

DIRECT TESTIMONY

of

RICHARD W. BRIDAL II

Accountant
Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Aqua Illinois, Inc.

Proposed General Increase in Water and Sewer Rates

Docket No. 11-0436

August 4, 2011

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1 **Witness Identification**

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

3 A. My name is Richard W. Bridal II. My business address is 527 East Capitol
4 Avenue, Springfield, Illinois 62701.

5

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

7 A. I am currently employed as an Accountant in the Accounting Department
8 of the Financial Analysis Division of the Illinois Commerce Commission
9 (“Commission” or “ICC”).

10

11 **Q. Please describe your professional background and affiliations.**

12 A. I am a Certified Public Accountant with a Bachelor of Business in
13 Accountancy from Western Illinois University. Prior to joining the
14 Commission Staff (“Staff”) in October 2008, I was employed for 8 years as
15 an auditor by the Medicare Part A Fiscal Intermediary for Illinois.

16

17 **Q. Have you previously testified before any regulatory bodies?**

18 A. Yes, I have testified before the Commission on several occasions.

19

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

21 A. I have reviewed and analyzed Aqua Illinois, Inc.’s (“Aqua” or “Company”)

22 filing, and the underlying data. The purpose of my testimony is to:

- 23 1. Propose adjustments to remove from the test year operating
24 expenses non-recoverable Miscellaneous Expenses;
- 25 2. Propose adjustments to remove from the test year operating
26 expenses non-recoverable charitable contributions;
- 27 3. Propose adjustments to remove from the test year operating
28 expenses the portion of Industry Association Dues attributable to
29 lobbying, for which costs are not recoverable; and
- 30 4. Propose adjustments to reduce 2011 and 2012 forecast plant
31 additions.

32

33 **Schedule Identification**

34 **Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 2.0?**

35 A. Yes, I prepared the following schedules for the Company, which show
36 data as of, or for the test year ended, December 31, 2012:

37 **ADJUSTMENT SCHEDULES**

38 Schedule 2.01 – Adjustment to Miscellaneous Expenses

39 Schedule 2.02 – Adjustment to Charitable Contributions

40 Schedule 2.03 – Adjustment to Industry Association Dues

41 Schedule 2.04 – Adjustment to Forecast Plant Additions

42

43 **Q. Please identify the individual systems included in Staff's proposed**
44 **Consolidated Water Division.**

45 A. The Consolidated Water Division, as proposed by Staff, consists of the
46 Willowbrook, Candlewick, Oak Run, Vermilion, Hawthorn Woods and
47 Ravenna water systems.

48

49 **Q. Please identify the individual systems included in the proposed**
50 **Consolidated Sewer Division.**

51 A. The Consolidated Sewer Division, as proposed by the Company, consists
52 of the Willowbrook, Candlewick, Hawthorn Woods, University Park,
53 Ellwood Greens and Ivanhoe sewer systems. However, it is my
54 understanding that Staff witness Christopher Boggs is withholding until
55 rebuttal testimony his recommendation on whether the proposed
56 Consolidated Sewer Division should be adopted. As such, Staff's direct
57 testimony adjustments to the Consolidated Sewer Division revenue
58 requirement, operating statement, and rate base may require revision and
59 separation into individual operating divisions in Staff's rebuttal testimony.

60

61 **Miscellaneous Expenses**

62 **Q. Please describe Schedule 2.01, Adjustment to Miscellaneous**
63 **Expenses.**

64 A. Schedule 2.01 presents my proposed adjustment to remove Fines and
65 Penalties and dues to the Chamber of Commerce from test year operating
66 expenses.

67

68 **Q. Why are you proposing an adjustment to remove Fines and Penalties**
69 **from the test year operating expenses?**

70 A. The Company has included forecasted Fines and Penalties in its test year
71 operating expenses. Review of historical transaction data submitted in
72 response to Staff data request (“DR”) RWB 2.04 for Aqua account
73 “675827 WT-Misc-A&G-Fines&Penalties” indicates the Aqua operating
74 utilities did not incur Fines and Penalties in 2009 or 2010; however, Fines
75 and Penalties were incurred by the Aqua corporate division. It is not
76 reasonable for ratepayers to bear expenses such as Fines & Penalties
77 which the Company could have avoided and which are not necessary in
78 the provision of utility service.

