

DIRECT TESTIMONY

of

Philip Rukosuev

Rates Analyst
Rates Department
Financial Analysis Division
Illinois Commerce Commission

Aqua Illinois, Inc.

Petition for Issuance of Certificate of Public Convenience and Necessity to Operate a Wastewater Collection System, approval of Asset Purchase Agreement with the Village of Bourbonnais, and for the Issuance of an Order Approving Rates, Accounting Entries and Depreciation.

Docket No. 12-0219

July 25, 2012

Table of Contents

INTRODUCTION..... 1

PROPOSED CERTIFICATED AREA..... 2

PROPOSED WASTEWATER RATES..... 4

RECOMMENDATIONS..... 11

1 **INTRODUCTION**

2

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

4 A. My name is Philip Rukosuev, and my business address is 527 E. Capitol Avenue,
5 Springfield, Illinois 62701.

6

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

8 A. I am currently employed by the Illinois Commerce Commission (“ICC” or
9 “Commission”) as a Rates Analyst in the Rates Department of the Financial
10 Analysis Division. My responsibilities include rate design and cost of service
11 analyses for electric, gas, water and sewer utilities and the preparation of
12 testimony on rates and rate related matters.

13

14 **Q. Please discuss your educational and professional background.**

15 A. I received a B.A. in Economics and Business Administration (Magna Cum Laude)
16 and a master’s degree in Accounting (with Highest Honors) from the University of
17 Illinois at Springfield. I have been employed by the Commission since September
18 of 2008. I have provided testimony and performed related ratemaking tasks. My
19 testimony has addressed cost-of-service and rate design that concerns electric,
20 gas, water and sewer utilities.

21

22 **Q. What is the purpose of your direct testimony?**

23 A. The purpose of my testimony is to present my recommendations regarding Aqua
24 Illinois, Inc's. ("Aqua" or "Company") proposed wastewater rates for the area it is
25 requesting a Certificate of Public Convenience and Necessity ("Certificate").
26

27 **Q. What information have you reviewed with respect to Aqua's requests in the**
28 **instant proceeding?**

29 A. I have reviewed the Company's Petition requesting a Certificate, including all
30 Exhibits attached thereto. I also prepared data requests and reviewed the
31 Company's responses to those requests.
32

33 **PROPOSED CERTIFICATED AREA**

34
35 **Q. Please discuss the area for which the Company is requesting a Certificate.**

36 A. The Village of Bourbonnais ("Village") currently owns, maintains and operates a
37 wastewater collection system within the community commonly referred to as Tri-
38 Star Estates, located in Bourbonnais Township, Kankakee County. According to
39 the Company, the Village no longer desires to provide direct service to the area
40 and has requested that the Company purchase the Tri-Star Estates sanitary
41 sewer system and deliver sanitary sewer service. (Aqua Exhibit 3.0, pp. 3-4)
42

43 On March 22, 2012 the Company filed a Petition requesting that the Commission
44 grant a Certificate of Public Convenience and Necessity which would allow the
45 Company to operate and maintain wastewater collection systems in the area

46 described herein in Kankakee County, Illinois, and to transact a public utility
47 business in connection therewith, pursuant to Section 8-406 of the Illinois Public
48 Utilities Act ("Act"), 220 ILCS 5/1-101 et seq.

49
50 At present, Aqua provides water and sewer public utility service to customers in
51 certain areas of Kankakee¹, Vermilion, Champaign, Will, Boone, Knox, Lake and
52 Lee Counties in the State of Illinois. Aqua is a public utility within the meaning of
53 Section 3-105 of the Act, 220 ILCS 5/3-105.

54
55 **Q. Are there other municipalities or utilities other than Aqua in or near the**
56 **proposed certificated area that could provide wastewater service to the**
57 **area?**

58 A. The Village is the only municipality currently capable of servicing the area. The
59 Company has indicated that it has no knowledge of any investor-owned utility or
60 any other entity having the desire to provide wastewater service to the area.
61 (Aqua Ex. 3.0 at 5; Company Response to Staff Data Request ("DR") PR 1.09²
62 The Company also indicated that it provided municipalities located within one
63 and one half miles of the proposed certificated area with a copy of the Petition in
64 accordance with 83 Ill. Adm. Code 200.150(b). (Aqua Ex. 3.0, at 5-6)³

65

¹ Aqua currently provides water service to the residents of Tri-Star Estates.

