

Wildwood Water Service Company

OFFICIAL FILE

I.C.C. DOCKET NO. 01-0178
Let Exhibit No. 1

Direct Testimony of

Erin L. Nicholas

Witness _____
Date 5/17/01 Reporter J.W.

1 **Q. Please state your name, occupation and business address for the record.**

2 A. My name is Erin L. Nicholas. I am the Manager of Regulatory Accounting for
3 Utilities, Inc. and subsidiaries, including Wildwood Water Service Company
4 (WWSC). My business address in 2335 Sanders Road, Northbrook, Illinois.

5

6 **Q. Please state your professional and educational background and experience.**

7 A. I have been employed by Utilities, Inc. since 1996. Since that time I have been
8 involved in both the accounting and rate-making aspects of the utility business. I
9 have been responsible for rate filings in Florida, New Jersey, North Carolina,
10 Pennsylvania and Virginia.

11

12 I earned a Bachelor of Business Administration degree in accounting from the
13 University of Notre Dame in South Bend, Indiana. I am currently enrolled in the
14 Masters of Business Administration Program at Kellogg Graduate School of
15 Management at Northwestern University in Chicago, Illinois. I am a Certified

1 Public Accountant and I have attended the NARUC Utility Rate Seminar as well
2 as other related independently sponsored seminars.

3

4 **Q. Please explain your job responsibilities at Utilities, Inc.**

5 A. My responsibilities include: financial analysis of individual subsidiaries of
6 Utilities, Inc., preparation of applications for rate relief, facilitation of commission
7 audits, and the submission of financial testimony and schedules to support a
8 request for an increase in rates.

9

10 **Q. Please describe Utilities, Inc.**

11 A. Utilities, Inc. (UI), the parent company of Wildwood Water Service Company,
12 has been involved in the water and sewer industry for over 35 years. UI is a
13 privately held company that owns approximately 76 operating companies. These
14 facilities are spread throughout 16 states including: Illinois, Arizona, Florida,
15 Georgia, Indiana, Louisiana, Maryland, Mississippi, North Carolina, Nevada,
16 New Jersey, Ohio, Pennsylvania, South Carolina, Tennessee, Virginia.

17

18 **Q. Please describe Wildwood Water Service Company**

19 A. Wildwood Water Service Company is a wholly owned subsidiary of Utilities, Inc.
20 Utilities, Inc. is in the process of incorporating WWSC under the laws of the State
21 of Illinois. Because this new subsidiary had not been formed at the time the
22 purchase agreement was signed, concurrent with the approval to purchase,
23 Utilities, Inc. requests permission to assign the rights under the agreement to this

1 new corporation. A copy of the certificate of incorporation will be submitted as a
2 late filed exhibit once it is obtained.

3
4 WWSC will provide water service to the 200 water customers in the Mulford
5 Wildwood in Winnebago County, Illinois. The system is situated adjacent to the
6 service territory of Great Northern Utilities, Inc. The water system is
7 approximately 42 years old. WWSC requests the Commission to grant to it a
8 Certificate of Public Convenience and Necessity to operate and maintain the water
9 system and to engage in the business of furnishing water public utility service in
10 the Wildwood Utility Company's service area. In addition, WWSC requests that
11 the current certificates held by Wildwood Utility Co. be canceled. WWSC further
12 requests that this area be defined in the Order entered in this proceeding and that
13 the Certificate of Public Convenience and Necessity be effective from and after the
14 closing date of the purchase transaction.

15
16 **Q. Will the proposed transfer adversely effect the customers?**

17 A. No. WWSC intends to continue Wildwood Utility Company's public utility
18 business in a professional manner. The business will be operated as a subsidiary
19 of Utilities, Inc. As such, the utility will be operated within the long-term goal of
20 providing high quality water service. To accomplish this, the facilities will be
21 maintained to a high standard, certified operators will be employed and necessary
22 capital expenditures will be made.

