ILLINOIS COMMERCE COMMISSION

Docket No. 11-______

Exhibit No. 1.0

Direct Testimony of

Lena Georgiev

on behalf of

CAMELOT UTILITIES, INC.

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PREPARED DIRECT TESTIMONY
OF LENA GEORGIEV
ON BEHALF OF CAMELOT UTILITIES, INC.

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

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

Q. Please summarize your professional background?

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

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

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

Background

Q. Please describe Camelot Utilities Inc.

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

Camelot provides water and wastewater service to approximately 200 water and 200 wastewater customers near Joliet, Shorewood, and Channahon. Camelot's current rate structure was approved pursuant to an order contained in Docket No. 92-0345 dated June 23, 1993.

Q. Please describe UI.

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

Q. Ms. Georgiev, what is the purpose of your testimony here today?

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

Rate Relief

Q. Why is Camelot requesting rate relief at this time?

A. A rate increase is necessary to allow the Company to recover the reasonable and prudent costs of providing service and an opportunity to earn a fair and reasonable rate of return on its invested capital. Rates granted in 1993 do not reflect the 18 years of rising costs, many of which result from increased investment, and inflation. For these reasons, the Company is not able to achieve a reasonable rate of return on its investment. Rate relief is essential to ensure the continued availability of capital at a reasonable cost and to maintain a high and professional level of service. Under the present rate schedule, Camelot is not earning a fair and reasonable return on its investment. After making pro forma adjustments to the December 2009 test year for known, fixed and measurable changes, Camelot has an overall return of 2.18%. The proposed rates will allow the company to earn a 8.5 % overall rate of return. This information is supported in the financial statements included as schedules in **Camelot Exhibit 1.1.**

Q. Please describe these schedules.

A. The General Rate Case Application includes the financial statements for Camelot. The subsections are as follows:

Schedule A – Balance Sheet

Schedule B – Income Statement

Schedule C – Rate Base and Rate of Return

Schedule D – Test Year / Present Revenues

Schedule E – Proposed Revenues

Q. Please explain how test year expenses were adjusted.

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

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

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

Revenues are annualized at proposed rates using the average test year customers;

- Uncollectible Accounts are adjusted based on the percentage of uncollectible accounts to revenues in the test year applied to pro forma proposed revenues;
- Salaries, Wages and Benefits are adjusted to annualize as of the end of the year;
- Regulatory Commission Expense has been adjusted to reflect the cost of the current rate case over 3 years;
- Depreciation and Amortization Expense are annualized. Depreciation expense represents gross depreciable plant at the end of the year plus pro forma projects multiplied by their respective depreciation rates;
- Taxes other than Income is adjusted for annualized payroll taxes, Utility Commission Taxes, and Gross Receipts Taxes;
- Income Taxes are computed on taxable income at current rates;
- AFUDC is eliminated for rate making purposes;
- Interest on debt is computed using a 52.3%/47.7% debt/equity ratio and a 6.6% cost of debt.
- Transportation expense is adjusted based on Operators Allocation.
- Adjustments to allocations were based on a 12/31/2009 allocation f[illegible]

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

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

- Working capital is calculated based on pro forma expenses;
- Accumulated depreciation has been adjusted for planned additional capital investments, retirements, and plant held for future use;
- Commission ordered adjustment per Order in Docket No. 92-0345.
- Adjustments to allocations were based on a 12/31/2009 allocation factors.

Q. Please describe Project Phoenix.

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

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

A. The Company had not made a significant investment in technology in quite some time. Antiquated systems, lack of integration, and the lack of standardization were beginning to have an adverse effect on the Company and its customers. Accordingly, UI set out to improve the Company's capabilities and processes in the accounting, customer service, customer billing and financial and regulatory reporting areas.

