

**PREPARED REBUTTAL TESTIMONY
OF DIMITRY NEYZELMAN
ON BEHALF OF
APPLE CANYON UTILITY COMPANY AND
LAKE WILDWOOD UTILITIES CORPORATION**

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

2 A. My name is Dimitry Neyzelman. I am a Senior Regulatory Accountant for Utilities, Inc.
3 (“UP”) and its subsidiaries. My business address is 2335 Sanders Road, Northbrook, Illinois
4 60062. I am providing rebuttal testimony on behalf of Apple Canyon Utility Company and
5 Lake Wildwood Utilities Corporation (“Companies”) in response to testimony provided by
6 witnesses for the Illinois Commerce Commission’s (“ICC”) Staff, Apple Canyon Lake
7 Property Owners’ Association (“ACLPOA”), Lake Wildwood Association (“LWA”), and
8 Attorney General.

9 **Q. Mr. Neyzelman, have you previously filed testimony in this proceeding?**

10 A. Yes, I have.

11 **Q. What is the purpose of your rebuttal testimony?**

12 A. The purpose of my rebuttal testimony is to respond the various recommendations and
13 adjustments proposed in the direct testimony of the ICC Staff, ACLPOA, LWA, and
14 Attorney General witnesses.

15

16 INTEREST SYNCHRONIZATION

17 **Q. Do you agree with Staff’s proposed adjustment to interest and cost of debt?**

18 A. Yes, I do. Staff included both long and short term debt and the appropriate cost rates as
19 shown on ICC Staff Exhibit No. 1.0, Schedule 1.06. My calculation is contained in Exhibit
20 No. 2.0, Schedule 2.1 for each company.

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GROSS REVENUE CONVERSION FACTOR

Q. Do you agree with Staff’s Gross Revenue Conversion Factor?

A. Yes, I do. The Companies’ gross revenue conversion factors are embedded in my supporting work papers and exhibits.

WORKING CAPITAL

Q. Do you agree with Staff’s and the Attorney General’s adjustments to the Companies’ cash working capital?

A. I agree with Staff’s adjustment to remove property taxes from cash working capital and that adjustment is reflected in my schedules. However, I do not agree with the Attorney General’s proposal to remove taxes other than income from cash working capital. The Commission has approved cash working capital allowance, which included taxes other than income (less real estate taxes) for similarly situated small sized water and wastewater companies based on the one-eighth method in the following cases:

Consolidated Dockets 11-0561-0566:

- Charmar Water Company
- Cherry Hill Water Company
- Clarendon Water Company
- Ferson Creek Utilities, Inc.
- Harbor Ridge Utilities, Inc.
- Killarney Water Company

Northern Hills Water and Sewer Company 10-0298

1	Galena Territory Utilities	10-0280
2	Whispering Hills Water Company	10-0110
3	Apple Canyon Utility Company	09-0548
4	Lake Wildwood Utilities Corporation	09-0549
5	Consolidated Dockets 03-0398/0399/0400/0401/0402:	
6	Cedar Bluff Utilities, Inc.	
7	Apple Canyon Utility Company	
8	Charmar Water Company	
9	Cherry Hill Water Company	
10	Northern Hills Water & Sewer Company	

11

12 UTILITY PLANT – ADJUSTMENTS FOR PRIOR PLANT DISALLOWANCES

13 **Q. Do you agree with Staff witness Ebrey’s adjustments to correct accumulated**
14 **depreciation association with Apple Canyon plant that was disallowed in prior cases?**

15 A. Yes, I do.

16 **Q. Do you agree with Staff’s adjustments related to Lake Wildwood adjustment for prior**
17 **plant disallowances?**

18 A. In part, I agree. I agree with the adjustments related to Docket Nos. 90-0476/92-0402.
19 However, I do not agree with the adjustments related to Docket No. 01-0663. The
20 Company provided a supplemental response to Staff Data Request TEE 2.05 on February
21 12, 2013 explaining the journal entries posted pursuant to Order in Docket No. 01-0663.
22 The Company ascertained that the Commission ordered adjustments in Docket No. 01-
23 0663 were inadvertently booked twice. The first time was in 2003 and the second time was

1 in 2006. The journal entries provided with the supplemental response reverse the second
2 set of adjusting journal entries booked in 2006. This reversal was not reflected in the
3 Company's original filing or in Staff's testimony. My rebuttal exhibits contain the
4 necessary adjustments.

5
6 UTILITY PLANT-PRO FORMA PLANT ADDITIONS

7 **Q. Do you agree with Staff's and the Attorney General's adjustment to the pro forma**
8 **plant additions?**

9 A. No, I do not. The Company provided a bid for the tank painting in Apple Canyon in a
10 supplemental response to Staff DR TEE 5.01. Funding of this project has been approved
11 by management and it is scheduled to be completed in May 2013. The Commission rules
12 allow recovery of pro forma adjustments to the test year for known and measurable
13 changes expected to occur within 12 months from the filing of the rates. "A utility may
14 propose pro forma adjustments ... to the selected historical test year for all known and
15 measurable changes in the operating results of the test year." 83 Ill. Adm. Code Section
16 287.40.

