

**ILLINOIS COMMERCE COMMISSION**

**Docket No. 10-\_\_\_\_\_**

**Exhibit No. 1.0**

**Direct Testimony of**

**Lena Georgiev**

**on behalf of**

**GREAT NORTHERN UTILITIES, INC.**

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**PREPARED DIRECT TESTIMONY  
OF LENA GEORGIEV  
ON BEHALF OF GREAT NORTHERN UTILITIES, INC.**

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

2 A. My name is Lena Georgiev. I am the Regulatory Manager for the Atlantic and Midwest regions for  
3 Utilities, Inc. ("UI") and its subsidiaries. My business address in 2335 Sanders Road, Northbrook,  
4 Illinois 60062.

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

6 A. I have been employed by Utilities, Inc. since January of 2006. Since that time I have been involved  
7 in several phases of rate-making proceedings in several regulatory jurisdictions, including this  
8 Commission. I graduated from University of Illinois at Chicago in 2000, and I am a Certified Public  
9 Accountant. I had four years of public accounting/auditing experience prior to joining Utilities, Inc.  
10 I am a member of the American Institute of Certified Public Accountants and have successfully  
11 completed the utility rate regulation seminar sponsored by NARUC.

12 **Q. What are your job responsibilities at Utilities, Inc?**

13 A. My responsibilities include: financial analysis of individual subsidiaries of Utilities, Inc., preparation  
14 of rate applications, facilitation of regulatory audits, and the submission of testimony and exhibits to  
15 support rate applications. I am responsible for a team involved in regulatory matters in the Utilities,  
16 Inc. Atlantic and Midwest Regions.

17 **Background**

18 **Q. Please describe Great Northern Utilities Inc.**

19 A. Great Northern Utilities, Inc. ("Great Northern" or the "Company") is a wholly owned subsidiary of  
20 Utilities, Inc. ("UI"). Water Service Corporation ("WSC") manages the operation for all of UI's  
21 water and wastewater systems, including Great Northern. WSC provides management,  
22 administration, engineering, accounting, billing, data processing, and regulatory services for the

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1 utility systems. WSC's expenses are assigned directly to a utility or distributed to the various  
2 companies pursuant to a formula that has been approved by the Commission.

3 Great Northern provides water service to approximately 360 water customers in Winnebago County,  
4 Illinois. Great Northern's current rate structure was approved pursuant to an order entered in Docket  
5 No. 92-0345 dated June 23, 1993.

6 **Q. Please describe UI.**

7 A UI is unique within the water and sewer industry in many respects. From its inception in mid-1960,  
8 UI has concentrated on the purchase, formation and expansion of smaller water and/or sewer utility  
9 systems. At the present time, UI has over 70 systems that provide service to approximately 270,000  
10 customers in 15 states.

11 **Q. Ms. Georgiev, what is the purpose of your testimony?**

12 A. The purpose of my testimony is to explain to the Commission why Great Northern has requested an  
13 increase in water rates. I will also discuss some of the factors that have contributed to the need for the  
14 increase and the impact of the increase on our customers. I will present and describe schedules  
15 showing the overall cost of capital and proper rate of return on rate base, and I will also sponsor the  
16 Company's financial exhibits.

17 **Rate Relief**

18 **Q. Why is Great Northern requesting rate relief at this time?**

19 A. A rate increase is necessary to allow the Company to recover the reasonable and prudent costs of  
20 providing service and an opportunity to earn a fair and reasonable rate of return on its invested  
21 capital. Rates granted in 1998 (1997 test year) do not reflect the 13 years of rising costs, many of  
22 which result from increased investment, and inflation. For these reasons, the Company is not able to  
23 achieve a reasonable rate of return on its investment. Rate relief is essential to ensure the continued  
24 availability of capital at a reasonable cost and to maintain a high and professional level of service.  
25 Under the present rate schedule, Great Northern is not earning a fair and reasonable return on its  
26 investment. After making pro forma adjustments to the December 31, 2009 test year for known, fixed  
27 and measurable changes, Great Northern has an overall return of 1.33%. The proposed rates will

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1 allow the company to earn a 8.5% overall rate of return. This information is supported in the  
2 financial statements attached hereto as **GTUI Exhibit 1.1.**

3 **Q. Please describe these schedules.**

4 A. The General Rate Case Application includes the financial statements for Great Northern. The  
5 subsections are as follows:

- 6 Schedule A – Balance Sheet
- 7 Schedule B – Income Statement
- 8 Schedule C – Rate Base and Rate of Return
- 9 Schedule D – Test Year / Present Revenues
- 10 Schedule E – Proposed Revenues

11 **Q. Please explain how test year expenses were adjusted.**

12 A. Pro forma adjustments were made to the test year expenses based on known and measurable changes  
13 to actual expenses.