Q. When did Project Phoenix begin?

A. Project Phoenix began in early 2006 with a series of internal and external evaluations, which culminated in a business case presentation by Deloitte to the Company in September 2006. The business case identified: Drivers for Change, Current State Overview, Recommended Solutions, Future State, and Benefits to

Stakeholders. The business case presentation confirmed UI's initial evaluations that: fragmented and non-standardized processes were complex and inefficient, with an attendant risk of error and control breakdown. The infrastructure unnecessarily placed stress on the Company's human capital. The Company's legacy financial and customer care systems were either fully customized or unsupported, or both, which resulted in a risk of breakdown and impeded management's ability to obtain information to make decisions, and use of spreadsheets made ensuring accuracy and control difficult, resulting in the potential for errors in operation and regulatory reports. After the business case presentation and an evaluation of potential solutions, UI management selected JD Edwards Enterprise One ("JDE") as the financial system, including asset management, and Oracle's Customer Care and Billing System ("CC&B") as the customer information system. These systems are integrated in a manner that allows for the sharing of crucial information between the Company's different operational organizations.

Q. Please describe the JDE system.

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

Q. What are the benefits of JDE?

A. UI is excited about JDE. Each of the modules I described includes enhanced tracking and integration components, which should improve the Company's ability to record and retrieve data. Because of this functionality, UI customers and regulators should see marked improvement. The system has enhanced record keeping and retrieval functions, making production of financial and regulatory reports more efficient. In addition, the reports should be more accurate, which benefits customers by improving the management decision making process and allowing the Company to more efficiently deliver reliable information to regulators. The system also reduces manual effort and reliance on spreadsheets, which again improves the reliability of reports. The Capital Projects module allows employees to view and track projects in real-time. Employees should be able to manage projects and costs in a more effective manner, which benefits the Company and customers.

Q. When was JDE placed into service?

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

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

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

Q. Please describe the CC&B system.

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

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

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

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

Q. When did work on CC&B begin?

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

Q. When was CC&B placed into service?

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

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

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

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

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

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

Rate Analysis

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

A. The present water rates became effective in July of 1993, and are as follows:

Usage Charge	$4.56 per gallons
Minimum Monthly Charge	
5/8"	$5.00
1"	$5.00

It should be noted that these rates are billed bimonthly, but stated as a monthly rate in the Company's tariff. The current monthly average consumption for 5/8" residential customers in Camelot is approximately 5,210 gallons. This equates to a monthly bill of $28.76

Q. What are the present sewer rates for Camelot and when did they become effective?

A. The present sewer rates became effective in July of 1993, and are as follows:

Residential Monthly Rate	$40.63 Flat Rate

It should be noted that these rates are billed bimonthly, but stated as a monthly rate in the Company's tariff. The average monthly bill equates to $40.63

Q. What are the proposed water rates for Camelot and their impact on the average customer?

A. The proposed water rates are as follows:

Usage Charge	$16.16 per gallons
Minimum Monthly Charge	
5/8"	$17.72
1"	$17.72

These rates will be billed monthly pending the Commission's approval of the Company's request to convert the current billing cycle to a monthly billing cycle. Based on an average consumption of 5,210 gallons, the customers' monthly bill will be $101.91 or an increase of $73.16 per monthly billing.

Q. What are the proposed sewer rates for Camelot and their impact on the average customer?

A. The proposed rates are as follows:

Residential Monthly Rate for regular customer	$81.91 Flat rate
Residential Monthly Rate for less than 1000 gallons customer	$77.87 Flat rate

These rates will be billed monthly pending the Commission's approval of the Company's request to convert the current billing cycle to a monthly billing cycle. The average monthly bill equates to $81.91 or an increase of $41.28 per monthly billing.

<u>Billing Cycles</u>

Q. What is the current billing schedule for the customers of Camelot?

A. Camelot's customers are currently billed bimonthly.

Q. What billing schedule is the Company proposing?

A. The Company is proposing a change from a bimonthly billing cycle to a monthly billing cycle for Camelot customers.

Q. Why is the Company proposing a monthly billing cycle?

A. The Company believes that a monthly billing cycle will enable the Company to provide better service to the customers of Camelot. First, a monthly billing cycle will permit Camelot customers to properly budget for water and wastewater utility expenses each month. Second, customer service representatives will be able to appropriately address customer concerns as issues can be promptly detected. Third, the Company will be able to locate and resolve system problems as customer billing and consumption data will be available monthly as opposed to bimonthly. Finally, Camelot will be able to respond sooner to unaccounted for water and water loss issues, which will benefit the customer, the Company and the environment.