23

1 **Q. Is the proposed transfer in the public interest?**

2 A. Yes, this transfer is in the best interest of the using and consuming public.
3 Utilities, Inc. has over 35 years of experience in the utility business. Utilities, Inc.
4 was formed in 1965 with the objective of acquiring small water and sewer
5 companies. These companies are often troubled and undercapitalized. They are
6 primarily developer-owned with little experience in operating utilities. Utilities,
7 Inc. provides safe and reliable water and sewer service to approximately 235,000
8 customers in 16 states resulting in significant operational economies of scale.
9 WWSC's customers will benefit from these economies of scale and the level of
10 expertise gained by their affiliation with UI. While operating only water and
11 sewer systems, UI personnel have the ability to meet the challenges of the rapidly
12 changing utility industry. In addition, Utilities, Inc. has both the regulatory
13 experience and financial wherewithal to ensure consistent compliance with
14 environmental protection regulations. Utilities, Inc.'s experience in operating
15 water and sewer utilities will provide depth to WWSC on both a day to day basis
16 as well as during emergencies. For these reasons, the public interest would be best
17 served by the transfer of the water facilities to WWSC.

18

19 **Q. Does WWSC wish to enter into the service contract with Water Service**
20 **Corp.?**

21 A. Yes, it does. The Commission approved the existing contract for all of UI's
22 Illinois subsidiaries on March 14, 1979. This agreement was slightly amended and
23 again approved by the Commission in Docket No. 94-0157. The Order states that

1 Staff recommends that the service agreement method utilized to allocate costs be
2 reviewed for reasonableness and appropriateness in subsequent rate cases, and
3 that in all other respects, Staff supported Commission approval of the
4 amendment. Detail regarding the amended service agreement can be found in that
5 docket. Please see a copy of the WSC agreement attached as **ELN Exhibit 1**.

6
7 **Q. Please describe the relationship between Utilities, Inc. and Water Service**
8 **Corp.**

9 A. WSC is the affiliated service company that provides centralized billing,
10 accounting, data processing, engineering, management, and regulatory services for
11 the greater than 350 water and wastewater systems supported by the 76 operating
12 companies held by UI, including Wildwood Water Service Company

13
14 One of the primary benefits of the Water Service Corp. agreement will be
15 WWSC's access to a large pool of human resources from which to draw upon. As
16 indicated above, there are experts in various areas such as construction,
17 engineering, operations, accounting, regulation, data processing, customer service,
18 etc.

19
20 **Q. Does WSC charge a management fee or profit for these services?**

21 A. No, it does not.
22
23

1 **Q. How are costs assigned to the individual companies?**

2 A. Pursuant to the approved contract, wherever practical, the costs of these essential
3 services are typically assigned directly to the company that benefits from the
4 service provided. However, costs that cannot be identified to a specific company
5 are allocated to the operating companies primarily based on the number of
6 customers served. This methodology has been in use and accepted by each affected
7 regulatory jurisdiction for many years.

8

9 **Q. How will the WSC allocations change as a result of this acquisition?**

10 A. The addition of WWSC to the UI group of companies will result in a 0.113%
11 allocation to WWSC and a very insignificant decrease of customer allocation
12 percentages to all other utilities, less than a fraction of one percent. This is shown
13 on the attached **ELN Exhibit 2**, page 2 of 2.

14

15 **Q. Will the system be operated using existing personnel of Water Service Corp.?**

16 A. It will for a while. However, it is expected that Water Service Corp. will need to
17 hire a part-time operator to work between two and two and a half days per week
18 to assist mostly in handling UI's Rockford area systems; including WWSC, Great
19 Northern Utilities, Inc., Northern Hills Water and Sewer Company and Westlake
20 Utilities, Inc. The additional operator will not be hired until sometime after
21 transfer approval is granted for both Wildwood Water Service Company and
22 Westlake Utilities, Inc.

23

1 Currently Water Service Corp. employs approximately 11 full-time Illinois
2 operating personnel. This will provide depth to WWSC. Should an employee
3 become ill or leave the area on vacation, another employee can be brought in. In
4 addition, in emergencies additional staff will be made available.