14 **Q. What are the known and measurable pro forma adjustments made to the income statement  
15 Schedule B?**

16 A. **The following adjustments have been made to the income statement:**

- 17 • Revenues are annualized at proposed rates using the average test year customers;
- 18 • Uncollectible Accounts are adjusted based on the percentage of uncollectible accounts to revenues  
19 in the test year applied to pro forma proposed revenues;
- 20 • Salaries, Wages and Benefits are adjusted to annualize as of the end of the year;
- 21 • Regulatory Commission Expense has been adjusted to reflect the cost of the current rate case over 3  
22 years;
- 23 • Depreciation and Amortization Expense are annualized. Depreciation expense represents gross  
24 depreciable plant at the end of the year plus pro forma projects multiplied by their respective  
25 depreciation rates;
- 26 • Taxes other than Income is adjusted for annualized payroll taxes, Utility Commission Taxes, and  
27 Gross Receipts Taxes;

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- 1 • Income Taxes are computed on taxable income at current rates;
- 2 • AFUDC is eliminated for rate making purposes;
- 3 • Interest on debt is computed using a 52.29%/47.71% debt/equity ratio and a 6.6% cost of debt.
- 4 • Transportation expense is adjusted based on Operators Allocation.
- 5 • Adjustments to allocations were based on a 12/31/2009 allocation factors.

6 **Q. What are the pro forma adjustments made to the rate base statement (Schedule C)?**

7 A. The following adjustments were made to the rate base statement:

- 8 • Working capital has been calculated based on pro forma expenses;
- 9 • Accumulated depreciation has been adjusted for planned additional capital investments,  
10 retirements, and plant held for future use;
- 11 • Adjustments to allocations were based on a 12/31/2009 allocation factors.

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

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

20 **Q. Please describe Project Phoenix.**

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

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

24 A. The Company had not made a significant investment in technology in quite some time. Antiquated  
25 systems, lack of integration, and the lack of standardization were beginning to have an adverse effect  
26 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 **Q. When did Project Phoenix begin?**

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

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

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

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

24 A. UI is excited about JDE. Each of the modules I described includes enhanced tracking and integration  
25 components, which should improve the Company's ability to record and retrieve data. Because of  
26 this functionality, UI, its customers and regulators should see marked improvement. The system has  
27 enhanced record keeping and retrieval functions, making production of financial and regulatory

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1 reports easier. In addition, the reports should be more accurate, which benefits customers by  
2 improving the management decision making process and allowing the Company to more efficiently  
3 deliver reliable information to regulators. The system also reduces manual effort and reliance on  
4 spreadsheets, which again improves the reliability of reports. The Capital Projects module allows  
5 employees to view and track projects in real-time. Employees should be able to manage projects and  
6 costs in a more effective manner, which benefits the Company and customers

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

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

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

10 A. The total cost of the JDE system as of 12/31/09 was \$ 13,995,789.

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

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

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

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1 efficient means of tracking a customer and transferring payment information, service history and  
2 billed services (debt) from one account to another.

3 CC&B offers the ability to focus on either a customer or a premise. Field activity information at a  
4 premise is stored in the records indefinitely, allowing field personnel to retain prior history of past  
5 service issues at a residence. This allows them to act in a cost effective manner when considering  
6 repair or replacement of equipment or lines at a premise. In addition, CC&B automates field  
7 activities to the field. A background process makes key decisions about assignments and timing.  
8 CC&B automates field activity dispatching and allows for uploading and downloading to hand-held  
9 devices. The system allows the field operators to complete field activities in a live environment so  
10 that CSR's (customer service representatives) have the information available to them as soon as the  
11 order is completed. In this regard, UI deployed "tough books" in each field vehicle.