Q. Is this change in billing cycles consistent with the Company's focus on providing quality service to its customers?

A. Yes, it is. The Company believes that this change is beneficial to the customers and the quality of their service.

Q. What impact will this change in billing cycles have on operating expenses?

A. The change to a monthly billing cycle will increase office expenses due to an increase in postage, bank charges, and office stock, such as paper and envelopes, which results from additional mailings and deposits made throughout the year. In addition, there will be an increase in meter reading expense; however, no additional employees are required to handle the increased number of billings.

Cost of Capital

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

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

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%	

Q. Please provide the calculation used to derive the resulting 8.5% rate of return.

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

	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%

Depreciation

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

A. Currently, the Company multiplies all plant-in-service accounts by a composite rate of 3% to calculate annual depreciation expense.

Q. What method of calculating depreciation expense is the Company proposing?

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

Q. Why is Camelot proposing this change in depreciation rates in order to calculate depreciation expense in this rate proceeding?

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

Q. How do the depreciation rates proposed by the Company compare to the rates approved by the Commission in prior rate proceedings?

A. The depreciation rates proposed by the Company are consistent with the average service lives, salvage values, and calculations that were approved for Consumers Illinois Water Company, Northern Illinois Water Corporation, Illinois-American Water Company, Apple Canyon and Lake Wildwood water Corporation. CUI Ex. No. 1.2 shows the depreciation schedule with present and proposed depreciation rates.

Q. What is the effect on Camelot's depreciation expense using the proposed depreciation rates?

A. The overall composite depreciation rates will increase from 3% to 3.10% for water and from 3% to 3.17% for sewer. This increase is consistent with prior rate proceedings approved by the Commission.

Rules, Regulations, and Conditions of Service Tariffs

Q. Does the Company plan to update the Rules, Regulations, and Conditions of Service tariffs for Camelot?

A. Yes, it does.

Q. Please explain why the Company is proposing to update Camelot's Rules, Regulations, and Conditions of Service tariffs.

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

Q. What changes is the Company proposing?

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

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

A. The current Tariff language is as follows:

N.S.F. CHECK CHARGE - A charge of $7.00 will be applied to customers whose check is returned by the bank due to non- sufficient funds (one charge per check each time it is returned).

The proposed Tariff language is as follows: A charge of twenty-five dollars ($25.00) will be applied to customers whose check is returned by the bank due to non-sufficient funds. (One charge per check each time it is returned).

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

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

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

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

A. The current Tariff language is as follows:

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

The proposed Tariff language is as follows:

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

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

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

A. The current Tariff language is as follows:

Temporary Disconnect – A charge of $15.00 per reconnection will be applied to those customers having service temporary disconnected. This charge will be automatically be waived one time per calendar year.

The proposed Tariff language is as follows:

TEMPORARY DISCONNECT: Customers requesting temporary disconnection of water service for repairs within the customer's property will be assessed a charge of thirty-seven dollars and fifty cents ($37.50), for disconnection and a separate thirty-seven dollars and fifty cents ($37.50), for restoring water service.

RECONNECTION CHARGE - If water service is discontinued by the utility for any reason as outlined in section 17 of Rules, Regulations and Conditions of Service, the customer will be assessed a charge of thirty-seven dollars and fifty cents ($37.50), which will be paid by the customer before the water service will be restored. If water service is discontinued at the customer's request due to seasonal residence and during normal business operating hours, the customer will be assessed a charge of thirty-seven dollars and fifty cents ($37.50), which will be added to the customer's next water bill. Customers who request to be reconnected within nine (9) months of disconnection will be assessed an appropriate base facilities charge for the service period they were disconnected. This charge will be paid by the customer before water service will again be restored

AFTER HOURS CALL-OUT CHARGES - If for any reason the customer requests services, or services are the result of the customer's negligence or willful act, and the services rendered by Camelot Territories Utilities, Inc. occur after normal business operating hours, the Company has the right to bill for this call-out service at the minimum charge of one hundred six dollars ($106.00), which is equivalent to two hours at the current labor of fifty-three dollars ($53.00) per hour. For all time accumulated above the two hour minimum, a charge of fifty-three dollars ($53.00) per hour will be assessed.

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

Q. Does this conclude your prepared direct testimony?

A. Yes it does.