² The Company's response to Staff DR 1.09 and additional responses cited herein are included in Attachment A to this testimony.

³ Other than the Village, the Village of Bradley is the only other municipality within one and one-half miles of Tri-Star Estates.

66 **PROPOSED WASTEWATER RATES**

67 **Q. What wastewater rates will apply to customers within the area requested to**
 68 **be certificated in this proceeding?**

69 A. The Company proposes that the tariffed rates that currently apply to customers of
 70 Aqua’s University Park Wastewater Division also apply to customers in Tri-Star
 71 Estates. (Aqua Exhibit 3.0, at 7) Aqua’s University Park Wastewater Division
 72 rates and monthly bills based on various usage levels are presented in Table A
 73 below:

TABLE A Aqua Illinois - University Park Wastewater Division Rates					
	MONTHLY	BLOCK			
	CUSTOMER	GALLONS		PER 1,000 GALS.	
	CHARGE	1st	2nd	1st	2nd
	\$31.75	<=7,500 gal.	>7,500 gal.	\$3.993	\$2.995
BILL COMPARISON BASED ON					
WATER USAGE, IN GALLONS					
1,000 gal.	4,000 gal.	5,000 gal.	6,000 gal.	8,000 gal.	10,000 gal.
\$35.74	\$47.72	\$51.72	\$55.71	\$63.20	\$69.19

74

75 **Q. What wastewater rates currently apply to customers within the area**
 76 **requested to be certificated in this proceeding?**

77 A. The Village applies a two-tiered flat rate structure for residential customers.
 78 Residential customers within Village limits are billed \$26.75 per month.
 79 Residential customers in unincorporated areas outside Village limits are billed
 80 \$28.35.

81

82 Despite this rate information, however, the monthly wastewater rates billed to Tri-
 83 Star Estates residents cannot be readily determined. The Company has

84 indicated that the Village currently does not bill customers individually within Tri-
85 Star Estates. Instead, a flat monthly charge of \$14,231 is assessed to the owner
86 of the mobile home community. (Company Response to Staff DR PR 1.06)
87 Aqua further indicated that it is not privy to the manner in which the owner of the
88 mobile home community bills its residents. Further, in an effort to learn of the
89 billing practices, Company witness Craig Blanchette contacted the Village to
90 inquire about the billing and collection processes of Tri-Star Estates. (Company
91 Response to Staff DR PR 2.00)

92
93 Mr. Michael Wolf, Finance Director and the individual responsible for the Village's
94 sewer billing, informed the Company that he had no knowledge of Tri-Star's
95 billing and collections process or if the owner even billed the residents. (Id.) He
96 indicated that the Village owns the sewer collection system but not the land or
97 facilities within the development. (Id.) Mr. Wolf stated that the owner of the
98 manufactured home community filed for bankruptcy in 2011 and that the Village
99 simply bills the receiver in the bankruptcy proceeding and is paid by the same.
100 (Id.)

101
102 There is also uncertainty regarding cost of service. In response to Staff DR PR
103 3.04(a), Aqua stated the following:

104 It is possible that the current residents' true costs for service are higher (or
105 lower) than the proportionate share of the current Village flat charge. The
106 owner of the development may also lump the cost of providing sewer
107 service in with other charges (lot rent, garbage, etc.), which would make a
108 comparison extremely difficult even if Aqua or the Village were privy to the
109 billing practices or rates. Even if the owner of the development were
110 charging residents for sewer-related costs, there is no requirement or

111 guarantee that their rates would be based on cost of service or that they
112 would implement rates that reflect full cost pricing.
113

114 **Q. What is your opinion with respect to Aqua moving from a single flat**
115 **monthly charge currently in effect for Tri-Star Estates, to a Monthly**
116 **Customer Charge plus Volumetric/Usage⁴ Charge methodology?**

117 A. I agree with the Company's revised rate design methodology. In the Company's
118 Response to Staff DR PR 3.02(c), Aqua explained:

119 In the rate order for Dockets 07-0620 and 07-0621, Aqua committed to
120 proposing sewer rates in future cases that are based in part on water
121 consumption (customer charge plus consumptive charge) in an effort to
122 comply with Section 8-306(h) of the Public Utilities Act. Following through
123 on that commitment in 2011, Aqua proposed volumetric rates for those
124 sewer systems where Aqua owns both the water and wastewater systems
125 in Docket 11-0436. Aqua is proposing the same structure that was
126 approved in Docket 11-0436 for the Tri-Star Estates system.
127

128 Section 8-306(h) requires that each public utility providing water and sewer
129 service must establish a unit sewer rate for customers using less than 1,000
130 gallons in a billing period and is subject to the approval of the Commission. (220
131 ILCS 5/8-306) The Company's proposal to bill customers in the proposed
132 certificated area based on a Monthly Customer Charge plus Volumetric Charge is
133 a reasonable approach to providing a just and reasonable rate for low usage
134 customers.

135

⁴ The rates are for sewer service and are in addition to the customer charge. The rates apply to customers who receive all of their water supply by metered water service from the Company, or have installed a metering device to measure the volume of their discharge to the sanitary sewer system. ILL. C. C. No. 50, Section No. 5, Original Sheet No. 3.

136 **Q. What is the estimated average usage for the residents receiving wastewater**
137 **service in the area for which a certificate is requested?**

138 A. The average water usage⁵ for the Tri-Star Estates system is 4,620 gallons⁶ per
139 customer per month. (Aqua Response to Staff DR PR 1.08) Applying the rate
140 structure presented in the table above, the expected average residential
141 customer's monthly wastewater bill would be approximately \$50.20 (i.e., 4.62 x
142 \$3.993 = \$18.45 plus Monthly Customer Charge of \$31.75 = \$50.20). As will be
143 discussed later in my testimony, the current rates for Tri-Star Estates compare
144 favorably with the proposed University Park wastewater rates.

145
146 **Q. How were the billing determinants computed?**

147 A. According to the Company's Response to Staff DR PR 1.02, as of May 31, 2012,
148 there were 425 active water customers in the Tri-Star Estates development.
149 (Aqua Response to Staff DR PR 1.02) The entire development consists of
150 residential units with 5/8" meters, with the exception of the club house/recreation
151 center, which has a 2" meter and is listed as a commercial unit in Aqua's billing
152 system. Additionally, according to Company Exhibit 4.1, the Company has
153 estimated a steady increase in new customers through 2016 as follows: 2012 –
154 450 customers; 2013 – 450 customers; 2014 – 460 customers; 2015 – 470

⁵ There is no flow meter installed in Tri-Star Estates so information on average wastewater use per customer does not exist. Aqua intends to install a flow measurement device within two years of the purchase in order to determine the total number of gallons for billing purposes. Company Response to Staff DR PR 1.11 (attached hereto as Staff Ex. 1.3).

⁶ 4,620 gallons per month equates to 154 gallons per day. For the 450 customers, this equates to an estimated demand of 69,300 gallons per day.

155 customers; and 2016 – 480 customers. This increase represents an average
 156 growth rate of approximately 1.6%.

157

158 **Q. Are these billing determinants reasonable?**

159 A. Yes. The billing determinants are reasonable based on the current and
 160 estimated build out of this area presented in Company Exhibit 4.1.

161

162 **Q. Should the wastewater rates currently in effect for Aqua’s University Park
 163 Wastewater Division be approved for the area under consideration?**

164 A. Yes, for several reasons. First, in terms of proximity, the University Park Division
 165 is Aqua’s only nearby utility that provides wastewater service. Second, the
 166 University Park Division’s wastewater rates are the lowest of all Aqua divisions
 167 (see Table B).

TABLE B AQUA ILLINOIS PUBLIC WASTEWATER UTILITIES								
ACTUAL RATE STRUCTURE AND BILL COMPARISON								
	MONTHLY CUSTOMER CHARGE	BLOCK LENGTH (GALLONS)		USAGE RATES (PER 1,000 GAL)		BILL COMPARISON BASED ON WATER USAGE, GALLONS		
UTILITIES		<u>1st</u>	<u>2nd</u>	<u>1st</u>	<u>2nd</u>	1,000	5,000	10,000
Aqua Illinois								
Consolidated Tariff Group ⁷	\$ 32.93	<=7,500 gal.	>7,500 gal.	\$7.33	\$5.49	\$40.26	\$69.56	\$101.61
Elwood Greens ⁸	\$ 41.54					\$41.54	\$41.54	\$ 41.54
University Park ⁹	\$ 31.75	<=7,500 gal.	>7,500 gal.	\$3.99	\$3.00	\$35.74	\$51.72	\$ 69.19

168

⁷ In Docket No. 11-0436, four wastewater divisions were merged into one consolidated sewer group, while Elwood Greens and University Park remain as stand alone divisions.

