a utility or distributed to the various companies pursuant to a formula that has been  
22 approved by the Commission.

23 Northern Hills provides water usage service to approximately 170 water customers and 180 sewer  
24 customers in Stephenson County. Northern Hills's current rate structure was approved pursuant to an  
25 order contained in Docket No. 03-0402 dated April 7, 2004.

26

27 **Q. Ms Mehta, what is the purpose of your testimony here today?**

28 A. The purpose of my testimony is to explain to the Commission why Northern Hills Water and Sewer  
29 Company has requested an increase in water rates. I will also discuss some of the factors that have  
30 contributed to the need for the increase and the impact of the increase on our customers. I will  
31 present and describe schedules showing the overall cost of capital and proper rate of return on rate  
32 base, and I will also sponsor the Utility's financial exhibits.

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1 Rate Relief

2

3 **Q. Why is Northern Hills Water and Sewer Company requesting rate relief at this time?**

4 A. A rate increase is necessary to allow the Utility to recover the reasonable and prudent costs of  
5 providing service and an opportunity to earn a fair and reasonable rate of return on its invested  
6 capital. Rates granted in 2004 do not reflect the 6 years of rising costs, many of which result from  
7 increased investment, and inflation. For these reasons the Utility is not able to achieve a reasonable  
8 rate of return on its investment. Rate relief is essential to ensure the continued availability of capital  
9 at a reasonable cost and to maintain a high and professional level of service. Under the present rate  
10 schedule, Northern Hills is not earning a fair and reasonable return on its investment. After making  
11 pro forma adjustments to the December 2008 test year for known, fixed and measurable changes  
12 Northern Hills Water and Sewer Company has an overall negative return of 3.29%. The proposed  
13 rates will allow the company to earn a 9.0% overall rate of return. This information is supported in  
14 the financial statements attached hereto as **Utility Exhibit One**.

15

16 **Q. Ms. Mehta, what factors, or changes in the cost of service, can you point to that have**  
17 **contributed to the need for the requested increase?**

18 A. The age of the system is a factor in the cost of maintenance to be done. As the system ages, the cost  
19 of maintenance increases. In addition, Northern Hills's parent company Utilities, Inc. recently spent  
20 significant capital to replace their aged accounting and customer, care and billing systems, which the  
21 Company refers to as Project Phoenix. This change included both software and hardware changes.  
22 Northern Hills Water and Sewer Company is committed to maintaining clean, safe, professional  
23 facilities. Our facilities are visible throughout the communities we serve.

24

25

26 **Q. Please describe Project Phoenix.**

27 A. Project Phoenix is the name of UI's initiative to evaluate the state of the Company's processes and  
28 systems.

29

30 **Q. Why did Utilities, Inc. initiate Project Phoenix?**

31 A. The Company had not made a significant investment in technology in quite some time. Antiquated  
32 systems, lack of integration, and the lack of standardization were beginning to have an adverse effect  
33 on the Company and its customers. Accordingly, UI set out to improve the Company's capabilities

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1 and processes in the accounting, customer service, customer billing and financial and regulatory  
2 reporting areas.

3

4 **Q. When did Project Phoenix begin?**

5 A. Project Phoenix began in early 2006 with a series of internal and external evaluations, which  
6 culminated in a business case presentation by Deloitte to the Company in September 2006. The  
7 business case identified: Drivers for Change, Current State Overview, Recommended Solutions,  
8 Future State, and Benefits to Stakeholders. The business case presentation confirmed UI's initial  
9 evaluations that: Fragmented and non-standardized processes were complex and inefficient, with an  
10 attendant risk of error and control breakdown. The infrastructure unnecessarily placed stress on the  
11 Company's human capital. The Company's legacy financial and customer care systems were either  
12 fully customized or unsupported, or both, which resulted in a risk of breakdown and impeded  
13 management's ability to obtain information to make decisions, and use of spreadsheets made ensuring  
14 accuracy and control difficult, resulting in the potential for errors in operation and regulatory reports.  
15 After the business case presentation and an evaluation of potential solutions, UI management selected  
16 JD Edwards Enterprise One ("JDE") as the financial system, including asset management, and  
17 Oracle's Customer Care and Billing System ("CC&B") as the customer information system. These  
18 systems are integrated in a manner that allows for the sharing of crucial information between the  
19 Company's different operational organizations.