5

6 **Q. With respect to savings or additional costs that will be realized due to the**
7 **merger, state whether the savings or costs will be passed to rate payers.**

8 A. The amount of any additional expense or savings is unknown since we are not
9 operating the system at this time. However, cost savings are expected to occur as
10 a result of WWSC's affiliation with UI. UI's group of companies maintains
11 economies of scale (as discussed above) and has national purchasing power on
12 expenditures such as insurance, vehicles and meters, which result in lower costs to
13 ratepayers. Furthermore, UI has access to capital for improvements and expansion
14 at reasonable rates. Any cost savings and/or additional prudent expenses brought
15 about by this merger will be passed on to the rate-payers.

16

17 **Q. With respect to the costs incurred to effect the merger, please quantify**
18 **them. Also please provide the accounting treatment and state whether**
19 **Utilities, Inc. plans to pass the cost to rate payers.**

20 A. The total costs expected to be incurred to complete the closing and approval
21 process of the Purchase Agreement between Wildwood Utility Company and
22 Wildwood Water Service Company is estimated at \$6,000. This amount includes
23 the cost associated with incorporating Wildwood Water Service Company as well as

1 the costs associated with preparing and filing the petition, testimony and data
2 requests. This amount will be coded to organization expense, and will be included in
3 rate base.
4

5 **Q. Will there be an acquisition adjustment?**

6 A. Yes. At this time, I estimate that the acquisition adjustment will be
7 approximately \$76,362 which is the difference between the net book value of the
8 plant assets of \$46,638 and the purchase price of \$123,000. These dollar amounts
9 are based on the 2000 annual report filed with the ICC by Wildwood Utility
10 Company. These figures could change based on information obtained at the
11 closing. The acquisition adjustment will be recorded as a debit in the acquisition
12 entry as follows:
13

14	Water Plant	\$171,394	
15	Accumulated Depreciation		\$124,756
16			
17	Plant acquisition adjustment	\$ 76,362	
18	Cash		\$123,000
19			

20 **Q. How will the acquisition adjustment be amortized?**

21 A. Amortization of the acquisition adjustment will be booked below the line at 2%
22 per year as a debit to Amortization of Utility Plant Acquisition Adjustments, and

1 a credit to Accumulated Provision for Amortization of Utility Plant Acquisition
2 Adjustments. This rate equals the depreciation rate.

3

4 **Q. Is WWSC proposing a rate change at this time?**

5 A. No, WWSC proposes to provide water service pursuant to the rates, rules,
6 regulations, and terms and conditions of service which have been approved by this
7 Commission and which are currently in effect in the service area, subject to any
8 changes hereafter approved by the Commission, and to continue all services
9 currently provided by Wildwood Utility Company without interruption or
10 change. The Company will file new tariff sheets under the name of Wildwood
11 Water Service Company.

12

13 **Q. Should the proposed transfer be approved by the Commission?**

14 A. Yes. The transfer is in the best interest of the customers as noted above.

15

16 **Q. Does this conclude your testimony?**

17 A. Yes, it does.

AGREEMENT

Agreement dated February 8, 2001 between Water Service Corp., a Delaware corporation (hereinafter called the "**Service Company**") and WILDWOOD WATER SERVICE COMPANY (hereinafter called the "**Operating Company**");

WHEREAS, both the Service Company and the Operating Company are subsidiaries of or affiliated with Utilities, Inc., an Illinois corporation (hereinafter called the "**Parent**"); and

WHEREAS, the Service Company maintains an organization which includes among its officers and employees, persons who are familiar with the development, business and property of the Operating Company and are experienced in the conduct, management, financing, construction, accounting and operation of water and sewer properties and are qualified to be of great aid and assistance to the Operating Company through the services to be performed under this Agreement; and

WHEREAS, the Service Company has or proposes to enter into agreements similar to this Agreement with certain affiliated water and/or sewer companies (hereinafter referred to collectively as the "**Operating Companies**"); and

WHEREAS, the services to be rendered under this Agreement are to be rendered at cost and without profit to the Service Company;

NOW, THEREFORE, in consideration of the premises and the mutual agreements herein contained, the parties hereto agree as follows:

The Service Company will furnish to the Operating Company, upon the terms and conditions hereinafter set forth, the following services:

- A. EXECUTIVE: The principal executive officers of the Service Company, such as the Chairman of the Board, President and Vice Presidents, and Treasurer will assist and advise the Operating Company in respect to corporate, financial, operating, engineering, organization, regulatory, and other

problems. They will keep themselves informed in regard to the operation, maintenance and financial condition of, and other matters relating to, the Operating Company through contacts with the officers, directors and other representatives of the Operating Company. Such officers of the Service Company will visit the property of the Operating Company when necessary to the proper furnishing of the services provided for in this Agreement. They will also supervise the personnel of the Service Company to the end that services under this Agreement shall be performed efficiently, economically and satisfactorily to the Operating Company.

- B. ENGINEERING: The Service Company will supply engineering services as required in all areas of design, construction, operation and management of the Operating Company.
- C. OPERATING: The Service Company will furnish competent personnel to perform and/or control all normal operating functions, including pumping, treatment, and distribution as well as maintenance of all equipment and facilities. These responsibilities will include testing and record keeping to insure compliance with all state and local regulatory agency requirements.
- D. ACCOUNTING: The Service Company will provide total accounting service, including bookkeeping, payroll, tax determination, financial statement preparation, budgets, credit, P.S.C. annual reports, etc. Periodic analyses will be made for purposes of planning and measurement of efficiency.
- E. LEGAL: The Service Company will employ general counsel as necessary to advise and assist it in the performance of the services herein provided for and to aid the operating company in all matters where such assistance may be desired.
- F. BILLING AND CUSTOMER RELATIONS: The Service Company will handle all billing and collections. It will serve as the link between the customer

and the Operating Company in all areas such as new accounts, deposits, meter reading, inquiries, and complaints.

- G. CONSTRUCTION: The Service Company will perform directly or supervise all construction, including customer connections, meter installations, main extensions, plant expansions, or capital additions of any nature as required by the Operating Company.

In consideration for the services to be rendered by the Service Company as hereinabove provided, the Operating Company agrees to pay to the Service Company the cost of said services. Said cost shall not include a markup for profit. In addition, the investment in the Service Company rate base, including depreciation, amortization, interest on debt and a return on the equity invested.

All costs of the Service Company, including salaries and other expenses, incurred in connection with services rendered by the Service Company for the Operating Companies which can, without excessive effort or expense, be identified and related to services rendered to a particular Operating Company, shall be charged directly to such company. Examples of such costs to be directly allocated include salary and other expenses incurred for specific projects such as rate cases, construction projects, legal proceedings, etc. Similarly, all such costs which may be identified and related to services rendered to a particular group of the Operating Companies shall be charged directly to such group of the Operating Companies.

All such costs which, because of their nature, cannot, without excessive effort or expense, be identified and related to services rendered to a particular Operating Company, shall be allocated among all the Operating Companies, or, in the case of costs incurred with respect to a particular group of the Operating Companies, among the members of such group, in the manner hereinafter set forth.

First, the allocable costs shall be distributed on an annual basis, unless the Parent should elect to make a supplementary analysis for a special purpose.

Secondly, these costs will be prorated in proportion to the average number of customers of each Operating Company during the calendar year. For purposes of this

determination each using customer of a water company and each customer of a sewer company will be counted as one.

Each customer of a water company, which is a distribution company only, that is having no source of supply facilities, shall be counted as one-half. Each customer whose charge is for the availability of water or sewer service shall be counted as one-quarter. Each customer whose charge is for the availability of water and sewer service shall be counted as one-half. Each customer of a company that provides water and sewer shall be counted as one and one-half. Further adjustments shall be made as necessary to assure the just and reasonable distribution of expenses.

With regard to costs of maintaining and operating the company's corporate headquarters facilities in Illinois, such costs will be allocated to reflect the fact that the corporate headquarters is also the base of operations for Illinois and Indiana. Costs will first be allocated to Illinois and Indiana based on the number of hours office personnel devote to companies in these states. Once determined, the cost chargeable to companies within Illinois and Indiana will be based on customers. The remaining costs will be charged to companies outside Illinois and Indiana based on customers.