⁸ Elwood Greens charges a flat monthly rate for wastewater service.

⁹ A strength surcharge also applies if discharge properties (e.g., BOD5, suspended solids) exceed certain concentrations.

169 Third, according to Company Exhibit 4.1 attached to Mr. Hanley's direct
170 testimony, page 1, which is a *pro forma* revenue requirement presentation based
171 on charging each customer \$50.25¹⁰ per month based on average usage, the
172 costs shown on Exhibit 4.1 include a \$26.75 per customer per month for
173 wastewater treatment, in addition to other projected miscellaneous costs. Exhibit
174 4.1 provides useful information regarding what Aqua expects its operating costs
175 to be. Accordingly, based on the analysis presented in Exhibit 4.1, it does not
176 appear that the University Park rates will produce unwarranted earnings when
177 applied to Tri-Star Estates customers given Aqua's cost to serve those
178 customers. Based on the information presented in Exhibit 4.1, it appears that the
179 University Park rates produce a revenue requirement that is very close to what
180 the revenue requirement would be if this were a stand-alone system for Aqua.

181
182 Fourth, the current flat rate in effect for the Village for Tri-Star Estates customers
183 does not allow Aqua the opportunity to earn a reasonable rate of return on its
184 investment or recover the operations and maintenance expenses associated with
185 the system. (Company Response to Staff DR PR 3.02(b)) Accordingly, Aqua's
186 proposed rates will allow the Company to invest the needed capital in the Tri-Star
187 system, cover the operation and maintenance expenses, and earn an adequate
188 return on the Company's investment. Although the average bill per customer will
189 be higher (see Table C) under Aqua than the per customer amount the Village

¹⁰ This \$50.25 figure includes a Gross Revenue Tax (ICC) of \$0.05.

190 charged the landlord of the property,¹¹ that is what it costs Aqua to serve Tri-Star
 191 Estates customers and charge them roughly cost-based rates.
 192

TABLE C ACTUAL RESIDENTIAL RATE STRUCTURE AND BILL COMPARISON								
	MONTHLY CUSTOMER CHARGE	BLOCK LENGTH GALLONS		USAGE RATES (PER 1,000 GALLONS)		BILL COMPARISON BASED ON WATER USAGE, GALLONS		
		1st	2nd	1st	2nd	1,000	4,000	5,000
Tri-Star Estates	\$ 28.35 ¹²					\$28.35	\$28.35	\$28.35
University Park	\$ 31.75	<=7,500 gal.	>7,500 gal.	\$3.99	\$2.99	\$35.74	\$47.72	\$51.72
% Change	11.99%					26.07%	68.32%	82.43%

193
 194 Therefore, based on the information provided in this proceeding, I agree with the
 195 Company's proposed wastewater rates for Tri-Star Estates proposed certificate
 196 area.
 197

¹¹ The Village owns the sewer collection system but not the land or facilities within the development. The owner of the manufactured home community filed for bankruptcy in 2011. The Village simply bills the receiver in the bankruptcy proceeding and is paid by the same. (Company Response to Staff DR PR 2.00)

¹² The \$28.35 flat rate listed in the Village ordinance applies to customers outside the Village limits that are directly served by the Village. Although Tri-Star Estates is located outside Village limits, the Village, does not bill Tri-Star Estate residents individually, but rather bills the owner of the mobile home community a flat \$14,231 monthly charge for wastewater service, as discussed in more detail on pages 4-6. Accordingly, an individual rate for Tri-Star Estates residents is not determinable from the information available. Therefore, I have used the \$28.35 flat rate as an approximation to aid in a rate comparison.