20

21 **Q. Please describe the JDE system for the commission and the parties of record.**

22 A. JDE is a web-based software system that allows easy access from multiple locations. It is composed  
23 of the following modules: Accounts Payable, Human Resources / Time Capture, Requisitioning,  
24 Capital Projects, Fixed Assets, Equipment Management, and General Ledger.

25

26 **Q. What are the benefits of JDE?**

27 A. UI is excited about JDE. Each of the modules I described includes enhanced tracking and integration  
28 components, which should improve the Company's ability to record and retrieve data. Because of  
29 this functionality, UI, its customers and regulators should see marked improvement. The system has  
30 enhanced record keeping and retrieval functions, making production of financial and regulatory  
31 reports easier. In addition, the reports should be more accurate, which benefits customers by  
32 improving the management decision making process and allowing the Company to more efficiently  
33 deliver reliable information to regulators. The system also reduces manual effort and reliance on  
34 spreadsheets, which again improves the reliability of reports. The Capital Projects module allows

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1 employees to view and track projects in real-time. Employees should be able to view project  
2 costs in a more effective manner, which benefits the Company and customers

3

4 **Q. When was JDE placed into service?**

5 A. JDE was officially placed in service on December 3, 2007.

6

7 **Q. What is the total cost of the JDE project incurred by Utilities, Inc.?**

8 A. The total cost of the JDE system as of 12/31/08 was \$14,328,103.

9

10 **Q. Please describe the CC&B system for the commission and the parties of record.**

11 A. CC&B is a web-based software system. The web-based feature allows for quicker return of  
12 information to the user and allows for "quicker fixes" should the system go down involuntarily, or  
13 need to go down for routine maintenance. CC&B is composed of the following modules: Customer  
14 Management and Service, Billing, Accounts Receivables & Collections, Device Management, and  
15 Meter Reading.

16

17 **Q. What are the benefits of CC&B compared to Utilities, Inc.'s legacy system?**

18 A. UI's legacy customer care and billing system was fully customized and unsupported. The system had  
19 several weaknesses. Customer and premise information were linked in one account. As residents  
20 moved, the service order history at the premise was purged and prior service activities eventually  
21 became unavailable for viewing. This resulted in the loss of valuable information. In addition, field  
22 personnel were sent daily service orders either through email or fax. They did not have access to the  
23 legacy billing system. Upon completion of the service orders, the information was emailed or faxed  
24 back to the billing office for closure of the orders. The process was manually intensive and led to  
25 untimely responses due to incomplete fax transmissions. Additionally, as residents moved from one  
26 premise to another within the Company, they were issued a new account number. There was no  
27 efficient means of tracking a customer and transferring payment information, service history and  
28 billed services (debt) from one account to another.

29

30 CC&B offers the ability to focus on either a customer or a premise. Field activity information at a  
31 premise is stored in the records indefinitely, allowing field personnel to retain prior history of past  
32 service issues at a residence. This allows them to act in a cost effective manner when considering  
33 repair or replacement of equipment or lines at a premise. In addition, CC&B automates field

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1 activities to the field. A background process makes key decisions about assignments and timing.  
2 CC&B automates field activity dispatching and allows for uploading and downloading to hand-held  
3 devices. The system allows the field operators to complete field activities in a live environment so  
4 that CSR's (customer service representatives) have the information available to them as soon as the  
5 order is completed. In this regard, UI deployed "tough books" in each field vehicle.

6  
7 **Q. When did work on CC&B begin?**

8 A. Functional workshops to identify the needs of the organization began in June 2006. The workshops  
9 were designed to gather information and aid in the vendor selection process. In January 2007, UI  
10 selected the Oracle customer information system and design work began on CC&B in February 2007.

11  
12 **Q. When was CC&B placed into service?**

13 A. CC&B was placed into service on June 2, 2008.

14  
15 **Q. Have UI employees used CC&B in fulfilling their daily responsibilities?**

16 A. Yes. The Office Managers indicate that CC&B is used on a daily basis to look up customer accounts  
17 to answer billing questions. Billing issues are identified and resolved immediately before the  
18 customer receives their bill. All corrections or adjustments to a customer's account are entered into  
19 CC&B and, again, posted in real time.