The Service Company will also at any time, upon request of the Operating Company, furnish to it any and all information required by the Operating Company or by any governmental authorities having jurisdiction over the Operating Company with respect to the services rendered by the Service Company hereunder, the cost thereof and the allocation of such cost among the Operating Companies. In the case of services in connection with construction, the Service Company will, to the extent practicable, furnish to the Operating Company such information as shall be necessary to permit the allocation of charges for such services to particular work orders.

This Agreement shall be in full force and effect from the date as hereinabove mentioned and shall continue in full force and effect until termination by either of the parties hereto upon ninety days notice in writing.

IN WITNESS WHEREOF, the Service Company and the Operating Company have caused these presents to be signed in their respective corporate names by their

respective Presidents or Vice Presidents, and attest by their respective Secretaries or Assistant Secretaries, all as of the day and year first above written.

Water Service Corp.

BY Carl J. Wenz

Attest

Evin L. Nicholes

WILDWOOD WATER SERVICE COMPANY

BY [Signature]

Attest

Evin L. Nicholes

CUSTOMER EQUIVALENTS 12/31/00		CUSTOMERS	CUSTOMER EQUIVALENTS	% BY STATE	% WITHIN STATE	
ILLINOIS						
A. USAGE						
014	Camelot	W S	203	305	0.172%	2.3%
018	Charmar	W	53	53	0.030%	0.4%
022	Cherry Hill	W	235	235	0.133%	1.8%
026	Clarendon	W	477	477	0.269%	3.6%
034	County Line	W	120	120	0.068%	0.9%
038	Del Mar DISTRIBUTION ONLY	W	83	42	0.024%	0.3%
042	Ferson Creek	W S	376	564	0.318%	4.3%
046	Galena Territory	W	1,816			
046	Galena Territory	S	840	2,236	1.261%	17.0%
048	Harbor Ridge	W	283			
048	Harbor Ridge	S	283	425	0.240%	3.2%
049	Great Northern	W	360	360	0.203%	2.7%
050	Killarney	W	349	349	0.197%	2.7%
066	Northern Hills	W	172			
066	Northern Hills	S	186	272	0.153%	2.1%
070	Lake Marian	W	278	278	0.157%	2.1%
082	Valentine	W	71	71	0.040%	0.5%
086	Walk-up Woods	W	220	220	0.124%	1.7%
090&062	Whisp.Hills/Pist./Sun	W	2,167	2,167	1.222%	16.5%
096	Medina	S	505	505	0.285%	3.8%
098	Cedar Bluff	S	132	132	0.074%	1.0%
B. AVAILABILITY SYSTEMS						
011	Apple Canyon Usage	W	670			
010	Apple Canyon Avail (Split)		2,025	1,176	0.663%	9.0%
055	Lake Holiday Usage	W	1,719			
054	Lake Holiday Avail (Split)		366	1,811	1.021%	14.1%
059	Lake Wildwood Usage	W	388			
058	Lake Wildwood Avail (Split)		1,400	738	0.416%	5.6%
	Holiday Hills Utilities, Inc.	W	240	240	0.135%	1.8%
	Westlake Utilities, Inc.	W S	100	150	0.085%	1.1%
-->	Wildwood Water Service Company	W	200	200	0.113%	1.5%
TOTAL ILLINOIS			<u>16,996</u>	<u>13,126</u>	7.401%	<u>100.00%</u>
TOTAL VIRGINIA			<u>4,610</u>	<u>3,077</u>	1.735%	
TOTAL LOUISIANA			<u>15,999</u>	<u>12,061</u>	6.800%	
TOTAL INDIANA			<u>5,744</u>	<u>4,318</u>	2.435%	
TOTAL OHIO			<u>1,155</u>	<u>586</u>	0.330%	
TOTAL SOUTH CAROLINA			<u>22,618</u>	<u>18,538</u>	10.452%	
TOTAL NORTH CAROLINA			<u>57,828</u>	<u>41,054</u>	23.149%	
TOTAL FLORIDA			<u>73,588</u>	<u>54,741</u>	30.865%	
TOTAL GEORGIA			<u>9,337</u>	<u>6,536</u>	3.685%	
TOTAL MISSISSIPPI			<u>1,737</u>	<u>1,737</u>	0.979%	
TOTAL TENNESSEE			<u>499</u>	<u>499</u>	0.281%	
TOTAL MARYLAND			<u>6,924</u>	<u>5,808</u>	3.275%	
TOTAL PENNSYLVANIA			<u>4,712</u>	<u>3,623</u>	2.043%	
TOTAL NEW JERSEY			<u>1,053</u>	<u>894</u>	0.504%	
TOTAL NEVADA			<u>5,929</u>	<u>5,861</u>	3.305%	
TOTAL ARIZONA			<u>4,897</u>	<u>4,897</u>	2.761%	
GRAND TOTAL ALL STATES			<u>233,626</u>	<u>177,356</u>	<u>100.000%</u>	<u>100.0%</u>

