DIRECT TESTIMONY

of

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Accountant
Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Charmar Water Company
Proposed General Increase in Water Rates

Cherry Hill Water Company
Proposed General Increase in Water and Sewer Rates

Clarendon Water Company
Proposed General Increase in Water Rates

Killarney Water Company
Proposed General Increase in Water Rates

Ferson Creek Utilities Company
Proposed General Increase in Water and Sewer Rates

Harbor Ridge Utilities, Inc.
Proposed General Increase in Water and Sewer Rates

Docket Nos. 11-0561/11-0562/11-0563/
11-0564/11-0565/11-0566 (Cons.)

October 20, 2011

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<u>Witness Identification</u>

Q. Please state your name and business address.

A. My name is Theresa Ebrey. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

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

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

Q. Please describe your professional background and affiliations.

A. I have a Bachelor of Science degree in Accounting from Quincy College. I am a Certified Public Accountant, licensed to practice in the State of Illinois. My prior accounting experience includes fifteen years as the corporate controller of a large long-term care facility in Illinois, as well as a period of time employed as an outside auditor of governmental agencies. I joined the Staff of the Illinois Commerce Commission ("Staff") in April 1999.

Q. Have you previously testified before any regulatory bodies?

A. Yes. I have testified on multiple occasions before the Commission.

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

A. I have reviewed and analyzed the filings of Charmar Water Company ("Charmar" or "Company"), Cherry Hill Water Company ("Cherry Hill" or "Company"), Clarendon Water Company ("Clarendon" or "Company"), Ferson Creek Utilities Co. ("Ferson Creek" or "Company"), Harbor Ridge Utilities, Inc. ("Harbor Ridge" or "Company"), and Killarney Water Company ("Killarney" or "Company"), analyze the underlying data, and propose adjustments when appropriate.

The purpose of my testimony is to:

1. Propose adjustments to the Statement of Operating Income and Rate Base concerning Plant Retirements, Charmar Abandoned Plant, Accumulated Depreciation on Prior Commission Ordered Plant Retirements, Amortization of Contributions in Aid of Construction ("CIAC") on prior Commission Ordered Retirements, Pro Forma Plant Additions, Reclassification of Plant, and Accumulated Deferred Income Taxes;
2. Present the schedules reflecting the adjustments to Depreciation Expense based on the depreciation rates proposed by Staff witness Johnson;
3. Discuss concerns with the Companies' treatment of retirements; and
4. Propose a finding for the Original Cost Determination for each utility.

<u>Schedule Identification</u>

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

A. Yes. I am sponsoring the following schedules for the Company, which show data as of, or for the test year ending December 31, 2010:

Schedule 2.01	Adjustment to Retire Plant
Schedule 2.02	Adjustment to Depreciation Expense
Schedule 2.03	Adjustment to Abandoned Plant
Schedule 2.04	Adjustment to Accumulated Depreciation
Schedule 2.05	Adjustment to CIAC
Schedule 2.06	Adjustment to Pro Forma Plant Additions
Schedule 2.07	Adjustment to Reclassify Plant in Service
Schedule 2.08	Adjustment to Accumulated Deferred Income Tax
Schedule 2.09	Original Cost Determination

<u>Adjustments to Retire Plant</u>

Q. Please describe Schedule 2.01, Adjustment to Retire Plant.

A. Schedule 2.01 presents my proposed adjustment to plant for Cherry Hill, Clarendon, Killarney, Ferson Creek Water, and Ferson Creek Sewer utilities. My adjustments to retire plant concern the following:

1) Retired plant that had not yet been removed from the utilities' books; and

2) Cherry Hill - the annual depreciation expense related to the retired plant that had not yet been removed from the company's books.

Q. Discuss the retired plant that had not yet been removed from the utilities' books.

A. The Companies had retired plant since the last rate case but had not removed the cost of the retired plant from the books. The Companies agree to my disallowance for all but two plant items which are listed on page 2 of Schedule 2.01.

The one item not agreed to by Killarney is the retirement for Electric Pumping Equipment on line 13 that was not included in the Company's response to Staff Data Request ("DR") WHA 1.09. Staff witness Atwood provides the rationale for the retirement of the electric pumping equipment.[1]

The second item not agreed to by Ferson Creek is the amount for the hydropneumatic water storage tank on line 15. The amount is different from that previously agreed to by the utility. In the Company's response to Staff DR TEE 2.04, the Company agreed that the amount for the retirement should be $26,750 as noted on the invoice provided rather than $3,000 as indicated in the Company's response to Staff DR WRJ-FC 2.01. However, another notation on the invoice copy shows an amount of $19,242 for labor and other charges for the installation of the equipment that was to be split three ways. Since the cost for the tank and associated items was 53% ($26,750/$50,450) of the total equipment billed, I allocated 53% of the $19,242 to the cost of the tank. Thus, I have calculated the amount for the tank retirement to be $36,948.

Q. Discuss the adjustment to reduce depreciation expense related to the retired plant that had not yet been removed from Cherry Hill's books.

[1] Staff Exhibit 8.0, Schedule 8.01.

A. I am also adjusting depreciation expense related to the adjustment to plant for Cherry Hill based on the depreciation rates approved in Docket No. 03-0401.