198 **Q. Will the addition of the area for which the certificate is requested cause the**
199 **Company to revise any tariffs?**

200 A. Yes. Aqua stated that it intends to file new tariff sheets for this acquisition as a
201 stand-alone division as a new section. Aqua will also file revised title pages
202 within ILL. C.C. No. 50. (Company Response to Staff DR PR 2.02)

203

204 **RECOMMENDATIONS**

205 **Q. What is your recommendation regarding rates for Tri-Star Estates**
206 **proposed certificate area?**

207 A. I recommended that if the Commission approves Aqua's request for a certificate
208 of public convenience and necessity, the Commission should find that the
209 Company's proposed wastewater rates for Tri-Star Estates should conform to the
210 tariffs for wastewater service in Aqua's University Park District.

211

212 In addition, the Company should file the necessary revised tariffs for Tri-Star
213 Estates within ten (10) days of the date of service of the Final Order if the
214 certificate is approved, with an effective date of not less than five (5) working
215 days after the date of filing, for service rendered on and after their effective date,
216 with individual tariff sheets to be corrected within that time period, if necessary.

217

218 **Q. Does this conclude your direct testimony in this proceeding?**

219 A. Yes.

**Aqua Illinois, Inc.
Responses to: Illinois Commerce Commission
ICC Docket No. 12-0219
PR First Set of Data Requests**

Submitted by Paul J. Hanley, Controller, Aqua Illinois, Inc.

PR 1.02 Please provide the number of meters by size and customer class currently on the Company's system for the area for which the certificate is requested.

RESPONSE:

As of May 31, 2012, there were 425 active water customers in the Tri-Star Estates development. The entire development consists of residential units with 5/8" meters, with the exception of the club house/recreation center, which has a 2" meter and is listed as commercial in Aqua's billing system. Please see attached, "12-0219_Support for PR 1.02.xlsx" for a detailed listing of each active account.

Witness: Paul J. Hanley

Aqua Illinois, Inc.
Responses to: Illinois Commerce Commission
ICC Docket No. 12-0219
PR First Set of Data Requests

Submitted by Paul J. Hanley, Controller, Aqua Illinois, Inc.

PR 1.06 Provide a typical bill comparison by class to illustrate the impact of current rates compared to the Company's proposed rates. The comparison should be provided in Excel format with working formulas.

RESPONSE:

The Village of Bourbonnais currently does not bill customers individually within Tri-Star Estates. A flat monthly charge of \$14,231 is assessed to the owner of the mobile home community.

Witness: Paul J. Hanley

**Aqua Illinois, Inc.
Responses to: Illinois Commerce Commission
ICC Docket No. 12-0219
PR First Set of Data Requests**

Submitted by Paul J. Hanley, Controller, Aqua Illinois, Inc.

PR 1.08 Please provide the average usage for the residents receiving wastewater service in the area for which a certificate is requested from the current provider of such service. Provide all workpapers.

RESPONSE:

The average water usage for the Tri-Star Estates system is 4,620 gallons per month. Please see Aqua Exhibit 4.1 to the Direct Testimony of Paul J. Hanley, page 2 of 3, and attached Excel file showing Water Consumption by Customer, "12-0219_Support for PR 1.08.xlsx".

Witness: Paul J. Hanley

Aqua Illinois, Inc.
Responses to: Illinois Commerce Commission
ICC Docket No. 12-0219
PR First Set of Data Requests

Submitted by Paul J. Hanley, Controller, Aqua Illinois, Inc.

PR 1.09 Please indicate whether the Company performed a wastewater rate comparison for surrounding communities when deciding what wastewater rate to charge for the area under consideration. If the answer is yes, please provide the comparison. If the answer is no, please explain why the Company did not perform such a comparison.

RESPONSE:

Aqua did not perform a wastewater rate comparison when determining rates for the Tri-Star Estates system. Other communities were not compared since the Village of Bourbonnais is the only community capable of servicing the area, and the Village no longer desires to provide direct service to the area. Rather, Aqua relied on information from a 2011 Baxter & Woodman rate study conducted by the Village of Bourbonnais. The study found that residential sewer customers, served by the Village of Bourbonnais outside of the municipal limits, should pay the following flat charges on a monthly basis:

Effective Jan. 1, 2012	\$28.35
Effective May 1, 2013	\$36.50
Effective May 1, 2014	\$41.00

The same study also suggested that commercial customers pay the following volumetric rates per 1,000 gallons of wastewater discharged to the Bourbonnais system:

Effective Jan. 1, 2012	\$3.81
Effective May 1, 2013	\$4.69
Effective May 1, 2014	\$5.18

The Village Board approved the new rates as recommended in Baxter & Woodman's report on January 3, 2012 with Ordinance 11-1892.