CUSTOMER EQUIVALENTS 12/31/00		CUSTOMERS	CUSTOMER EQUIVALENTS	% BY STATE	% WITHIN STATE	
ILLINOIS						
A. USAGE						
014	Camelot	W S	203	305	0.173%	2.4%
018	Charmar	W	53	53	0.030%	0.4%
022	Cherry Hill	W	235	235	0.133%	1.9%
026	Clarendon	W	477	477	0.270%	3.8%
034	County Line	W	120	120	0.068%	1.0%
038	Del Mar DISTRIBUTION ONLY	W	83	42	0.024%	0.3%
042	Ferson Creek	W S	376	564	0.319%	4.5%
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046	Galena Territory	S	840	2,236	1.265%	17.7%
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048	Harbor Ridge	S	283	425	0.240%	3.4%
049	Great Northern	W	360	360	0.204%	2.9%
050	Killarney	W	349	349	0.197%	2.8%
066	Northern Hills	W	172			
066	Northern Hills	S	186	272	0.154%	2.2%
070	Lake Marian	W	278	278	0.157%	2.2%
082	Valentine	W	71	71	0.040%	0.6%
086	Walk-up Woods	W	220	220	0.124%	1.8%
090&062	Whisp.Hills/Ptst./Sun	W	2,167	2,167	1.226%	17.3%
096	Medina	S	505	505	0.286%	4.0%
098	Cedar Bluff	S	132	132	0.075%	1.1%
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TOTAL ILLINOIS			<u>16,356</u>	<u>12,536</u>	7.092%	<u>100.00%</u>
TOTAL VIRGINIA			<u>4,610</u>	<u>3,077</u>	1.741%	
TOTAL LOUISIANA			<u>15,999</u>	<u>12,061</u>	6.823%	
TOTAL INDIANA			<u>5,744</u>	<u>4,318</u>	2.443%	
TOTAL OHIO			<u>1,155</u>	<u>586</u>	0.332%	
TOTAL SOUTH CAROLINA			<u>22,618</u>	<u>18,538</u>	10.487%	
TOTAL NORTH CAROLINA			<u>57,828</u>	<u>41,054</u>	23.223%	
TOTAL FLORIDA			<u>73,588</u>	<u>54,741</u>	30.968%	
TOTAL GEORGIA			<u>9,337</u>	<u>6,536</u>	3.698%	
TOTAL MISSISSIPPI			<u>1,737</u>	<u>1,737</u>	0.983%	
TOTAL TENNESSEE			<u>499</u>	<u>499</u>	0.282%	
TOTAL MARYLAND			<u>6,924</u>	<u>5,808</u>	3.286%	
TOTAL PENNSYLVANIA			<u>4,712</u>	<u>3,623</u>	2.050%	
TOTAL NEW JERSEY			<u>1,053</u>	<u>894</u>	0.506%	
TOTAL NEVADA			<u>5,929</u>	<u>5,861</u>	3.316%	
TOTAL ARIZONA			<u>4,897</u>	<u>4,897</u>	2.770%	
GRAND TOTAL ALL STATES			<u>232,986</u>	<u>176,766</u>	<u>100.000%</u>	<u>100.0%</u>