79

80 **Q. Why are you proposing an adjustment to remove amounts for dues**
81 **to various Chambers of Commerce from the test year operating**
82 **expenses?**

83 A. Chambers of Commerce are community and economic development
84 organizations. Contributing to community and economic development

85 organizations is a promotional and goodwill practice. While perhaps such
86 contributions may demonstrate good corporate citizenship, they are not
87 necessary in providing utility service. Consequently, the ratepayers
88 should not be burdened with the expense of the Company's contributions
89 to these community and economic development organizations, and the
90 expense should be removed from the Company's revenue requirement.

91

92 **Charitable Contributions**

93 **Q. Please describe Schedule 2.02, Adjustment to Charitable**
94 **Contributions.**

95 A. Schedule 2.02 presents my proposed adjustment to reduce test year
96 Charitable Contributions for an amount given to the City of Danville for
97 Community and Economic Development.

98

99 **Q. Why are you proposing an adjustment to remove the contribution to**
100 **the City of Danville for Community & Economic Development?**

101 A. Contributing for community and economic development purposes is a
102 promotional and goodwill practice. Section 9-227 of the Act allows as an
103 operating expense donations made by a utility for the public welfare or for
104 charitable scientific, religious, or educational purposes. The Aqua
105 contribution to the City of Danville is not for the allowable purposes

106 defined by the Act. While perhaps such contributions may demonstrate
107 good corporate citizenship, they are not necessary in providing utility
108 service. Consequently, the ratepayers should not be burdened with the
109 expense of the Company's contributions for community and economic
110 development purposes, and the expense should be removed from the
111 Company's revenue requirement.

112

113 **Industry Association Dues - Lobbying**

114 **Q. Please describe Schedule 2.03, Adjustment to Industry Association**
115 **Dues.**

116 A. Schedule 2.03 presents my proposed adjustment to remove certain
117 industry association dues attributable to lobbying activities.

118

119 **Q. Please explain why you propose removing the portion of**
120 **membership dues related to lobbying efforts.**

121 A. Section 9-224 of the Act (220 ILCS 5/9-224) states that the Commission
122 shall not consider as an expense of any public utility company, for the
123 purpose of determining any rate or charge, any amount expended for
124 political activity or lobbying as defined in the "Lobbyist Registration Act."
125 The Company's response to Staff DR RWB 2.04 provided transaction
126 level detail to account 675824 WT-Misc-A&G-Dues that reflected

127 payments to American Water Works Association (“AWWA”). As noted in
128 the most recent Aqua rate case, Docket No. 10-0194, the Commission
129 has agreed that this type of adjustment is appropriate:

130 The Commission, based upon the record in this proceeding,
131 finds that Staff’s adjustments to...Industry & Association
132 Dues...are reasonable and appropriate. Thus, they are
133 approved.

134
135 (ICC Docket No. 10-0194, Order at 8) ¹
136

137 **Q. How did you determine the amount of your proposed adjustment?**

138 A. I applied the percentage previously found by the Commission in Docket
139 No. 10-0194 to represent lobbying costs embedded in the Industry
140 Association dues (17%²) to the Industry Association Dues set forth by the
141 Company in the current proceeding to determine an amount
142 representative of lobbying-related dues not recoverable in rates.

143

144 **Forecast Plant Additions**

145 **Q. Please describe Schedule 2.04, Adjustment to Forecast Plant**
146 **Additions.**

147 A. Schedule 2.04 presents my proposed adjustment to reduce Forecast
148 Plant Additions for the years ending December 31, 2011, and December
149 31, 2012 based on the Company’s history of actual capital spending

¹ Also, see ICC Docket No. 10-0194, Order at 6, for the Commission’s discussion of how the adjustment to Industry & Association Dues was determined by Staff in that proceeding.

150 compared to planned capital spending for the years 2007, 2008, 2009,
151 and 2010.