Witness: Paul J. Hanley

**Aqua Illinois, Inc.
Responses to: Illinois Commerce Commission
ICC Docket No. 12-0219
PR First Set of Data Requests**

Submitted by Paul J. Hanley, Controller, Aqua Illinois, Inc.

PR 1.11 Please provide the sewer system capacity (mgd), average daily flow (mgd), and maximum daily flow (mgd) for the existing sewer system for the area for which the certificate is requested.

RESPONSE:

There is no flow meter installed so this information does not exist. Aqua intends to install a flow measurement device within two years of the purchase in order to determine the total number of gallons for billing purposes.

Witness: Paul J. Hanley

Aqua Illinois, Inc.
Responses to: Illinois Commerce Commission
ICC Docket No. 12-0219
PR Second Set of Data Requests

Submitted by Craig L. Blanchette, Vice President and Regional Manager, Aqua Illinois, Inc.

PR 2.00 In response to Staff DR PR 1.06, the Company stated that the Village of Bourbonnais currently does not bill customers individually within Tri-Star Estates. Instead, a flat monthly charge of \$14,231 is assessed to the owner of the mobile home community. Please explain in detail the manner in which the owner of the Mobil home community bills its residents. Please provide a complete breakdown of the charges and the collection process.

RESPONSE:

Aqua is not privy to this information. Aqua has only dealt with the Village of Bourbonnais and is not familiar with the current owner of the mobile home community, its billing practices, or collection processes. In an effort to satisfy the data request, Craig Blanchette contacted the Village of Bourbonnais to inquire about the billing and collection processes of Tri-Star Estates. Mr. Michael Wolf, finance director and the individual responsible for Bourbonnais' sewer billing, indicated that he had no knowledge of Tri-Star's billing and collections process or if the owner even billed the residents. The Village of Bourbonnais owns the sewer collection system but not the land or facilities within the development. The owner of the manufactured home community filed for bankruptcy in 2011. Mr. Wolf said that the Village simply bills the receiver in the bankruptcy proceeding and is paid by the same.

Witness: Craig L. Blanchette

Aqua Illinois, Inc.
Responses to: Illinois Commerce Commission
ICC Docket No. 12-0219
PR Second Set of Data Requests

Submitted by Craig L. Blanchette, Vice President and Regional Manager, Aqua Illinois, Inc.

PR 2.02 Will the addition of the area for which the certificate is requested cause the Company to revise any tariffs? If so, please explain which tariffs and in what manner they will be revised.

RESPONSE:

Aqua intends to file new tariff sheets for this acquisition as a stand-alone division as a new section. Please see response to PR 1.01.

Aqua will also file revised title pages within ILL. C.C. No. 50. Please see the documents attached hereto as Exhibit PR 2.02 for examples of those revised pages.

Witness: Craig L. Blanchette

Aqua Illinois, Inc.
Responses to: Illinois Commerce Commission
ICC Docket No. 12-0219
PR Third Set of Data Requests

Submitted by Craig L. Blanchette, Vice President and Regional Manager, Aqua Illinois, Inc.

PR 3.02

According to the Company's response to Staff DR PR 1.08, the average water usage for the Tri-Star Estates system is 4,620 gallons per customer per month.

- (a) By applying the University Park wastewater rate structure, does the Company agree that the expected average residential customer's monthly wastewater bill would be approximately \$50.20 (i.e., $4.62 \times \$3.993 = \18.45 plus Monthly Customer Charge of \$31.75 = \$50.20)? If no, please provide an example of the approximate monthly bill for a residential customer.
- (b) Please explain in detail why Aqua cannot charge customers in the proposed certification area the Village of Bourbonnais' current, effective rates for residential customers outside Village limits, or at least until its next rate case.
- (c) Please explain in detail to what extent, if any, the results from Aqua's latest consolidation case in Docket No. 11-0436 played a role in shaping the proposed rate structure and the rates in this proceeding. In particular, please describe the rationale behind moving from a single Residential Charge, as is currently in effect for Tri-Star Estates, to a Monthly Charge plus Volumetric Charge methodology.