20  
21 Customer Service personnel use CC&B to look up customer's accounts and review meter reads,  
22 payment history, consumption history and mailing addresses. All pertinent information is displayed  
23 on one screen which helps Customer Service answer questions quickly. New customers are signed up  
24 through CC&B. Customers discontinuing their service are also taken care of through CC&B.  
25 Payments are posted in real time to a customer's account through CC&B.

26  
27 **Q. What is the total cost of the CC&B project incurred by Utilities, Inc.?**

28 A. The total cost of the CC&B system as of 12/31/08 was \$7,124,532.

29  
30 **Rate Analysis**

31 **Q. What are the present water and sewage rates for Northern Hills Water and Sewer Company  
32 and when did they become effective?**

33 A. The present water and sewage rates became effective in May of 2004, and are as follows:

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Base Facility Charges:

Residential:

5/8" Meter	\$5.55
<u>Gallonge Charges:</u>	\$3.16 per 1,000 gallons
Sewer (Flat Charge)	\$25.70

The current monthly average consumption for 5/8" residential customers in Northern Hills is approximately 4494 gallons. This equates to a monthly bill of \$19.75. I have attached to the filing an example of a customer's bill.

**Q. What are the proposed water and sewage rates for Northern Hills Water and Sewer Company and their impact on the average customer?**

A. The proposed rates are as follows:

Base Facility Charges:

Residential:

5/8" Meter	\$14.43
<u>Gallonge Charges:</u>	\$8.01 per 1,000 gallons
Sewer (Flat Charge)	\$119.44

Based on an average consumption of 4494 gallons, the customers' monthly bill will be \$50.43 or an increase of \$30.68 per monthly billing.

Cost of Capital

**Q. What is the cost of capital of Northern Hills Water and Sewer Company?**

A. The cost of capital of Northern Hills Water and Sewer Company is determined by using UI's capital structure. These cost of capital percentages are then used to ascertain the overall cost of capital for Northern Hills Water and Sewer Company. The capital structure and cost rates that I proposed to use in this proceeding are as follows:

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	<u>Weight</u>	<u>Cost</u>	<u>Weighted Cost</u>
Debt	53.04%	6.60%	3.5%
Equity	46.96%	11.70%	5.5%
Overall	<u>100.0%</u>		<u>9.0%</u>

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**Q. Why must one determine the overall cost of capital for a public utility?**

A. The proper balance of rate payer and shareholder interest occurs when the Commission authorizes a public utility a rate of return on its rate base equal to its overall cost of capital. If the authorized rate of return on rate base exceeds the overall cost of capital, then rate payers bear the burden of excessive prices. Conversely, if the authorized rate of return on rate base is lower than the overall cost of capital, then the Utility will be unable to raise capital at a reasonable cost. Ultimately, the Utility may be unable to raise sufficient capital to meet demands for service, thereby impairing service quality. Therefore, ratepayers' interests are served best when the authorized rate of return on rate base is neither higher nor lower than the overall cost of capital.

**Q. Please define "overall cost of capital"?**

A. The overall cost of capital equals the sum of the costs of the components of the capital structure (debt and common equity) after each is weighted by its proportion to total capital.

**Q. How does Northern Hills raise capital?**

A. Capital for Northern Hills is raised by Utilities, Inc. Northern Hills Water and Sewer Company is a wholly owned subsidiary of Utilities, Inc. The source of this capital is banks and large lending institutions

**Q. How did you determine the cost of debt to Northern Hills?**

A. The cost of debt is the embedded cost of debt of the Utilities, Inc., the parent company of Northern Hills, as of December 31, 2008. This percentage is consistent with past Illinois Commerce Commission practice.

**Q. How did you derive the cost of equity used in your calculation?**

A. Today's embedded cost of debt of the consolidated group is approximately 6.60%. The equity investor is entitled to a premium over the return to the debt holder because of the additional risk he or she takes. The debt holder has first claim on the assets and earnings of the Utility. These claims must

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1 be satisfied before funds are available to the equity shareholder. Therefore, the return should  
2 be greater than 6.60%.

3  
4 In addition, a risk free investment, thirty-year treasury bonds, currently yields approximately 4.24%,  
5 as of September 21, 2009. Utility bonds available to investors are a higher risk than government  
6 bonds. Also available to investors are equity securities of large companies. These are publicly traded  
7 securities paying dividends and having the advantage of liquidity. Naturally, the market would favor  
8 any of these securities over the equity in a small company with non-traded securities, such as  
9 Northern Hills. It would be reasonable to add a premium to the cost of 30-year treasury bonds or  
10 Utilities, Inc's current cost of debt to determine the cost of equity to Northern Hills.