I am not adjusting depreciation expense related to the plant disallowances of the other Companies because Staff witness Johnson is not proposing changes to the depreciation rates for Cherry Hill as he is for Clarendon, Killarney, Ferson Creek Water and Sewer and Harbor Ridge Water and Sewer. He has included the effect of the retirements in his calculations of depreciation expense on Schedule 6.01.

Depreciation Expense

Q. Describe Schedule 2.02, Adjustment to Depreciation Expense.

A. Schedule 2.02 reflects the adjustments to depreciation expense based on changes to the depreciation rates for Clarendon, Killarney, Ferson Creek Water and Sewer and Harbor Ridge Water and Sewer proposed by Staff witness William R. Johnson.

Abandoned Charmar Plant

Q. Describe Schedule 2.03, Adjustment to Abandoned Charmar Plant.

A. Schedule 2.03 reflects the following adjustments for the abandoned plant for Charmar:

1) Remove land easements and legal fees from plant in service that are associated with the abandoned plant;

2) Correct the accumulated depreciation as well as the “extraordinary depreciation” associated with the abandoned plant; and

3) Propose an amortization period of 15 years rather than 8.13 years as proposed by the Company for recovery of the abandoned plant costs.

Q. What is your understanding of the Charmar water treatment plant that was retired early?

A. The Company had been experiencing issues with the operation of its wells and storage equipment in early 2008. The utility determined that it was prudent to interconnect with and purchase water from Waukegan and abandon the current wells and storage equipment rather than continuing to rehabilitate the existing equipment. That Interconnect agreement and purchased water clause were approved by the Commission in Docket No. 08-0643. At that point, the Company claims to have invested $169,950 into the water treatment plant in order to stay in compliance with environmental regulations. The Company calculated the depreciation recorded on the plant to be abandoned as $36,576; thus leaving an undepreciated balance of $133,374.

Removal of Legal Fees and Land Easements from Plant Balance

Q. Discuss the land easements and legal fees that should also be removed from plant in service for Charmar.[2]

A. In 2006, as the utility was endeavoring to remain in compliance with environmental regulations, Charmar incurred $10,567.50 in legal fees and $23,000 in costs for easements related to the water system. Since Charmar was unsuccessful, the land is no longer used and useful in the provision of utility service and is not included in the utility's rate base. My adjustment removes the associated legal fees and cost of the easements from rate base[3].

<u>Calculation of Accumulated Depreciation and Extraordinary Depreciation Associated with the Plant Abandonment</u>

Q. Discuss your adjustment to remove the accumulated depreciation as well as the "extraordinary depreciation" associated with the abandoned plant.

A. My adjustment addresses the following concerns with the values for accumulated and extraordinary depreciation the Company proposes for the retired plant:

1) Estimated salvage and tax savings related to the property that was no longer being used should be considered;
2) Certain legal fees that were inappropriately included in plant accounts to be depreciated should be removed; and
3) Errors in the calculations should be corrected.

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[2] Schedule 2.01, p. 2, lines 1 and 2.
[3] Company response to Staff DR TEE 5.01.

Q. Discuss your concern that no provision was reflected for estimated salvage value or tax savings related to the retired property.

A. The recovery of any undepreciated cost should be reduced by the estimated salvage and tax savings. In response to Staff DR TEE 6.01, the Company stated that certain property was transferred from Charmar to Camelot Utilities, Inc., but no entries have been recorded for the transfer. Follow-up discovery on this issue is due to Staff on October 28. Any salvage or tax savings from the retired property should be addressed in Company rebuttal testimony and reflected in revisions to the Company's wp-t-LOPA (Loss of Prudent Abandonment) as appropriate.

Q. Discuss your concern with legal fees being included inappropriately in the plant accounts to be depreciated.

A. Legal fees were included in amounts charged to Account 3305042 Distribution Reservoirs and Standpipes during 2005 ($13,474.20) and 2006 ($3,245.95). And, in 2002, an additional unsupported charge of $27,897.89 occurred.[4] The Company should provide rationale for the legal fees and the unsupported charge to be included in the calculation of undepreciated plant in its rebuttal testimony.

[4] Staff DR TEE 7.01, sent on October 13, 2011 requests an explanation of the legal fees in question and how they are appropriately charged to the plant account 3305042. In addition support for the 2002 plant additions was requested.

Q. If you are removing the legal fees from the calculation of undepreciated plant, why are you including them in the adjustment to accumulated depreciation on the retired plant?

A. Since the Company apparently did book depreciation on the legal fees discussed above, it is appropriate that the accumulated depreciation account be decreased to reflect the removal of those costs. However, the “Loss of Prudent Abandonment” reflected on Company workpaper w/p [t] should be revised to exclude those legal fees and associated accumulated depreciation that the Company booked.

Q. Discuss the errors in the Company’s calculation of accumulated depreciation and “extraordinary depreciation” on the retired plant.

A. My adjustment to recalculate accumulated depreciation and extraordinary depreciation results from 1) having a different ending date through which accumulated depreciation is calculated and 2) applying the effective depreciation rate to plant.

