

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

AQUA ILLINOIS, INC.)

Proposed general increase in)
water and sewer rates.)

Docket No. 11-0436

Surrebuttal Testimony on Rehearing and Exhibit 3.1-RH of

Robert R. Stephens

On behalf of

Viscofan USA, Inc.

Project 9466
June 8, 2012



STATE OF ILLINOIS
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Surrebuttal Testimony on Rehearing of Robert R. Stephens

1 Q PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A Robert R. Stephens. My business address is 16690 Swingley Ridge Road,
3 Suite 140, Chesterfield, MO 63017.

4 Q ARE YOU THE SAME ROBERT R. STEPHENS THAT FILED DIRECT TESTIMONY
5 IN THIS MATTER?

6 A Yes, I am. My direct testimony was in the original docket, Viscofan Exhibit 2.0.

7 Q WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY ON
8 REHEARING?

9 A I will respond to the Rebuttal Testimony on Rehearing of ICC Staff Christopher
10 Boggs, ICC Staff Exhibit 14.0.

11 Mr. Boggs' rebuttal testimony: 1) provides an overview of each parties'
12 position regarding the water rate increase proposal for the large industrial class to
13 which Viscofan belongs; 2) explains that he does not have the expertise to provide an
14 assessment of Viscofan's ability to manage its own water production, treatment and

15 delivery system or of the completeness and accuracy of Viscofan's projected annual
16 operating costs if it self-provides water service; 3) estimates bill impacts on other
17 customers assuming Viscofan leaves the Aqua Illinois, Inc. ("Aqua") system; and
18 4) provides a recommendation regarding the rate increase that should be approved
19 for the Large Industrial Class.

20 **Q AT PAGE 2 OF HIS TESTIMONY, IN TABLE 14.1, MR. BOGGS SUMMARIZES**
21 **VARIOUS RATE INCREASE PROPOSALS FOR VISCOFAN AND INDICATES THE**
22 **PERCENTAGE OF TOTAL COST RECOVERED FROM THE PROPOSED RATES.**
23 **DO YOU HAVE ANY GENERAL COMMENTS ON HIS ANALYSIS?**

24 A Yes. I do not dispute the accuracy of the figures shown on Mr. Boggs' Table 14.1.
25 However, I wish to point out that Mr. Boggs' seemingly singular focus on the
26 percentage of cost of service in this case misses the point and does a disservice to
27 Viscofan, Aqua and other Aqua customers alike.¹ The proper question before the
28 Commission in determining an appropriate level of increase for Viscofan should not
29 be a question of percentage of fully embedded cost of service, but rather a question
30 of what will it take to retain Viscofan and its associated contribution to fixed costs on
31 the Aqua system. As I explained in my direct testimony in the original case, and
32 which was acknowledged by the other parties, Aqua's other customers are better off if
33 Viscofan is retained at any price that exceeds the variable cost of serving Viscofan.²
34 Because Viscofan has a viable competitive option, unlike Aqua's other customers,
35 comparisons of Viscofan's rate revenues to embedded cost of service are somewhat
36 misleading and largely irrelevant. As Mr. Shenck has described in his testimony and

¹I would note that AG witness Rubin also focuses on percentage of cost of service at page 6 of his Direct Testimony on Rehearing, AG Exhibit 3.0, as well. Accordingly, Mr. Rubin misses the point to the same degree that Mr. Boggs does.

²See my Direct Testimony, Exhibit 2.0, at page 4.

37 in response to a data request,³ there is a very real likelihood that Viscofan will leave
38 the Aqua system.

39 As a result, other customers will be worse off. Having reviewed the testimony
40 of the various parties in this case, it appears to me that Viscofan would prefer to
41 remain an Aqua customer, assuming the economics are justifiable; Aqua would prefer
42 to retain Viscofan as a customer; and at least the Attorney General witness Rubin
43 recognizes the benefit of retaining Viscofan as a customer as well.⁴ Staff witness
44 Boggs seems to show no acknowledgment or preference for retaining Viscofan's
45 contribution to fixed costs, which would benefit all customers, instead focusing on the
46 irrelevant (in this case) cost of service analysis.