RESPONSE:

- (a) Yes. Please see the Pro Forma, Exhibit 4.1 to Paul Hanley's direct testimony.

- (b) The current flat rate in effect for the Village of Bourbonnais for customers does not allow Aqua the opportunity to earn a reasonable rate of return on its investment or recover the operations and maintenance expenses associated with the system. Please see Exhibit 4.1.

- (c) In the rate order for Dockets 07-0620 and 07-0621, Aqua committed to proposing sewer rates in future cases that are based in part on water consumption (customer charge plus consumptive charge) in an effort to comply with Section 8-306(h) of the Public Utilities Act. Following through on that commitment in 2011, Aqua proposed volumetric rates for those sewer systems where Aqua owns both the water and wastewater systems in Docket 11-0436. Aqua is proposing the same structure that was approved in Docket 11-0436 for the Tri-Star Estates system.

Witness: Craig L. Blanchette

Aqua Illinois, Inc.
Responses to: Illinois Commerce Commission
ICC Docket No. 12-0219
PR Third Set of Data Requests

Submitted by Craig L. Blanchette, Vice President and Regional Manager, Aqua Illinois, Inc.

PR 3.04

Based on the Company's answers to Staff DR PR 1.06 and DR PR 2.00, the flat monthly charge of \$14,231 that is assessed to the owner of the mobile home community translates to a charge of approximately \$31.62 per wastewater customer (assuming that this flat charge is dispersed amongst 450 wastewater customers that reside in that area). By way of comparison, the Village of Bourbonnais' current rates for residential customers outside Village limits (customers in unincorporated areas) is \$28.35 per month.

- a) If the resulting monthly bill to a typical wastewater customer utilizing the University Park wastewater rates will be \$50.20, what factors will account for this 58% increase from the \$31.62 amount and 77% increase from the current rate of \$28.35 for customers in unincorporated areas?
- b) Assuming that no underlying cost factors have changed and the composition of Tri-Star Estates service territory is not expected to change significantly under Aqua's ownership, what factors account for the 58% and 77% increases in rates?

RESPONSE:

- (a) Neither Aqua nor the Village of Bourbonnais are familiar with the billing practices within the Tri-Star Estates development or the rates imposed on the residents by the owner, so any comparison to a hypothetical rate of \$31.62 is entirely speculative. It is possible that the current residents' true cost for service are higher (or lower) than the proportionate share of the current Village flat charge. The owner of the development may also lump the cost of providing sewer service in with other charges (lot rent, garbage, etc.), which would make a comparison extremely difficult even if Aqua or the Village were privy to the billing practices or rates. Even if the

owner of the development were charging residents for sewer-related costs, there is no requirement or guarantee that their rates would be based on cost of service or that they would implement rates that reflect full cost pricing.

Similarly, to compare the outside service rate for Village customers to the rates proposed by Aqua in this proceeding is not valid. Initially, the Village has determined that it no longer wants to own and operate the Tri-Star collection system. Furthermore, the \$28.35 flat rate listed in the Village ordinance applies to customers outside the corporate limits that are individually served by the Village. On the contrary, the Village does not bill the Tri-Star residents individually and does not provide customer service on an individual basis. It does appear that Bourbonnais is working toward a rate structure that allows them to more closely reflect full cost pricing, but the Village's cost for providing service may be much different than that of Aqua's in a system the size of Tri-Star Estates. The Bourbonnais sewer collection system, of which Tri-Star Estates is tributary, is much larger than Tri-Star Estates, so any economies of scale or improvements that were constructed with funds outside of the revenues generated by the Village customers in past years would not be reflected in the proposed rates.

Aqua's proposed rates allow the Company to invest the needed capital in the Tri-Star system, cover the operation and maintenance expenses, and earn an adequate return on the Company's investment (albeit a return less than that allowed in the other sewer divisions throughout the state).

- (b) As stated in PR3.04(a), Aqua maintains that the references to a 58% and a 77% increase are unjustified based on the reasons previously cited. Having stated that, the factors affecting any increase or decrease in the costs incurred by the individual customers within Tri-Star Estates would be centered around return of and on prudent capital investment along with recovery of operation and maintenance expenses related to the collection, transportation, and disposal of the wastewater.

Witness: Craig L. Blanchette