1) The Company calculated accumulated depreciation on the abandoned plant through December 31, 2009. Depreciation expense was accumulated through the end of the test year, September 30, 2010, since that is the test year ending date reflected in the Company’s filing.

2) The Company did not apply the new depreciation rate that became effective in 2005 to plant additions placed into service prior to 2005 and continued to apply the prior depreciation rate of 1.50% from 2005 through December 2009.

<u>Amortization Period</u>

Q. Discuss your proposal to amortize the costs of the undepreciated plant over 15 years rather than the 8.13 years proposed by the Company.

A. I propose an amortization period of 15 years for recovery of the costs of the undepreciated plant that is being retired since this amortization period is more in line with similar cases decided in Illinois.

In Eldorado Water Company Docket Nos. 93-0219/93-0334 (Cons.), the net book value of the reservoir and treatment plant with a remaining useful life of approximately 27 years was amortized over 10 years. In Docket No. 77-0686, Montrose Mutual Telephone Company addressing the early retirement of plant the Commission ordered the loss to be amortized over a 13 year period. And in Docket 50181 and 50182, Citizens Utilities, the Commission authorized amortization of a loss on early retirement over a 20 year period.

The 15 year amortization period I recommend would spread the undepreciated net book value over 15 years rather than the approximate 38 remaining years (47.74 years less 10 years in service) for the majority of the plant investment.

This amortization period would also offset a portion of the rate shock resulting from the Company's proposal.

The Company's workpaper wp-t-LOPA indicates that 33.42% of the plant retired early has been in service 5 years or less, while 66.36% has been in service 10 years or less. Using the Average Life of the plant to be retired from the last Charmar rate case[5], I have calculated the weighted average life of the plant to be retired to be 46.37 years[6]. The 8.13 amortization period proposed by the Company would escalate recovery of the undepreciated plant almost 6 times faster than had the plant not been retired.

<u>Accounting Treatment for Charmar Retirement</u>

Q. Are you proposing a specific accounting treatment for the retirement of the plant no longer used for Charmar water customers?

A. I am proposing the retirement be recorded according to Accounting Instruction 27(H) of the Uniform System of Accounts ("USOA"). Accounting Instruction 27 (H) states that:

> In some instances the unexpected early retirement of a major unit of property, which would eliminate or seriously deplete the existing depreciation reserve, may require accounting treatment which differs from that described in paragraph B above. In such instances the Commission may authorize or order the loss on retirement (less any tax savings) to be charged to income in the current year or transferred to account 186 - Miscellaneous Deferred Debits, and amortized in future periods. Such accounting treatment shall be used only when specifically authorized or directed by the Commission.

[5] Docket No. 03-0400, Charmar Water Company Utility Exhibit Two, Adjusted Depreciation.
[6] Staff workpaper AD on retired plant.

Q. Why is it proper to use the USOA Accounting Instruction 27(H) to record the retirement of the water treatment plant?

A. The retirement of the water treatment plant meets the following criteria specified in Accounting Instruction 27(H):

- Relates to the (unexpected) retirement of a major unit of property. The net treatment plant represents 37.12% of the Company's proposed rate base.[7]
- Since over two-thirds of the treatment plant has been in service less than 10 years, it can be concluded that this is an unexpected early retirement.
- The recording of the retirement by crediting "plant in service" and debiting "accumulated depreciation" by the original cost of the investment being retired would cause a serious depletion in the depreciation reserve. If the cost of the treatment plant was debited to the depreciation reserve for the full cost it would cause that account's balance to become a debit balance twice the current credit balance. Thus, such an entry would cause a serious depletion to the reserve account.

Therefore, I am proposing that the accounting treatment as prescribed in Accounting Instruction 27(H) be adopted.

Q. What accounting entries are you proposing to record the retirement of the water treatment plant?

A. I am proposing the following entries to record the retirement of the water plant:

DR CR

[7] Cost of treatment plant ($169,950) – accumulated depreciation ($46,489) / Company proposed rate base ($332,676)

108.1	Accumulated Depreciation	XXX	
182	Extraordinary Property Losses	XXX	
101	Plant in Service		XXX

The debit to the accumulated depreciation would equal the amount of water plant depreciation expense recorded from the in-service date to the retirement date. The credit to plant in service would represent the original cost of the plant being retired. The debit to the Account 182, Extraordinary Property Losses would represent the difference between the original cost and the accumulated depreciation expense. However, the Account 182 entry is to be reduced by the estimated salvage and tax savings.[8]

I also recommend that the Company be ordered to provide to the Manager of Accounting of the Commission the actual journal entries made to reflect this retirement within 60 days of the final order in these proceedings.

Adjustment to Accumulated Depreciation on Previously Retired Plant

Q. Describe Schedule 2.04, Adjustment to Accumulated Depreciation.

A. Schedule 2.04 reflects my adjustment to remove amounts from Accumulated Depreciation on Plant in Service that was to have been removed from the utilities' books at the time of their prior rate cases. Since the plant amounts had not been removed until the pro forma adjustments in this rate case, the utilities have continued to record depreciation annually on these plant assets, thus overstating accumulated depreciation. While the Companies' reflected the adjustments that

[8] After determining the Account 182 entry, the Account 108.1 entry may require revisions to reflect the reduction due to net salvage value and tax savings, if any.

were ordered in the prior rate cases in their proposed revenue requirements, the depreciation that has continued to be recorded since those rate cases is included in accumulated depreciation. In response to Staff DRs 4.01, 4.02 and 4.03 the utilities agreed that this adjustment was necessary.