47 **Q AT PAGE 3 OF HIS REBUTTAL TESTIMONY ON REHEARING, MR. BOGGS**
48 **REFERS TO A COMMISSION DECISION IN 2004 (DOCKET NO. 04-0442) WHERE,**
49 **ACCORDING TO MR. BOGGS, THE COMMISSION AGREED THAT "...VISCOFAN**
50 **BEGIN TO PAY A GREATER PORTION OF ITS COST OF SERVICE TO ADDRESS**
51 **ITS DECLINING CONTRIBUTION TOWARD ITS COST OF SERVICE, WHILE NOT**
52 **BEING SO LARGE AS TO INDUCE RATE SHOCK." HOW DO YOU RESPOND?**

53 **A** Three points are in order. First, while I have not reviewed fully the circumstances of
54 the Commission's decision in Docket No. 04-0442, it seems to me that the decision
55 by the Commission under the circumstances in that case should not necessarily be
56 controlling in this case. This is certainly true if blind adherence to the Commission's
57 Order in that case would cause Viscofan to leave the system and, thereby, raise rates
58 for all other customers, as is implied by the circumstances of the present case.

³See Viscofan Exhibit 3.1-RH, attached hereto, which is Mr. Shenck's response to a rehearing data request from ICC Staff.

⁴See Mr. Rubin's testimony at pages 4-5, lines 81-94 and pages 6-7, lines 127-135.

59 Second, I do not believe that the issue of rate shock is necessarily relevant to
60 the circumstances of this case. Rate shock normally refers to an abrupt increase in
61 customer rates and is generally avoided as a sound rate design policy. However, in
62 this case, I do not believe rate shock is the issue nearly so much as the level of the
63 rate itself. As I understand the testimonies of Viscofan witnesses Shenck and
64 Niedenthal, water supply service was nearly uneconomic even at the old rates, prior
65 to the 20% rate increase which Staff supported and the Commission approved in this
66 rate case. The more relevant issue here is to acknowledge the “tipping point” price
67 which makes water supply from Aqua uneconomic to Viscofan, whether or not the
68 “tipping point” price is rate shock, per se. As I understand Mr. Shenck’s and
69 Mr. Niedenthal’s prior testimony, the current rate (resulting from the Commission’s
70 decision in this case) exceeds that “tipping point,” irrespective of rate shock
71 considerations.

72 Third, despite purportedly following the Commission’s directive to avoid
73 inducing rate shock, I see no analysis in Mr. Boggs’ Rebuttal Testimony on
74 Rehearing, or in his testimony in the original case, where he analyzes what does or
75 does not constitute rate shock. Certainly a 20% increase in a customer’s bill could be
76 considered rate shock under certain criteria.⁵

⁵Indeed, Mr. Boggs stated in his Rebuttal Testimony in the original case, “My proposal also seeks to minimize any potential rate shock that could induce Viscofan to consider building its own water plant” (ICC Staff Exhibit 9.0 at page 38). Clearly, his proposal has failed in its purpose.

77 Q AT PAGE 5 OF HIS REBUTTAL TESTIMONY ON REHEARING, MR. BOGGS
78 DESCRIBES HOW HE CALCULATED THE BILL IMPACTS ON OTHER
79 CONSOLIDATED WATER DIVISION RATEPAYERS, ASSUMING VISCOFAN
80 LEAVES AQUA'S WATER SYSTEM. HOW DO YOU RESPOND TO MR. BOGGS'
81 ANALYSIS?

82 A To begin, I have been unable to review Mr. Boggs' analysis in any detail, as it was not
83 included with his testimony. Likewise, his workpaper does not provide any good
84 insight to his analysis. Consequently, I am forced to rely on Mr. Boggs' description of
85 his calculation method, rather than reviewing his actual calculations.