152

153 **Q. Why are you proposing an adjustment to reduce Forecast Plant**
154 **Additions?**

155 A. I am proposing an adjustment to reduce Forecast Plant Additions because
156 the Company on average had less capital spending than planned from
157 2007 through 2010. Adjusting the 2011 and 2012 forecast plant additions
158 to reflect the Company's historical spending variance from planned capital
159 expenditures provides a more realistic projection of the 2011 and 2012
160 additions to plant-in-service.

161

162 **Q. How did you determine the percent of capital plan expended that you**
163 **applied to the projected plant additions in order to calculate your**
164 **adjustments?**

165 A. As shown on ICC Staff Exhibit 2.0, Schedule 2.04, page 2, the percent of
166 capital plan expended is calculated by comparing the average actual
167 capital expenditures for the four-year period to the average planned
168 capital expenditures for the same period.

169

(..continued)

² Docket No. 10-0194, ICC Staff Ex. 1.0, Sch. 6.9.

170 **Q. Why are you adjusting additions to the year ending December 31,**
171 **2011 as well as to the test year?**

172 A. Similar to the test year, the additions to plant-in-service for the year
173 ending December 31, 2011 are forecasted amounts. Therefore, it is
174 appropriate to adjust them in the same manner as the test year additions.

175

176 **Q. Do your proposed adjustments to reduce the Company's additions to**
177 **plant-in-service also include adjustments to other components of the**
178 **revenue requirement?**

179 A. Yes. Schedule 2.04 also presents related adjustments to depreciation
180 expense, accumulated depreciation, and accumulated deferred federal
181 and state income taxes.

182

183 **Conclusion**

184 **Q. Does this question end your prepared direct testimony?**

185 A. Yes.

Aqua Illinois, Inc
 Adjustment to Miscellaneous Expenses
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Consolidated Water Division ¹ (b)	Consolidated Sewer Division ² (c)	University Park Water (d)	Source (e)
1	Miscellaneous Expenses per Staff	\$ 678,395	\$ (34,280)	\$ (34,170)	ICC Staff Ex. 2.0, Sched. 2.01, p. 2
2	Miscellaneous Expenses per Company	<u>678,519</u>	<u>(33,662)</u>	<u>(33,552)</u>	Schedule C-4, p. 3, ln. 18, col. K
3	Staff Proposed Adjustment to Miscellaneous Expenses	<u>\$ (124)</u>	<u>\$ (618)</u>	<u>\$ (618)</u>	Line 1 - Line 2

¹ Willowbrook, Candlewick, Oak Run, Vermilion, Hawthorn Woods, Ravenna

² Willowbrook, Candlewick, Ellwood Greens, Hawthorn Woods, University Park, Ivanhoe

Aqua Illinois, Inc
 Adjustment to Miscellaneous Expenses
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Consolidated Water Division ¹ (b)	Consolidated Sewer Division ² (c)	University Park Water (d)	Source (e)
1	Miscellaneous Expenses per Company	\$ 678,519	\$ (33,662)	\$ (33,552)	Schedule C-4, p. 3, ln. 18, col. K
2	Less:				
3	Acct 675803 WT-Misc-A&G-Chamber Commerce	-	-	618	Company Response to BCJ 1.02 Support
4	Acct 675827 WT-Misc-A&G-Fines&Penalties	124	-	-	Company Response to BCJ 1.02 Support
5	Acct 775803 SW-Misc-A&G-Chamber Commerce	-	618	-	Company Response to BCJ 1.02 Support
6	Miscellaneous Expenses per Staff	<u>\$ 678,395</u>	<u>\$ (34,280)</u>	<u>\$ (34,170)</u>	Line 1 - Line 3 - Line 4 - Line 5

¹ Willowbrook, Candlewick, Oak Run, Vermilion, Hawthorn Woods, Ravenna

² Willowbrook, Candlewick, Ellwood Greens, Hawthorn Woods, University Park, Ivanhoe

Aqua Illinois, Inc
 Adjustment to Charitable Contributions
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Consolidated Water Division ¹ (b)	Source (c)
1	Charitable Contributions per Staff	\$ 26,834	ICC Staff Ex. 2.0, Sched. 2.02, p. 2 Schedule C-7, p. 5, ln. 20, col. D
2	Charitable Contributions per Company	<u>27,934</u>	
3	Staff Proposed Adjustment to Charitable Contributions	<u>\$ (1,100)</u>	Line 1 - Line 2