Q. Do you agree with the adjustment amounts for the accumulated depreciation provided by the utilities in discovery?

A. Not completely. I agree with the amount the calculated for Killarney ($6,459); however, I do not agree with the amounts calculated for Harbor Ridge and Clarendon.

Q. Explain your adjustment to accumulated depreciation regarding the calculation for Harbor Ridge.

A. The amount of retired plant for Harbor Ridge needs to be divided between the sewer operations and water operations. My adjustments for Harbor Ridge Water and Harbor Ridge Sewer provide that division which in total does agree with the amount provided by the Company in discovery.

Q. Explain your adjustment to accumulated depreciation regarding the calculation for Clarendon.

A. My adjustment to accumulated depreciation for Clarendon considers 1) the removal of plant that should have been removed from the utility’s books per prior Commission orders and 2) applies the effective depreciation rates.

The Company's adjustment for the accumulated depreciation recorded on plant that was to have been retired in prior cases uses a 3% depreciation rate for 13 years on an overstated plant balance.

Q. Explain why it was necessary for your calculation of accumulated depreciation to remove plant that should have been removed from the utility's books in accordance with prior Commission orders.

A. The Company's response to Staff DR WRJ 4.01 indicated that $13,363 was to have been removed from the utility's books per the Commission's Order in Docket No. 92-0457, and $63,374 was to have been removed per the Commission's Order in Docket No. 97-0664, totaling the $76,737 used in the Company's calculation. Therefore the calculation for depreciation on the $13,363 should be for 18 years and the calculation for depreciation on the $63,374 should be for 13 years.

Q. Explain why it was necessary to apply the effective depreciation rates.

A. I applied the Company's present depreciation rate of 1.5% rather than the 3% used by the Company. The effective depreciation rate for Clarendon has been 1.5% since the last rate case.

<u>Adjustment to CIAC</u>

Q. Describe Schedule 2.05, Adjustment to CIAC.

A. Schedule 2.05 presents my adjustment to remove the effects of the amortization on CIAC which was not removed from the books of Harbor Ridge Sewer per the Order in Docket No. 94-0512. This adjustment partially offsets the adjustment for Harbor Ridge Sewer on Schedule 2.04 and restates both the Accumulated Depreciation and CIAC to more reasonable totals.

<u>Adjustment to Pro Forma Plant Additions</u>

Q. Describe Schedule 2.06, Adjustment to Pro Forma Plant Additions.

A. Schedule 2.06 presents updated amounts for the pro forma plant additions proposed for Cherry Hill, Killarney, and Harbor Ridge Water utilities. In response to discovery requesting support for their pro forma plant additions, the utilities provided updated amounts for each utility. My adjustments include revisions for Depreciation Expense and Accumulated Depreciation based on the updated Pro Forma amounts.

<u>Adjustment to Reclassify Plant in Service</u>

Q. Describe Schedule 2.07, Adjustment to Reclassify Plant in Service.

A. Schedule 2.07 reflects the reclassification of Sewer Plant to Water Plant for both Ferson Creek and Harbor Ridge utilities as provided in the Companies' response to Staff DR's WRJ-1.01 and 1.02. Similar adjustments are also necessary to the accumulated depreciation accounts for all four utilities. Responses to Staff DRs TEE 8.01 and 8.02 addressing accumulated depreciation on these reclassifications are due on October 28. If not reflected in the Companies' rebuttal positions, I will reflect those amounts in my rebuttal testimony and schedules.

Adjustment to Accumulated Deferred Income Taxes

Q. Describe Schedule 2.08, Adjustment to Accumulated Deferred Income Taxes ("ADIT").

A. Schedule 2.08 calculates the impact on ADIT resulting from the changes to depreciation expense for each utility as a result of Staff proposed adjustments. The adjustment compares the total adjustment proposed by Staff to the depreciation expense proposed by the utilities. That percentage is then applied to the Company proposed ADIT to derive the adjustment.

Comments and Recommendations Concerning Plant Retirements

Q. Do you have any concerns about how the Companies handle retirements from plant in service as a result of your review in these rate cases?

A. Yes. I have concerns regarding:

a) The timely recording of retirements from plant in service on Company books;
b) Identifying the amount of the retirement from plant in service;
c) The capitalized labor ("cap time") associated with retirements from plant in service; and
d) The reporting of retirements in the ILCC Form 22.

Q. Discuss your concern regarding the timely recording of retirements from plant in service on Company books.

A. The Company continues to neglect to record retirements timely when plant is taken out of service. This is evidenced by the number of line items I propose for retirement on Schedule 2.01. In addition, even when ordered by the Commission, the Company has neglected to record those entries for retirements on its books, as evidenced by my adjustment on Schedule 2.04. This careless record keeping results in overstated depreciation expense and accumulated depreciation by the Companies. While the amounts on an individual basis for each utility may not be material to Utilities Inc's overall financial statements, the amounts are material on an individual utility company basis. I recommend that the Commission order the Companies to book retirements from plant in service as they occur throughout each year. In addition, the Commission should order the Companies to provide the journal entries made to record all retirements addressed and approved in the final order to the Manager of Accounting within 60 days of the final orders in these rate cases.