86 At lines 86 through 88, Mr. Boggs indicates that he "reduced the Commission
87 approved revenue requirement by the \$576,768 in annual non-variable cost
88 contribution that Mr. Stephens claims Viscofan currently contributes." Taking his
89 description literally, it appears that Mr. Boggs has erred in his analysis. It would make
90 no sense to reduce the revenue requirement by that figure, as Aqua's costs are not
91 reduced by that amount if Viscofan were to leave the system. Rather, as I clearly
92 indicated in my direct testimony in the original case, it is the variable costs that can be
93 avoided by Viscofan leaving the system, not the non-variable costs. Consequently,
94 the \$576,768 estimate to which Mr. Boggs refers is actually the amount of revenue
95 requirement that will continue to exist, but will be spread to other customers, if
96 Viscofan leaves the system. If Mr. Boggs has accurately described his analysis, it
97 means that his estimates of bill impacts shown on page 5 of his rebuttal testimony on
98 rehearing are erroneous.

99 However, even if one were to assume that his calculations are correct, he
100 indicates at line 96 that the average residential customer will need to pay an
101 additional \$21.24 annually if Viscofan left the system. Thus, assuming that his rate

102 recommendation ultimately forces Viscofan to leave the system, as testified to by
103 Viscofan witness Shenck, Mr. Boggs needlessly would force other customers to pay
104 an additional \$21.24 annually. This begs the question, to what purpose does
105 Mr. Boggs seek to increase the other customer's rates, when a win-win solution is
106 available by lowering the Viscofan rate to a level that will retain it on the Aqua system.
107 Reducing the increase to Viscofan from 20% to 4.9% would require some revenue
108 responsibility to be spread to other customers. However, the amount is estimated to
109 be approximately \$91,000 per year, which is much less than the \$576,768 in annual
110 non-variable cost contribution that will be forced on other customers if Viscofan
111 leaves.

112 **Q AT PAGES 5 AND 6 OF HIS REBUTTAL TESTIMONY ON REHEARING,**
113 **MR. BOGGS INTRODUCES TWO NEW RATE DESIGN ALTERNATIVES THAT HE**
114 **HAS CONSIDERED. HOW DO YOU RESPOND?**

115 A While I appreciate Mr. Boggs' attempt to provide the Commission options that would
116 result in increases that are not as onerous as the 20% increase which he has
117 proposed, I would reiterate the point that anything above the increase that Viscofan
118 can tolerate economically will result in Viscofan leaving the system, by definition.
119 Therefore, even a 10% increase over the past rates (his lowest alternative increase)
120 could prove to be too much.

121 **Q DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY ON REHEARING?**

122 A Yes, it does.

**Aqua Illinois, Inc.
Docket No. 11-0436**

**Viscofan USA, Inc.'s Responses to Illinois
Commerce Commission Staff's First Set of Data Requests**

CB-9.01:

Please clarify whether it is the Company's position that any rate increase greater than 4.9% will cause it to disconnect from the Aqua system.

- a. If the answer is yes, and there is a rate increase greater than 4.9%, when would Viscofan disconnect from the Aqua system?
- b. If no, what is the maximum rate increase that Viscofan believes would not cause it to leave the Aqua system?

Response:

Yes.

- a. At 5%, the simple payback for the installation of wells on the Viscofan Kingdom Fairchild property falls into the Corporate Capital Guidelines for feasibility. Additional increases beyond that lower the simple payback and make the project that much more attractive. Should there be a rate increase beyond that, we would proceed with the detailed engineering study, with construction to immediately follow. This work, based on the initial engineering study, could be completed in under a year. Assuming a rate increase of 5%, the actual installation date could be closer to the termination of this agreement, unless the rate increase ultimately approved in this rehearing substantiates a financial reason to leave the system earlier than the termination of the contract.
- b. Not applicable.