

**STATE OF ILLINOIS**

**ILLINOIS COMMERCE COMMISSION**

Aqua Illinois, Inc. )  
 ) Docket No. 10-0194  
Proposed general increase in water )  
rates for the Kankakee Division )

Surebuttal Testimony of

**CRAIG L. BLANCHETTE**

Vice President and Regional Manager of Aqua Illinois'  
Kankakee and Will County Divisions

August 12, 2010

1 **I. WITNESS IDENTIFICATION AND BACKGROUND**

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

3 A. Craig L. Blanchette, 1000 South Schuyler Avenue, Kankakee, Illinois, 60901.

4 **Q. By whom are you employed and in what capacity?**

5 A. I am Vice President and Regional Manager of Aqua Illinois' Kankakee and Will County  
6 Division ("Aqua" or the "Company"), which owns and operates the water system serving  
7 various municipalities and unincorporated areas in Kankakee County, Illinois. Aqua is a  
8 subsidiary of Aqua America, Inc., headquartered in Bryn Mawr, Pennsylvania ("Aqua  
9 America").

10 **Q. Are you the same Craig L. Blanchette that previously provided testimony in this**  
11 **matter?**

12 A. Yes, I am.

13 **II. PURPOSE OF TESTIMONY**

14 **Q. What is the purpose of your surebuttal testimony in this proceeding?**

15 A. The purpose of my surebuttal testimony is to respond to the rebuttal testimony of the  
16 Illinois Commerce Commission ("ICC") Staff witnesses recommending disallowances  
17 for charitable contributions and certain compensation expenses.

18 **III. CHARITABLE CONTRIBUTIONS**

19 **Q. In rebuttal testimony, Staff witness Bridal proposes an adjustment to the**  
20 **adjustment in charitable contributions. (Staff Ex. 6.0, 5:100-10:272). Do you agree**  
21 **with the adjustments made and the resulting Schedule 6.10?**

22 A. I agree with the adjustments to include the recovery of three additional charitable  
23 contributions. (Staff Ex. 6.0, 6:118-130). However, I continue to disagree with Staff's

24 position on other charitable contribution disallowances. The Company maintains that the  
25 contributions listed in Exhibit 6.10 are all in the interest of public welfare, as fully  
26 described in my rebuttal testimony. The Company's briefs will address the legal  
27 arguments and explain why Staff's position is wrong.

#### 28 **IV. AQUA'S COMPENSATION PACKAGE**

29 **Q. Staff witness Hathhorn recommends that recovery of the Company's incentive**  
30 **compensation expense should be disallowed in its entirety, "based on several**  
31 **Commission orders which expressly state that costs paid out solely on achievement**  
32 **of financial goals should be paid by the shareholders." (Staff Ex. 7.0, 3:58-60). Do**  
33 **you agree with Staff position?**

34 A. No, I respectfully disagree. Aqua's Cash Incentive Compensation Plan is not based  
35 solely on achievement of financial goals, as Staff acknowledges. (Staff Ex. 7.0, 3:63). If  
36 compensation were based solely on achievement of financial goals, an eligible employee  
37 would be fully compensated any time the Company achieved at least 75% of the target  
38 net income. Under the Management Incentive Program, an employee is not eligible for  
39 an award until he or she achieves the minimum 70 points required under the Plan, and an  
40 employee can only achieve points by meeting specific customer-oriented objectives as  
41 demonstrated in Aqua Ex. 1.5. The Company has carefully crafted its performance plans  
42 around the customer and maintains, for this reason, that performance objectives should be  
43 the primary driver of the Commission's determination for rate recovery of the  
44 compensation awarded under the Management Incentive Program, not the minimum  
45 threshold for financial health of the utility. Similarly, awards under the Employee  
46 Recognition Program are awarded for superior performance that contains costs, improves

47 efficiency and productivity of the workforce and better serves the Company's customers.  
48 The Company maintains that recovery of costs associated with the Employee Recognition  
49 Program should be evaluated on the merit of the achievement and benefit to the customer  
50 as opposed to being disallowed entirely due to the existence of a minimum threshold for  
51 financial health of the utility.

52 **VI. CONCLUSION**

53 **Q. Does this conclude your surrebuttal testimony?**

54 **A.** Yes, it does.