Q. Discuss your concern regarding the identification of the amount of plant in service to be retired.

A. When the Companies cannot specifically identify the dollar amount associated with a plant item that is being retired, the Companies have proposed a couple different scenarios for determining an amount in these rate cases. In the Company's response to Staff DR TQS 1.02 and TQS 1.03, the Company provided copies of the invoices for the new plant going into service as a proxy for the amount of the plant being retired. While this process may not impact overall net plant, it causes accumulated depreciation to be understated since the cost of the new plant is removed from the Accumulated Depreciation account rather than the actual cost of the older plant which would have likely cost less. This could explain the unusually low accumulated depreciation balances reflected by all the utilities in these cases.

In the Company's supplemental response to Staff DR TEE 2.03, the Company notes as follows:

> Please note that a new JDE retirement program was added on March 4, 2010. Each line on each current Purchase Order (PO) requires a Y/N entry as to whether there is a retirement associated with that line item. Once Y is marked, the PO creator must enter the approximate year the original item was placed in service. Once the PO is vouchered, the Handy Whitman Index is used to calculate the retirement portion of the replacement cost.[9]

While this procedure is an improvement over using the replacement cost as a proxy for the cost of the plant being retired, it is not without predicament as discussed below in more detail.

I recommend that the utilities develop a process for identifying the dollar amount to be associated with retirements that takes into account all factors related to the plant to be retired. The process should then be followed across all of the Illinois Utilities Inc. companies. I further recommend that this process be conveyed in a report to be submitted to the Manager of Accounting of the Commission within 6-months of the order in these proceedings.

[9] Company Supplemental Response to Staff DR TEE 2.03.

Q. Discuss your concern with the Companies' failure to associate "cap time" with specific plant in service.

A. When cap time is charged to a specific ongoing project, it is moved to plant in service as a part of that project when the project is closed out. However, in each year of the continuing property records ("CPRs") I reviewed, there were entries charged directly to the various plant accounts that were simply notated as "cap time". It was not evident from those entries what, if any, plant items, that cap time was associated with.

Accounting Instruction 20 (A) of the USOA states that:

> All overhead construction costs, such as engineering, supervision, general office salaries and expenses, construction engineering and supervision by others than the accounting utility, legal expenses, insurance, injuries and damages, relief and pensions, taxes and allowance for funds used during construction, shall be **charged to particular jobs or units on the basis of the amounts of such overheads reasonably applicable thereto, so that each job or unit shall bear its equitable proportion of such costs and that the entire costs of the unit, both direct and overhead, shall be deducted from the plant accounts at the time the property is retired.** (Emphasis added.)

It is not clear that these overheads have been charged to a job or unit or that the overheads have been deducted from the plant accounts at the time property is retired. For example, in the Company's response to Staff DR TEE 3.05(b), Harbor Ridge indicated that 73 meters were installed at a unit cost of $50 and that old meters were retired at a total cost of $1,720. There is no indication from this response how the labor associated with the retired meters or the labor incurred to install the new meters was being identified with the cost of the meters.

Another example is Harbor Ridge's response to Staff DR TEE 3.05(b) relating to the replacement of electric panels. The amount of the retirement of the old electric panels was derived by subtracting the interest during construction and the cap time associated with the new panels from the invoiced amount of $20,702 for the new panels. The amount of retirement is based on 75% of the remainder. There is no indication from this response how the labor associated with the retired electrical panel was reflected in the dollar amount of the retirement.

The Company should provide a thorough explanation in rebuttal testimony how it is in compliance with Accounting Instruction 20(A)Utility Plant – Overhead Construction Costs and its process for the "cap time" charged directly to plant accounts.

Q. Discuss your concern with how the utilities report retirements on their ILCC Form 22 filed each year.

A. In the Companies' response to Staff DRs TEE 2.01 through 2.06, the Companies stated that in most years where no retirements were evident on their filed ILCC Form 22's, the retirements were booked but the retirement was netted against gross plant additions and presented as a net plant addition on the pages for Utility Plant Account detail. Page 18(W) for Water Utility Plant Accounts and page 24(S) for Sewer Utility Plant Accounts specifically show columns for Prior Year, Additions, Retirements, and Transfers (on page 18(W)) which would calculate across to result in the Current Year balance for each plant account.

The Companies inappropriately short-cut the information requested on these forms by reporting net plant changes for the year. I recommend that the Commission order the Companies to complete the plant schedules as well as all other pages of ILCC Form 22 in their entirety and should cease the shortcuts the Companies have taken in prior years' reports.