11  
12 **Q. Did the Company prepared a DCF or other risk premium models, or do they plan to in the**  
13 **future?**

14 A. The Company has not prepared a DCF or other risk premium models due to the limited number of  
15 customers and the rate case expense attributed to preparing such models. However, the Company  
16 intends to hire an addition cost of capital expert witness, during this rate case process if necessary.

17  
18  
19 **Depreciation**

20  
21 **Q. What is the current method of calculating depreciation expense?**

22  
23 A. Currently, the Company multiplies all plant-in-service accounts by a composite rate of 2% to  
24 calculate annual depreciation expense.

25  
26 **Q. What method of calculating depreciation expense is the Utility proposing?**

27  
28 A. The Utility is proposing a change from using a composite rate of 2% to utilizing separate depreciation  
29 rates for each primary account. These rates range from 2.17% to 7.69%. This method of calculating  
30 depreciation expense is consistent with prior rate proceedings approved by the Commission, including  
31 Docket No. 01-0663, Lake Wildwood Water Company, and Docket No. 02-0592, Del-Mar Water  
32 Company.

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- 1 **Q. Why is Northern Hills Water and Sewer Company proposing this change in depreciation rates**  
2 **in order to calculate depreciation expense in this rate proceeding?**
- 3 A. The Company has proposed these modified depreciation rates based on testimony filed by Staff  
4 witness King in Docket Nos. 01-0663 and 02-0592. According to this testimony, separate  
5 depreciation rates for primary accounts are more sensitive to the service life and retirement in a  
6 specific account than a composite rate. As such, rates by primary accounts result in a more accurate  
7 allocation and recovery of depreciation expense.  
8
- 9 **Q. How do the depreciation rates proposed by the Utility compare to the rates approved by the**  
10 **Commission in prior rate proceedings?**
- 11 A. The depreciation rates proposed by the Utility are consistent with the average service lives, salvage  
12 values, and calculations that were approved for Consumers Illinois Water Company, Northern Illinois  
13 Water Corporation, Illinois-American Water Company, Lake Wildwood Water Company, and Del-  
14 Mar Water Company.  
15
- 16 **Q. What is the effect on Northern Hills Water and Sewer Company's depreciation expense using**  
17 **the proposed depreciation rates?**
- 18 A. The overall composite depreciation rates will increase from 2% to 2.76%. This increase is consistent  
19 with prior rate proceedings approved by the Commission.  
20
- 21 **Rules, Regulations, and Conditions of Service Tariffs**  
22
- 23 **Q. Does the Utility plan to update the Rules, Regulations, and Conditions of**  
24 **Service tariffs for Northern Hills Water and Sewer Company?**
- 25 A. Yes, it does.  
26
- 27 **Q. Please explain why the Utility is proposing to update Northern Hills's Rules, Regulations, and**  
28 **Conditions of Service tariffs.**
- 29 A. The Utility is proposing to make a few minor adjustments to its Rules, Regulations, and Conditions of  
30 Service tariffs so they are more in line with the Company's business practices. Utility is proposing  
31 changes to the Tariff language regarding NSF Check Charge, New Customer Charge  
32
- 33 **Q. What change is the Company proposing to the NSF Check Charge?**
- 34 A. The current Tariff language is as follows:

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1 N.S.F. CHECK CHARGE - A charge of \$10.00 will be applied to customers whose checks are  
2 returned by the bank due to non- sufficient funds (one charge per check each time it is returned).

3

4 The proposed Tariff language is as follows:

5 N.S.F. CHECK CHARGE - A charge of twenty-five dollars (\$25.00) will be applied to customers  
6 whose check is returned by the bank due to non- sufficient funds (one charge per check each time it  
7 is returned).

8

9 Generally, banks charge \$25-\$35 for NSF fees. Since the Company uses a centralized cash  
10 management system, it is proposing that miscellaneous charges, i.e. NSF fees, are more consistent  
11 throughout the organization.

