

**ILLINOIS COMMERCE COMMISSION**

**Docket No. 12-\_\_\_\_\_**

**Exhibit No. 1.0**

**Direct Testimony of**

**Dimitry Neyzelman**

**on behalf of**

**APPLE CANYON UTILITY COMPANY**

**PREPARED DIRECT TESTIMONY  
OF DIMITRY NEYZELMAN  
ON BEHALF OF APPLE CANYON UTILITY COMPANY**

1    **Q.    Please state your name, title and business address.**

2    A.    My name is Dimitry Neyzelman. My business address is 2335 Sanders Road, Northbrook, Illinois  
3           60062.

4    **Q.    Please summarize your professional background?**

5    A.    I joined the Company in October 2005. Prior to joining the Company, I was a consultant in the  
6           Dispute Resolution and Valuation department for Virchow Krause and Company, a Litigation  
7           Consultant with Russell Novak and Company, an Investment Consultant for Deloitte & Touche  
8           Investment Advisors and a Portfolio Administrator for Harris Associates LLC, all in Chicago, Illinois.  
9           I have over 10 years experience in public accounting, litigation consulting and investment consulting.

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11           I earned a Bachelors of Science Degree in Finance and a Concentration in International Business at  
12           the College of Business at the University of Illinois at Chicago. I have successfully completed the  
13           utility rate regulation seminar sponsored by NARUC.

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15    **Background**

16    **Q.    Please describe Apple Canyon Utility Company.**

17    A.    Apple Canyon Utility Company (“Apple Canyon” or the “Company”) is a wholly owned subsidiary  
18           of Utilities, Inc. (“UI”). Water Service Corporation (“WSC”) manages the operation for all of UI’s  
19           water and wastewater systems, including Apple Canyon. WSC provides management, administration,  
20           engineering, accounting, billing, data processing, and regulatory services for the utility systems.  
21           WSC’s expenses are assigned directly to a utility or distributed to the various companies pursuant to a  
22           formula that has been approved by the Commission.

1 Apple Canyon provides water service to approximately 2,667 water customers in Jo Daviess, Illinois.  
2 Apple Canyon's current rate structure was approved pursuant to an order entered in Docket No. 09-  
3 0548 dated September 9, 2010.

4 **Q. Please describe UI.**

5 A UI is unique within the water and sewer industry in many respects. From its inception in mid-1960,  
6 UI has concentrated on the purchase, formation and expansion of smaller water and/or sewer utility  
7 systems. At the present time, UI has over 70 systems that provide service to approximately 270,000  
8 customers in 15 states.

9 **Q. Mr. Neyzelman, what is the purpose of your testimony?**

10 A. The purpose of my testimony is to explain to the Commission why Apple Canyon has requested an  
11 increase in water rates. I will also discuss some of the factors that have contributed to the need for the  
12 increase and the impact of the increase on our customers. I will present and describe schedules  
13 showing the overall cost of capital and proper rate of return on rate base, and I will also sponsor the  
14 Company's financial exhibits.

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16 **Rate Relief**

17 **Q. Why is Apple Canyon requesting rate relief at this time?**

18 A. A rate increase is necessary to allow the Company to recover the reasonable and prudent costs of  
19 providing service and an opportunity to earn a fair and reasonable rate of return on its invested  
20 capital. Rates granted in 2010 (2008 test year) do not reflect the 4 years of rising costs, many of  
21 which result from increased in operating expenses and inflation. Additionally, since the last rate case,  
22 the annual necessary Operating and Maintenance (O&M) expenses experienced by the Company have  
23 consistently exceeded the historical average amounts upon which the current rates were based. For  
24 these reasons, the Company is not able to achieve a reasonable rate of return on its investment. Rate  
25 relief is essential to ensure the continued availability of capital at a reasonable cost and to maintain a  
26 high and professional level of service. Under the present rate schedule, Apple Canyon is not earning  
27 a fair and reasonable return on its investment. After making pro forma adjustments to the December

1 31, 2011 test year for known, fixed and measurable changes, Apple Canyon has an overall return of  
2 0.35%. The proposed rates will allow the company to earn an 8.5% overall rate of return. This  
3 information is supported in the financial statements attached hereto as Apple Canyon Exhibit 1.1.

4 **Q. Please describe these schedules.**

5 A. The General Rate Case Application includes the financial statements for Apple Canyon. The  
6 subsections are as follows:

7 Schedule A – Balance Sheet

8 Schedule B – Income Statement

9 Schedule C – Rate Base and Rate of Return

10 Schedule D – Test Year / Present Revenues

11 Schedule E – Proposed Revenues

12 **Q. Please explain how test year expenses were adjusted.**

13 A. Pro forma adjustments were made to the test year expenses based on known and measurable changes  
14 to actual expenses.