Q. Please summarize your recommendations.

A. I recommend that the Order in this proceeding order the Companies to

1) Book retirements from plant in service as they occur throughout each year;

2) Provide the actual journal entries made to record all retirements addressed and approved in the final order of these proceedings to the Manager of Accounting on filed on e-docket within 60 days of the final orders in these rate cases (including those retirements ordered in prior rate cases);

3) Provide a report to the Manager of Accounting of the Commission and file on e-docket within 6-months of the order in these proceedings on the Company's process for identifying the dollar amount to be associated with retirements that takes into account all factors related to the plant to be retired; and

4) Complete the plant schedules as well as all other pages of ILCC Form 22 in their entirety and cease the shortcuts the Companies have taken in prior years' reports.

Original Cost Determination

Q. Why is an Original Cost Determination finding appropriate?

A. Requirements for preservation of records are associated with an original cost determination. 83 Ill. Adm. Code 615, The Preservation of Records of Water Utilities, Appendix A, contains requirements for the preservation of specific records. For example, journal vouchers and journal entries which support plant accounts are to be maintained "7 years prior to date as of which original cost of plant has been unconditionally determined or approved by this Commission in…" an original cost determination proceeding or a rate case.

Q. What is your recommendation regarding an Original Cost Determination in this proceeding?

A. Based on the adjustments to Plant in Service recommended by Staff and as calculated on Schedule 2.09, I recommend the Commission order state:

> It is further ordered that the $500,596 original cost of water plant in service for Charmar Water Company at December 31, 2009, as reflected on Staff Schedule 2.09, is unconditionally approved as the water original costs of plant.

> It is further ordered that the $402,961 original cost of water plant in service for Cherry Hill Water Company at December 31, 2009, as reflected on Staff Schedule 2.09, is unconditionally approved as the water original costs of plant.

> It is further ordered that the $702,376 original cost of water plant in service for Clarendon Water Company at December 31, 2009, as reflected on Staff Schedule 2.09, is unconditionally approved as the water original costs of plant.
>
> It is further ordered that the $627,242 original cost of water plant in service for Killarney Water Company at December 31, 2009, as reflected on Staff Schedule 2.09, is unconditionally approved as the water original costs of plant.
>
> It is further ordered that the $1,335,221 original cost of water plant in service for Ferson Creek Utilities Company at December 31, 2009, as reflected on Staff Schedule 2.09, is unconditionally approved as the water original costs of plant.
>
> It is further ordered that the $1,910,182 original cost of sewer plant in service for Ferson Creek Utilities Company at December 31, 2009, as reflected on Staff Schedule 2.09, is unconditionally approved as the sewer original costs of plant.
>
> It is further ordered that the $966,972 original cost of water plant in service for Harbor Ridge Utilities, Inc. at December 31, 2009, as reflected on Staff Schedule 2.09, is unconditionally approved as the water original costs of plant.
>
> It is further ordered that the $199,135 original cost of sewer plant in service for Harbor Ridge Utilities, Inc. at December 31, 2009, as reflected on Staff Schedule 2.09, is unconditionally approved as the sewer original costs of plant.

Q. Why are you using December 31, 2009 for the original cost determination given the test year ending September 30, 2010 in this case?

A. December 31, 2009 represents the most recent calendar year included in the test year proposed by the utilities. Year end close-outs for 2010 of various activities, including plant additions, would not be reflected in September 30, 2010 numbers. Since Utilities Inc. maintains its books on a calendar year basis, using the most recent full calendar year included in the test year plant in service would set a more reasonable starting point for updating the original cost determination in future rate cases.

Conclusion

Q. Does this question end your prepared direct testimony?

A. Yes.

Utilities Inc.
Adjustment to Retire Plant
For the Test Year Ending September 20, 2010

Line No.	Description	Cherry Hill	Clarendon	Killarney	Ferson Creek Water	Ferson Creek Sewer
	(a)	(b)	(c)	(d)	(e)	(f)
1	Plant Retirements per Staff	$ (4,264)	$ (47,945)	$ (6,350)	$ (43,332)	$ (1,898)
2	Plant Retirements per Company	-	-	-	-	-
3	Staff Proposed Decrease to Plant in Service	$ (4,264)	$ (47,945)	$ (6,350)	$ (43,332)	$ (1,898)
4	Staff Proposed Decrease to Accumulated Depreciation	$ 4,264	$ 47,945	$ 6,350	$ 43,332	$ 1,898
5	Depreciation Rate (1)	3.13%				
6	Decrease to Depreciation Expense	(133)				

(1) Rate taken from Docket No 03-0401, Cherry Hill Water Company, Utility Exhibit Two, Schedule A.
Depreciation Expense for Clarendon, Killarney, Ferson Creek, and Harbor Ridge is included on Schedule 2.02.