¹ Willowbrook, Candlewick, Oak Run, Vermilion, Hawthorn Woods, Ravenna

Aqua Illinois, Inc
 Adjustment to Charitable Contributions
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Consolidated Water Division ¹ (b)	Source (c)
1	Charitable Contributions per Company	27,934	Schedule C-7, p. 5, ln. 20, col. D
2	Less:		
3	City of Danville - Community & Economic Development	<u>1,100</u>	Schedule C-7, p. 5, Ln 6, col. D
4	Staff Proposed Adjustment to Charitable Contributions	<u><u>\$ 26,834</u></u>	Line 1 - Line 3

¹ Willowbrook, Candlewick, Oak Run, Vermilion, Hawthorn Woods, Ravenna

Aqua Illinois, Inc
 Adjustment to Industry Association Dues
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Consolidated Water Division ¹ (b)	Consolidated Sewer Division ² (c)	University Park Water (d)	Fairhaven Estates Water (e)	Ivanhoe Water (f)	Source (g)
1	Industry Association Dues per Company	\$ 22,211	\$ 4,284	\$ 1,672	\$ 81	\$ 206	Schedule C-6.1, p. 2, ln. 10, col. D
2	Percentage of Dues Used for Lobbying Purposes	17%	17%	17%	17%	17%	Docket 10-0194, Staff Sched. 6.9
3	Staff Proposed Adjustment to Industry Association Dues	<u>\$ (3,776)</u>	<u>\$ (728)</u>	<u>\$ (284)</u>	<u>\$ (14)</u>	<u>\$ (35)</u>	Line 1 x Line 2

¹ Willowbrook, Candlewick, Oak Run, Vermilion, Hawthorn Woods, Ravenna

² Willowbrook, Candlewick, Ellwood Greens, Hawthorn Woods, University Park, Ivanhoe

Aqua Illinois, Inc
 Adjustment to Forecast Plant Additions
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Consolidated Water Division ¹ (b)	University Park Water (c)	Ivanhoe Water (d)	Source (e)
1	Utility Plant-in-Service @ 12/31/10	\$ 110,735,714	\$ 15,072,895	\$ 642,294	Company Sch. B-5, Ln 49, Col C
2	2011 Projected Additions per Company	\$ 2,742,225	\$ 720,845	\$ 63,691	Company Sch. B-5, Ln 49, Col D
3	Four Year Average Historical Budget Expended	96.68%	95.05%	76.83%	ICC Staff Ex. 2.0, Sch. 2.04, Pg 2, Ln 15
4	2011 Projected Additions per Staff	2,651,204	685,156	48,936	Line 2 * Line 3
5	2011 Projected Retirement per Company	(142,468)	-	(1,696)	Company Sch. B-5, Ln 49, Col E
6	Projected UPIS @ 12/31/11 per Staff	<u>\$ 113,244,450</u>	<u>\$ 15,758,051</u>	<u>\$ 689,534</u>	Line 1 + Line 4 + Line 5
7	2012 Projected Additions per Company	\$ 2,230,201	\$ 213,500	\$ 13,250	Company Sch. B-5, Ln 49, Col H
8	Four Year Average Historical Budget Expended	96.68%	95.05%	76.83%	ICC Staff Ex. 2.0, Sch. 2.04, Pg 2, Ln 15
9	2012 Projected Additions per Staff	2,156,175	202,930	10,180	Line 2 * Line 3
10	2012 Projected Retirements per Company	(142,468)	-	(1,696)	Company Sch. B-5, Ln 49, Col I
11	Projected UPIS @ 12/31/12 per Staff	<u>\$ 115,258,156</u>	<u>\$ 15,960,981</u>	<u>\$ 698,019</u>	Line 6 + Line 9 + Line 10
12	Average Utility Plant-in-Service @ 12/31/12 per Staff	\$ 114,251,303	\$ 15,859,516	\$ 693,776	(Line 6 + Line 11) / 2
13	Average Utility Plant-in-Service @ 12/31/12 per Company	114,379,337	15,900,490	710,066	Company Sch. B-4, Ln 49, Col H
14	Staff Adjustment to Utility Plant-in-Service	<u>\$ (128,034)</u>	<u>\$ (40,974)</u>	<u>\$ (16,290)</u>	
15	Staff avg. UPIS expressed as a % of Co. avg. UPIS	99.89%	99.74%	97.71%	Line 12 / Line 13
16	Accumulated Depreciation per Staff	\$ 36,672,967	\$ 5,371,803	\$ 178,069	Line 15 * Line 17
17	Accumulated Depreciation per Company	36,714,064	5,385,681	182,250	Company Sch. B-1, Ln 5, Col E
18	Staff Adjustment to Accumulated Depreciation	<u>\$ (41,097)</u>	<u>\$ (13,878)</u>	<u>\$ (4,181)</u>	
19	Depreciation Expense per Staff	\$ 3,431,826	\$ 334,731	\$ 23,080	Line 15 * Line 20
20	Depreciation Expense per Company	3,435,672	335,596	23,622	Company Sch. C-1, Ln 4, Col G
21	Staff Adjustment to Depreciation Expense	<u>\$ (3,846)</u>	<u>\$ (865)</u>	<u>\$ (542)</u>	
22	Deferred Income Taxes per Staff	\$ 9,459,647	\$ 864,738	\$ 30,092	Line 15 * Line 23
23	Deferred Income Taxes per Company	9,470,248	866,972	30,799	Company Sch. B-1, Ln 23, Col E
24	Staff Adjustment to Accum. Deferred Income Taxes	<u>\$ (10,601)</u>	<u>\$ (2,234)</u>	<u>\$ (707)</u>	