12

13 Also, Section 3-806 of the Illinois Commercial Code (810 ILCS 3-806) provides:

14

15 Any person who issues a check or other draft that is not honored upon presentment  
16 because the drawer does not have an account with the drawee, or because the drawer does  
17 not have sufficient funds in his account, or because the drawer does not have sufficient  
18 credit with the drawee, shall be liable in the amount of \$25, or for all costs and expenses,  
19 including reasonable attorney's fees, incurred by any person in connection with the  
20 collection of the amount for which the check or other draft was written, whichever is  
21 greater, and shall be liable for interest upon the amount of the check or other draft at the  
22 rate provided in subsection (1) of Section 4 of the Interest Act. Costs and expenses shall  
23 include reasonable costs and expenses incurred in the nonlitigated collection of the check  
24 or other draft.

25

26 **Q. What change is the Company proposing to the New Customer Charge?**

27 A. The current Tariff language is as follows:

28 NEW CUSTOMER CHARGE - A charge of \$15.00 will be applied to new customers taking  
29 service in new or existing homes or commercial establishments

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1 The proposed Tariff language is as follows:

2 NEW CUSTOMER CHARGE - A charge of twenty-five dollars (\$25.00) will be applied to  
3 customers initiating service in new or existing homes or commercial establishments.

4  
5 Since the Company uses a centralized cash management system, it is proposing that miscellaneous  
6 charges, i.e. New Customer charges, are more consistent throughout the organization.

7  
8 **Q. What change is the Company proposing to the Reconnection Charge?**

9 A. The current Tariff language is as follows:

10 RECONNECTION CHARGE - If water service is disconnected by the utility for any reasons as  
11 outlined in Section 17 of the Rules, Regulations, and Conditions of Service, the customer will be  
12 assessed a charge of twenty (\$20.00) dollars, which will be paid by the customer before water service  
13 will be restored. If water service is disconnected at the customer's request due to seasonal residence  
14 and during normal business operating hours, the customer will be assessed a charge of twenty  
15 (\$20.00) dollars, which will be added to the customer's next water bill. Customers who request to be  
16 reconnected within nine (9) months of disconnection will be assessed an appropriate base facilities  
17 charge for the service period the customer was disconnected. This charge will be paid by customers  
18 before water service will again be restored.

19  
20 The proposed Tariff language is as follows:

21 RECONNECTION CHARGE - If water service is disconnected by the utility for any reasons as  
22 outlined in Section 17 of the Rules, Regulations, and Conditions of Service, the customer will be  
23 assessed a charge of thirty-seven dollars and fifty cents (\$37.50), which will be paid by the customer  
24 before water service will be restored. If water service is disconnected at the customer's request due to  
25 seasonal residence and during normal business operating hours, the customer will be assessed a  
26 charge of thirty-seven dollars and fifty cents (\$37.50), which will be added to the customer's next  
27 water bill. Customers who request to be reconnected within nine (9) months of disconnection will be

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1 assessed an appropriate base facilities charge for the service period the customer is responsible for.  
2 This charge will be paid by customers before water service will again be restored.

3  
4 AFTER HOURS CALL-OUT CHARGES - If for any reason the customer requests services, or  
5 services are the result of the customer's negligence or willful act, and the services rendered by  
6 Northern Hills Water and Sewer Company, occur after normal business operating hours, the

7 Company has the right to bill for this call-out service and the minimum charge will be for two hours  
8 at the current labor rate or one hundred six dollars (\$106.00) and fifty-three dollars (\$53.00) per hour  
9 for all time accumulated above and beyond the two hour minimum.

10  
11 Since the Company uses a centralized cash management system, it is proposing that miscellaneous  
12 charges, i.e. Reconnection charges, are more consistent throughout the organization. The Company  
13 would like to recover the current average cost of labor for one hour of employee time to provide these  
14 services. This also defines Rule and Regulation 4(C) of current tariff.

15  
16 **Filing Procedures**  
17

18 **Q. Why is Northern Hills Water and Sewer Company filing under the Standard Rate Case**  
19 **Procedures instead of the Short Form Procedures that are in place for a company the size of**  
20 **Northern Hills Water and Sewer Company?**

21 A. Utilities, Inc. has determined that our short form filings are conducted in the same manner as a  
22 general rate filing. This is because Utilities, Inc. has a staff of accounting and ratemaking  
23 professionals. Additionally, under the short form process there is no formal procedure for seeking a  
24 mediation of disputed adjustments made by the Staff to the Utility's revenue requirement. This can  
25 be unfair to the Utility.

26  
27 **Q. Does this conclude your testimony?**

28 A. Yes it does.