Utilities Inc.
Adjustment to Utility Plant in Service
For the Test Year Ending September 20, 2010

Line No.	Description (a)	Amount (b)	Source (c)
	Cherry Hill		
1	Well 1 pumping equipment	$ 2,237	Company response to Staff data request TEE 2.02
2	Well 1 piping	85	Company response to Staff data request TEE 2.02
3	Well 2 pumping equipment	1,747	Company response to Staff data request TEE 2.02
4	Well 2 piping	195	Company response to Staff data request TEE 2.02
5	Total Retirements	$ 4,264	
	Clarendon		
6	Project 4344 - Rehab Well #2	$ 10,202	Company response to Staff data request TEE 2.03
7	Project 3503 - Well #2 Rehab	11,821	Company response to Staff data request TEE 2.03
8	Well Pump motors and parts	22,231	Company response to Staff data request TQS 1.02 & Supp TEE 2.03
9	Main repairs	3,691	Company response to Staff data request TQS 1.03 & Supp TEE 2.03
10	Total Retirements	$ 47,945	
	Killarney		
11	Pneumatic Tank	$ 2,200	Company response to Staff data request WHA 1.09
12	Well No 2	1,750	Company response to Staff data request WHA 1.09
13	Electric Pumping Equipment	2,400	Staff Exhibit x.x Direct tty of William Atwood
14	Total Retirements	$ 6,350	
	Ferson Creek - Water		
15	10,000 gal hydropneumatic water storage tank	$ 36,948	Company response to Staff data request WRJ-FC 2.01
16	Gas Chlorinator	2,815	Company response to Staff data request WRJ-FC 3.01
17	Pleuger pump/motor	3,569	Company response to Staff data request WRJ-FC 3.02
18	Total Retirements	$ 43,332	
	Ferson Creek - Sewer		
19	Fox Valley 2008 invoices	$ 1,898	Company response to Staff data request WRJ -1.01
20	Total Retirements	$ 1,898	

Utilities Inc.
Adjustment to Depreciation Expense
For the Test Year Ending September 20, 2010

Line No.	Description	Clarendon	Killarney	Ferson Creek Water	Ferson Creek Sewer	Harbor Ridge Water	Harbor Ridge Sewer
	(a)	(b)	(c)	(d)	(e)	(f)	(g)
1	Depreciation Expense per Staff	$ 22,734	$ 17,510	$ 35,871	$ 54,339	$ 21,584	$ 3,144
2	Depreciation Expense per Company	$ 23,377	$ 17,351	$ 36,917	$ 53,988	$ 20,037	$ 2,851
3	Staff Proposed Adjustment to increase/(decrease) Depr Exp	$ (643)	$ 159	$ (1,046)	$ 351	$ 1,547	$ 293

Line 1: Staff Exhibit 6.0, Schedule 6.01
Line 2: Company workpaper w/p [f]
Line 3: Line 1 minus line 2.

Docket No. 11-0561 - 11-0566 (Cons.)
ICC Staff Exhibit 2.0
Schedule 2.03

Utilities Inc.
Adjustment for Abandoned Plant - Charmar
For the Test Year Ending September 20, 2010

Line No.	Description (a)	Charmar (b)	Source (c)
1	Legal Fees	$ 10,568	Company responses to Staff data requests TEE 4.01 and 5.01
2	Easements	23,000	Company responses to Staff data requests TEE 4.01 and 5.01
3	Additional Retirements per Staff	$ (33,568)	Sum of lines 1 and 2
4	Additional Retirements per Company	-	
5	Staff proposed decrease to plant in service	$ (33,568)	line 3 minus line 4
6	Accumulated depreciation on retired plant per Staff	$ 46,489	Staff workpaper w/p 2.03 Abandoned Plant
7	Accumulated depreciation on abandoned plant per Company	36,576	Company w/p [t]
8	Staff proposed decrease to accumulated depreciation	$ 9,913	Line 1 minus line 2.
9	Extraordianry depreciation on abandoned plant per Staff	$ 7,297	Staff workpaper w/p 2.03 Abandoned Plant
10	Extraordinary depreciation on abandoned plant per Company	16,402	Company w/p [t]
11	Staff proposed decrease to amortization expense	$ (9,105)	Line 4 minus line 5

Utilities Inc.
Adjustment to Accumulated Depreciation
For the Test Year Ending September 20, 2010

Line No.	Description	Charmar	Clarendon	Killarney	Harbor Ridge Water	Harbor Ridge Sewer
	(a)	(b)	(c)	(d)	(e)	(f)
1	Commission Ordered Adjustment Plant in Service	$ 8,433	$ 63,374	$ 27,653	$ 21,515	$ 211,145
2	Land included in above total			7,470	9,113	(8,603)
3	Depreciable amount of adjustment	$ 8,433	$ 63,374	$ 20,183	$ 12,402	$ 219,748
4	Depreciation rate	2.92%	1.50%	2.00%	1.50%	1.50%
5	years since last rate case test year	7	13	16	16	16
6	Adjustment to decrease Accumulated Depreciation	$ 1,724	$ 12,358	$ 6,459	$ 2,976	$ 52,740
7	Commission Ordered Adjustment Plant in Service		$ 13,363			
8	Land included in above total					
9	Depreciable amount of adjustment		$ 13,363			
10	Depreciation rate		1.50%			
11	years since last rate case test year		18			
12	Adjustment to decrease Accumulated Depreciation		$ 3,608			
	Total decrease Accumulted Depreciation		$ 15,966			

Sources:
Line 1 Company w/p COA
Line 2 Order in Docket Nos. 03-0400, 97-0664, 94-0329, 94-0512
Line 3 Line 1 minus Line 2
Line 4 Company w/p [r]
Line 6 Line 3 times line 4 times line 5
Line 7 Order in Docket No 92-0457