15 **Q. What are the known and measurable pro forma adjustments made to the income statement  
16 (Schedule B)?**

17 A. The following adjustments have been made to the income statement:

- 18 • Revenues are annualized at proposed rates using test year customers;
- 19 • Uncollectible Accounts are adjusted based on the percentage of uncollectible accounts to revenues  
20 in the test year applied to pro forma proposed revenues;
- 21 • Salaries, Wages and Benefits are adjusted to annualize based on the most current information  
22 available;
- 23 • Regulatory Commission Expense has been adjusted to reflect the cost of the current rate case over 5  
24 years;
- 25 • Depreciation and Amortization Expenses are annualized. Depreciation expense represents gross  
26 depreciable plant at the end of the year plus pro forma projects multiplied by their respective  
27 depreciation rates;

- 1       • Taxes other than Income is adjusted for annualized payroll taxes, Utility Commission Taxes, and  
2       Gross Receipts Taxes;
- 3       • Income Taxes are computed on taxable income at current rates;
- 4       • AFUDC is eliminated for rate making purposes;
- 5       • Interest on debt is computed using a 50.42%/49.58% debt/equity ratio and a 6.60% cost of debt;
- 6       • Transportation expense is adjusted based on operators' allocation;
- 7       • Adjustments to allocations were based on 12/31/2011 allocation factors.

8       **Q. What are the pro forma adjustments made to the rate base statement (Schedule C)?**

9       A. The following adjustments were made to the rate base statement:

- 10       • Working capital has been calculated based on pro forma expenses;
- 11       • Pro Forma Plant is adjusted for planned additional capital investments and retirements;
- 12       • Accumulated depreciation has been adjusted for planned additional capital investments and  
13       retirements;
- 14       • Deferred Charges have been removed for rate making purposes;
- 15       • Adjustments to allocations were based on 12/31/2011 allocation factors.

16       **Q. Does the Company have any plans for proforma projects?**

17       A. Yes. The Company is proposing a project to paint the existing water tower. The cost of this project is  
18       estimated at \$100,000. Funding of this project has been approved by management and the completion  
19       date will occur by May 31, 2013. The amortization period used for this project is 10 years.

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21       **Rate Analysis**

22       **Q. What are the present water rates for Apple Canyon and when did they become effective?**

23       A. The present water rates became effective in 2010, and are as follows:

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Base Facility Charges (billed monthly):

5/8" Res.	\$ 18.73
3/4" Res.	\$ 20.61
1" Res.	\$ 22.48
1.5" Res.	\$ 24.35
2" Res.	\$ 26.22
3" Res.	\$ 28.12
4" Res.	\$ 29.99
6" Res.	\$ 31.87
5/8" Coml.	\$ 18.73
3/4" Coml.	\$ 20.61
1" Coml.	\$ 22.48
1.5" Coml.	\$ 24.35
2" Coml.	\$ 26.22
3" Coml.	\$ 28.12
4" Coml.	\$ 29.99
6" Coml.	\$ 31.87

Gallonage Charges: \$5.70 per 1,000 gallons

Availability Charges: \$6.56

The current monthly average consumption for 5/8" residential customers in Apple Canyon is approximately 1,773 gallons. This equates to a monthly bill of \$28.84. I have attached an example of a customer's bill as Apple Canyon Exhibit 1.3.

**Q. What are the proposed water rates for Apple Canyon and their impact on the average customer?**

A. The proposed water rates are as follows:

1            Base Facility Charges (billed monthly):

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5/8" Res.	\$ 24.08
3/4" Res.	\$ 26.49
1" Res.	\$ 28.90
1.5" Res.	\$ 31.30
2" Res.	\$ 33.71
3" Res.	\$ 36.15
4" Res.	\$ 38.55
6" Res.	\$ 40.97
5/8" Coml.	\$ 24.08
3/4" Coml.	\$ 26.49
1" Coml.	\$ 28.90
1.5" Coml.	\$ 31.30
2" Coml.	\$ 33.71
3" Coml.	\$ 36.15
4" Coml.	\$ 38.55
6" Coml.	\$ 40.97

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13            Gallorage Charges:            \$7.33 per 1,000 gallons

14            Availability Charges:            \$8.43

15            Based on an average consumption of 1,773 gallons, the customers' monthly bill will be \$37.08 or an  
16            increase of \$8.23 per monthly billing.

17            Cost of Capital

18            **Q.    What Cost of Common Equity does the Company propose in this proceeding?**

19            A.    Rather than incur the costs associated with hiring a return on equity expert, the Company proposes to  
20            use a cost of common equity ("ROE") of 10.45%. Apple Canyon's sister companies most recently  
21            requested and received the following ROEs. Apple Canyon used this information and determined the  
22            best course of action was to not hire a cost of capital expert and instead to use the average granted  
23            ROE from the twenty-one companies listed below.