¹ Willowbrook, Candlewick, Oak Run, Vermilion, Hawthorn Woods, Ravenna

Aqua Illinois, Inc
 Adjustment to Forecast Plant Additions
 For the Test Year Ending December 31, 2012

Line No.	Description	Consolidated Water Division ¹	University Park Water	Ivanhoe Water	Source
	(a)	(b)	(c)	(d)	(e)
1	2007 Actual Capital Spending	5,447,454	603,271	18,525	Company Schedule G-1, Page 4
2	2007 Budget Capital Spending	<u>5,743,228</u>	<u>510,705</u>	<u>10,500</u>	Company Schedule G-1, Page 4
3	Budget Expended	94.85%	118.13%	176.43%	Line 1 / Line 2
4	2008 Actual Capital Spending	5,902,489	614,716	15,976	Company Schedule G-1, Page 4
5	2008 Budget Capital Spending	<u>5,735,371</u>	<u>545,500</u>	<u>31,500</u>	Company Schedule G-1, Page 4
6	Budget Expended	102.91%	112.69%	50.72%	Line 4 / Line 5
7	2009 Actual Capital Spending	3,533,383	378,102	4,696	Company Schedule G-1, Page 4
8	2009 Budget Capital Spending	<u>3,456,032</u>	<u>690,832</u>	<u>10,000</u>	Company Schedule G-1, Page 4
9	Budget Expended	102.24%	54.73%	46.96%	Line 7 / Line 8
10	2010 Actual Capital Spending	5,467,200	708,989	10,745	Response to RWB 5.01 & 5.02
11	2010 Budget Capital Spending	<u>6,114,572</u>	<u>678,110</u>	<u>13,000</u>	Response to RWB 5.01 & 5.02
12	Budget Expended	89.41%	104.55%	82.65%	Line 10 / Line 11
13	4 Yr. Avg. Actual Capital Spending	5,087,632	576,270	12,486	(Line 1+Line 4+Line 7+Line 10)/4
14	4 Yr Avg. Budget Capital Spending	<u>5,262,301</u>	<u>606,287</u>	<u>16,250</u>	(Line 2+Line 5+Line 8+Line 11)/4
15	Budget Expended	<u>96.68%</u>	<u>95.05%</u>	<u>76.83%</u>	Line 13 / Line 14

¹ Willowbrook, Candlewick, Oak Run, Vermilion, Hawthorn Woods, Ravenna

Sources: Lines 1 through 12 - Company Schedule G-1, Page 4
 Lines 13-14 - Company Response to Staff Data Request RWB 5.01 & 5.02, "RWB 5.01 & 5.02 Support"