Utilities Inc.
Adjustment to CIAC
For the Test Year Ending September 20, 2010

Line No.	Description	Harbor Ridge Sewer	Source
	(a)	(b)	(c)
1	Commission Ordered Adjustment to CIAC	$ 210,234	Order, Docket No. 94-0512
2	amortization rate	1.50%	Company w/p [r]
3	years since last rate case test year	16	
4	Adjustment to decrease CIAC for Amortization on Retired Plant	$ (50,456)	Line 1 times line 2 times line 3

Docket No. 11-0561 - 11-0566 (Cons.)
ICC Staff Exhibit 2.0
Schedule 2.06

Utilities Inc.
Adjustment to Pro Forma Plant Additions
For the Test Year Ending September 20, 2010

Line No.	Description	Cherry Hill	Killarney	Harbor Ridge Water
	(a)	(b)	(c)	(d)
1	Pro Forma Plant Additions per Staff	$175,325	$ 174,000	$ 132,054
2	Pro Forma Plant Additions per Company	$180,000	$ 170,000	$ 132,000
3	Staff Proposed Adjustment	$ (4,675)	$ 4,000	$ 54
4	Depreciation Expense per Staff	17,533	17,400	13,205
5	Depreciation Expense per Company	18,000	17,000	13,200
6	Staff Proposed Adjustment to Depreciation Expense	$ (468)	$ 400	$ 5
7	Staff Proposed Adjustment to Accumulated Depreciatio	$ 468	$ (400)	$ (5)

Line 1: Company supplementary responses to Staff DR TEE 1.05 for Cherry Hill and 1.06 for Killarney and Harbor Ridge
Lines 2 and 5: Company workpaper w/p j-pf.plant
Line 3: Line 1 minus line 2
Line 4: Line 1 divided by 10 year amortization
Line6: Line 4 minus line 5

Utilities Inc.
Adjustment to Reclassify Plant in Service
For the Test Year Ending September 20, 2010

Line No.	Description	Ferson Creek Water	Ferson Creek Sewer	Harbor Ridge Water	Harbor Ridge Sewer
	(a)	(b)	(c)	(d)	(e)
1	Reuse Tansmission & Distribution per Staff	$ 4,630		$ 1,419	
2	Reuse Tansmission & Distribution per Company	$ -	$ 4,630	$ -	$ 1,419
3	Staff Proposed Adjustment	$ 4,630	$ (4,630)	$ 1,419	$ (1,419)

Columns (b) and (c) Company response to Staff data request WRJ-1.02
Columns (d) and (e) Company response to Staff data request WRJ-1.01
Line 3: Line 1 minus line 2

Utilities Inc.
Adjustment to Accumulated Deferred Income Tax
For the Test Year Ending September 20, 2010

Line No.	Description	Cherry Hill	Clarendon	Killarney	Ferson Creek Water	Ferson Creek Sewer	Harbor Ridge Water	Harbor Ridge Sewer
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
	Adjustments to Depreciation Expense:							
1	Schedules 2.01 and 2.02	$ (133)	$ (643)	$ 159	$ (1,046)	$ 351	$ 1,547	$ 293
2	Schedule 2.06	(468)		400			5	
3	Staff adjustments to Depreciation Expense	$ (601)	$ (643)	$ 559	$ (1,046)	$ 351	$ 1,552	$ 293
4	Company Proposed Depreciation Expense	33,971	29,162	39,412	43,689	60,648	37,903	7,473
5	% Change in Depreciation Expense	-1.77%	-2.20%	1.42%	-2.39%	0.58%	4.10%	3.92%
6	Company Proposed ADIT	(22,423)	(86,874)	(49,643)	(81,533)	(79,764)	(20,928)	(20,731)
7	Staff Proposed Adjustment to ADIT	397	1,916	(704)	1,952	(462)	(857)	(813)

Line 3: Sum of lines 1 and 2
Line 4: Company Schedule B, line 37, column F
Line 5: Line 3 divided by line 4
Line 6: Company Schedule C, line 9, column F
Line 7: Line 5 times line 6

Utilities Inc.
Adjustment to Pro Forma Plant Additions
For the Test Year Ending September 20, 2010

Line No.	Description	Charmar	Cherry Hill	Clarendon	Killarney	Ferson Creek Water	Ferson Creek Sewer	Harbor Ridge Water	Harbor Ridge Sewer
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	December 31, 2009 Plant per ILCC Form 22	$542,597	$407,225	$827,058	$661,245	$ 1,373,923	$ 1,916,710	$ 987,068	$ 411,699
2	Prior Ordered Adjustments not booked (Schedule 2.04)	(8,433)		(76,737)	(27,653)			(21,515)	(211,145)
3	Staff Proposed Retirements (Schedules 2.01 and 2.03)	(33,568)	(4,264)	(47,945)	(6,350)	(43,332)	(1,898)	-	-
4	Staff Proposed Reclassifications (Schedule 2.07)					4,630	(4,630)	1,419	(1,419)
5	Original Plant Cost per Staff (Sum of lines 1 through 4)	$500,596	$402,961	$702,376	$627,242	$ 1,335,221	$ 1,910,182	$ 966,972	$ 199,135