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Company	State	Docket	Requested	Granted
Transylvania Utilities Inc.	NC	W-1012, SUB 12	10.45%	10.45%
Utilities Inc. of Central Nevada	NV	09-12017	11.65%	11.50%
Utilities Inc. of Longwood	FL	090381-SU	11.13%	11.13%
Sanlando Utilities Corp.	FL	090402-WS	11.24%	11.17%
Utilities Inc. of Pennbrooke	FL	090392-WS	11.13%	11.13%
Tega Cay Water Service Inc.	SC	2009-473-WS	11.70%	9.57%
Apple Canyon Utility Company	IL	09-0548	11.70%	9.82%
Lake Wildwood Utilities Corp.	IL	09-0549	11.70%	9.82%
Massanutten Public Service Corp.	VA	09-0548	11.95%	10.40%
Sky Ranch Water Service Corp.	NV	10-03032	14.74%	11.63%
Bradfield Farms Water Company	NC	W-1044 Sub 15	10.45%	10.25%
Utilities Inc. of Florida	FL	090462-WS	11.17%	10.69%
Carolina Trace Utilities Inc.	NC	W-1013 Sub 9	10.45%	10.25%
Whispering Hills Water Company	IL	10-0110	11.70%	9.82%
Galena Territory Utilities Inc.	IL	10-0280	11.70%	9.82%
Utilities Inc. of Louisiana	LA	U-31159	12.55%	10.25%
Northern Hills Water & Sewer Company	IL	10-0298	11.70%	9.82%
Carolina Water Service of NC	NC	W-354, Sub 324	10.80%	10.20%
Lake Placid Utilities Inc.	FL	090531-WS	11.13%	10.64%
CWS Systems	NC	W-778, Sub 88	11.00%	10.20%
Lake Utility Services Inc.	FL	100426-WS	11.67%	10.80%
			Average	10.45%

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2 **Q. Please provide the calculation used to derive the resulting 8.5% rate of return.**

3 A. The following table sets forth the derivation of the 8.5% rate of return, based upon the Company's  
4 recommended cost of equity of 10.45%:

	Ratio	Cost	Weighted Cost
<b>Long-Term Debt</b>	50.42%	6.60%	3.3%
<b>Common Equity</b>	49.58%	10.45%	5.2%
	100.00%		8.5%

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6 **Depreciation**

7 **Q. Is the Company proposing any changes to the depreciation rates?**

8 A. No, the Company is not proposing any changes to the depreciation rates approved pursuant to an  
9 order entered in Docket No. 09-0548 dated September 9, 2010.

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1 Rules, Regulations, and Conditions of Service Tariffs

2 **Q. Does the Company plan to update the Rules, Regulations, and Conditions of Service tariffs for**  
3 **Apple Canyon?**

4 A. Yes, it does.

5 **Q. Please explain why the Company is proposing to update Apple Canyon's Rules, Regulations, and**  
6 **Conditions of Service tariffs.**

7 A. The Company is proposing to make a few changes to its Rules, Regulations, and Conditions of  
8 Service tariffs so they are more in line with the Company's business practices.

9 **Q. What changes is the Company proposing?**

10 A. The Company is proposing changes to the Tariff language regarding the New Customer Charge and  
11 its Rules Tariff.

12 **Q. What change is the Company proposing to the New Customer Charge?**

13 A. The current Tariff language is as follows:

14 New Customer Charge - A charge of \$15.00 will be applied to customers initiating service in new or  
15 existing homes or commercial establishments.

16 The proposed Tariff language is as follows:

17 NEW CUSTOMER CHARGE - A charge of \$25.00 will be applied to customers initiating service in  
18 new or existing homes or commercial establishments.

19 Since the Company uses a centralized cash management system, it is proposing that miscellaneous  
20 charges, i.e. New Customer charges, are more consistent throughout the organization.

21 **Q. Is the Company proposing any other changes to its current Tariff?**

22 A. Yes, the Company would like to update its Rules Tariff to be consistent with the model Rules tariff  
23 used by Staff. In addition to using Staff's model, the Company would like to include a sample bill and  
24 move the "Unaccounted-for Water" Tariff page from the Rules Tariff to the Rates Tariff. The  
25 Company's proposed tariff is included in Apple Canyon Exhibit 1.2.

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1 Miscellaneous

2 **Q. Please discuss the decision to file this rate case as a full blown rate case versus a short form filing.**

3 A. The Company is filing a full blown rate case because Apple Canyon's yearly revenues are above the  
4 threshold for qualifying for a short form filing.

5 **Q. Please discuss the Company's view on consolidation as discussed in the final order dated**  
6 **September 9, 2010.**

7 A. The Company is currently working together with Staff and the Attorney General regarding  
8 consolidation.

9 **Q. Does this conclude your prepared direct testimony?**

10 A. Yes it does.

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