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

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

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

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

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

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

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

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

2 A. The total cost of the CC&B system as of 12/31/09 was \$ 7,126,679.

3 Rate Analysis

4 Q. What are the present water rates for Great Northern and when did they become effective?

5 A. The present water rates became effective in November of 1998, and are as follows:

Usage Charge	\$2.67 per 1000 Gallons
Minimum Monthly Charge:	\$7.25

6

7 The current monthly average consumption for 5/8" residential customers in Great Northern is  
8 approximately 5,158 gallons. This equates to a monthly bill of \$21.02. I have attached to the filing  
9 an example of a customer's bill.

10 Q. What are the proposed water rates for Great Northern and their impact on the average  
11 customer?

12 A. The proposed water rates are as follows:

Usage Charge	\$10.75 per 1000 Gallons
Minimum Monthly Charge:	\$29.20

13

14 Based on an average consumption of 5,158 gallons, the customers' monthly bill will be \$84.68 or an  
15 increase of \$63.65 per monthly billing.

16 Cost of Capital

17 Q. What Cost of common Equity does the Company proposes in this proceeding?

18 A. Rather than incur the costs associated with hiring a return on equity expert, the Company proposes to  
19 use a cost of common equity of 10.57%. Great Northern's sister companies most recently requested  
20 and received the following ROEs. Great Northern used this information and determined the best  
21 course of action was to not hire a cost of capital expert and instead to use the average granted ROE  
22 from the eight companies listed below.

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Company	State	Docket	Requested	Granted	Effective Date
Transylvania Utilities Inc.	NC	W-1012, SUB 12	10.45%	10.45%	1/15/2010
Utilities Inc. of Central Nevada	NV	09-12017	11.65%	11.50%	7/16/2010
Utilities Inc. of Longwood	FL	090381-SU	11.13%	11.13%	7/26/2010
Sanlando Utilities Corp.	FL	090402-WS	11.24%	11.17%	8/9/2010
Utilities Inc. of Pennbrooke	FL	090392-WS	11.13%	11.13%	8/10/2010
Tega Cay Water Service Inc.	SC	2009-473-WS	11.70%	9.57%	8/16/2010
Apple Canyon Utility Company	IL	09-0548	11.70%	9.82%	9/9/2010
Lake Wildwood Utilities Corp.	IL	09-0549	11.70%	9.82%	9/9/2010
			Average	10.57%	

1

2 **Q. Please provide the calculation used to derive the resulting 8.49% rate of return.**

3 A. The following table sets forth the derivation of the 8.5% rate of return, based upon the Company's  
 4 recommended cost of equity of 10.57%:

5

	Ratio	Cost	Weighted Cost
Long-Term Debt	52.29%	6.60%	3.5%
Common Equity	47.71%	10.57%	5.0%
	100.00%		8.5%

6

7 **Depreciation**

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

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

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

2 A. The Utility is proposing a change from using a composite rate of 2% to utilizing separate depreciation  
3 rates for each primary account. This method of calculating depreciation expense is consistent with  
4 prior rate proceedings approved by the Commission, including Docket Nos. 09-0548 and 09-0549,  
5 Apple Canyon and Lake Wildwood.

6 **Q. Why is Great Northern proposing this change in depreciation rates in order to calculate  
7 depreciation expense in this rate proceeding?**

8 A. The Company has proposed these modified depreciation rates based on testimony filed by Staff  
9 witness in Docket Nos. 09-0548 and 09-0549. According to this testimony, separate depreciation rates  
10 for primary accounts are more sensitive to the service life and retirement in a specific account than a  
11 composite rate. As such, rates by primary accounts result in a more accurate allocation and recovery  
12 of depreciation expense.

13 **Q. How do the depreciation rates proposed by the Utility compare to the rates approved by the  
14 Commission in prior rate proceedings?**

15 A. The depreciation rates proposed by the Utility are consistent with the average service lives, salvage  
16 values, and calculations that were approved for Consumers Illinois Water Company, Northern Illinois  
17 Water Corporation, Illinois-American Water Company, Apple Canyon and Lake Wildwood water  
18 Corporation.

19 **Q. What is the effect on Great Northern's depreciation expense using the proposed depreciation  
20 rates?**

21 A. The overall composite depreciation rates will increase from 2% to 3.17%. This increase is consistent  
22 with prior rate proceedings approved by the Commission.

23 **Rules, Regulations, and Conditions of Service Tariffs**

24 **Q. Does the Company plan to update the Rules, Regulations, and Conditions of Service tariffs for  
25 Great Northern?**

26 A. Yes, it does.

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1 **Q. Please explain why the Company is proposing to update Great Northern 's Rules, Regulations,**  
2 **and Conditions of Service tariffs.**

3 A. The Company is proposing to make a few changes to its Rules, Regulations, and Conditions of  
4 Service tariffs so they are more in line with the Company's business practices.

5 **Q. What changes is the Company proposing?**

6 A. The Company is proposing changes to the Tariff language regarding NSF Check Charge, New  
7 Customer Charge and Reconnection Charge.

8 **Q. What change is the Company proposing to the NSF Check Charge?**

9 A. The current Tariff language is as follows:

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

12 The proposed Tariff language is as follows:

13 N.S.F. CHECK CHARGE - A charge of twenty-five dollars \$25.00 will be applied to customers  
14 whose check is returned by the bank due to non- sufficient funds or because the drawer does not have  
15 an account (one charge per check each time it is returned).

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

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

20 Any person who issues a check or other draft that is not honored upon  
21 presentment because the drawer does not have an account with the drawee, or  
22 because the drawer does not have sufficient funds in his account, or because the  
23 drawer does not have sufficient credit with the drawee, shall be liable in the  
24 amount of \$25, or for all costs and expenses, including reasonable attorney's fees,  
25 incurred by any person in connection with the collection of the amount for which  
26 the check or other draft was written, whichever is greater, and shall be liable for  
27 interest upon the amount of the check or other draft at the rate provided in

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1 subsection (1) of Section 4 of the Interest Act. Costs and expenses shall include  
2 reasonable costs and expenses incurred in the non litigated collection of the check  
3 or other draft.

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

5 A. The current Tariff language is as follows:

6 NEW CUSTOMER CHARGE - A charge of \$15.00 will be applied to customers initiating service in  
7 new or existing homes.

8 The proposed Tariff language is as follows:

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

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

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

14 A. The current Tariff language is as follows:

15 RECONNECTION CHARGE - If water service is cut off by the utility for any reason as outlined in  
16 Rule 5 of the Rules, Regulations and Conditions of Service, the customer will be assessed a twenty  
17 (\$20.00) dollar charge. If water service is disconnected at the customer's request, a twenty(\$20.00)  
18 dollar charge will be assessed. Customers who request to be reconnected within 9 months of  
19 disconnection will be assessed the appropriate base facilities charge for the service period they were  
20 disconnected.

21 The proposed Tariff language is as follows:

22 RECONNECTION CHARGE - If water service is disconnected by the utility for any reason as  
23 outlined in section 17 of Rules, Regulations and Conditions of Service, the customer will be assessed  
24 a charge of thirty-seven dollars and fifty cents (\$37.50), which will be paid by the customer before the  
25 water service will be restored. This charge will be waived automatically one time per calendar year.

26 Customers who request to be reconnected within nine (9) months of disconnection will be assessed an

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1 appropriate base facilities charge for the service period the customer was disconnected. This charge  
2 will be paid by the customer before water service will again be restored.

3 AFTER HOURS CALL-OUT CHARGES - If for any reason the customer requests services, or  
4 services are the result of the customer's negligence or willful act, and the services rendered by Great  
5 Northern occur after normal business operating hours, the Company has the right to bill for this call-  
6 out service at the minimum charge of one hundred six dollars (\$106), which is equivalent to two  
7 hours at the current labor of fifty-three dollars (\$53.00) per hour. For all time accumulated above the  
8 two hour minimum, a charge of fifty-three dollars (\$53) per hour will be assessed.

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

13 **Q. Does this conclude your prepared direct testimony?**

14 **A. Yes, it does.**

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