17 The purpose of the Commission rule is to match rates to changes to the revenue
18 requirement that are likely to occur near the time when the rates will go into effect. Pro
19 forma adjustments should be allowed where they reflect significant changes reasonably
20 anticipated to occur. The pro forma projects require relatively large expenses for
21 companies. If the rates approved in this case do not recover the revenue needed to pay for
22 these projects, the Companies would be forced to file new rate cases immediately, far
23 sooner than the three-year cycle anticipated by the Companies or the five-year cycle that

1 Staff proposed to amortize the current rate case expense. Thus, Staff's and the Attorney
2 General's proposal would further burden customers by adding additional rate case expense
3 to the amounts to be recovered in rates as a result of these necessary projects. Under
4 Commission practice, the costs incurred for tank painting are deferred and amortized over
5 the expected life of the improvement of the asset. Camelot Utilities, Inc., et al, Ill. C. C.
6 Consolidated Dockets 11-0059, 11-0141 and 11-0142 (Nov. 8, 2011), p. 5; Illinois-
7 American Water Company, Ill. C. C. Docket 02-0690 (Aug. 12, 2003). The Commission
8 has a long standing policy of deferring and amortizing tank painting costs. The
9 Companies' treatment of tank painting in this docket is consistent with past policy.
10 Illinois-American Water Company, Ill. C. C. Docket 95-0076 (Dec. 20, 1995), p. 23.

11 **Q. After the filing on October 1, 2012, have other pro forma plant additions in Apple**
12 **Canyon been approved by management for which the Company proposed to update**
13 **its original filing?**

14 A. Yes. Well #1 Replace Pumping Equipment. The Company filed a supplement response to
15 Staff DR TEE 5.01 regarding the inclusion this project including bids and associated
16 retirement amounts. My rebuttal exhibits contain the necessary adjustments.

17 **Q. What is the proposed cost and estimated date of completion for this project to replace**
18 **pumping equipment in Well #1?**

19 A. The cost to replace the pumping equipment in Well #1 is approximately \$25,000. The work
20 is scheduled to be completed in March 2013.

21 **Q. Please describe the necessity of this pro-forma addition.**

1 A. Apple Canyon Well #1 has experienced a drop in production. Without the full potential
2 pumping capacity of the well, it will be difficult to meet the water usage demands on the
3 system during peak water usage periods.

4 **Q. Has the Company thoroughly investigated the issue with the well to determine the**
5 **best and most cost effective resolution?**

6 A. Yes. The Company performed all the investigative measures with the pumping equipment
7 in place to determine that the pump/motor windings, at a minimum, are causing the
8 problems at hand. The pump that is in service was originally purchased and placed in the
9 well in March 1998 at a cost of \$2,316. The motor was replaced in 2004 at a cost of \$8,713.
10 The Company received bids for this job from Peerless Service Company and Gingerich
11 Well & Pump Service, LLC to ensure competitive pricing.

12 **Q. Are there any other pro forma plant additions in Lake Wildwood for which the**
13 **Company proposes to update its original filing?**

14 A. Yes. Lake Wildwood WTP Building Addition for Necessary Piping and Equipment
15 Modifications. The supporting documentation is contained in Exhibit 2.3. My rebuttal
16 exhibits contain the necessary adjustments.

17 **Q. What is the proposed cost and estimated date of completion for this project?**

18 A. The cost to construct the building addition and make the necessary modifications is
19 approximately \$80,000. Management has approved funding of the project and the work is
20 scheduled to be completed in May 2013.

21 **Q. Please describe the necessity of this pro-forma addition.**

22 A. As a result of an inspection by the Illinois Environmental Protection Agency (“IEPA”),
23 certain aspects of the current piping arrangement and chemical feed systems were

1 identified for upgrade to IEPA current specifications. Failure to implement these
2 necessary measures could subject the Company to IEPA violations and fines.

3 **Q. Has the Company thoroughly investigated the issues to determine the best and most**
4 **cost effective resolution?**

5 A. Yes. The Company performed all the investigative measures necessary. The Company has
6 received multiple bids for the building, piping, and electrical construction necessary to
7 ensure competitive pricing.

8

9 ADJUSTMENT TO UTILITY PLANT – ATTORNEY GENERAL

10 **Q. Do you agree with the Attorney General’s adjustments to plant in service related to**
11 **the leak survey costs for Apple Canyon?**

12 A. No, I do not. According to USOA Accounting Instruction 19 (13) “Engineering Services –
13 includes amounts paid to other companies, firms or individuals engaged by the utility to
14 plan, design, prepare estimates, supervise, inspect, or give general advice and assistance in
15 connection with construction work.” Based on this accounting instruction, it is appropriate
16 and reasonable to capitalize the leak survey instead of expensing it. The purpose of the
17 survey was to identify need for upgrades to the system that will extend the life of the assets.
18 In addition, according to the description of the expense account 631 – Contractual Services
19 – Engineering, “this account shall include costs paid to outside engineers or engineering
20 firms to perform ongoing, recurring work for the utility.” It is clear that this leak survey is
21 not an ongoing or recurring expense and thus should not be treated as an expense. As
22 explained in the Company’s response to AG DR 2.05 and its supplement, the leak survey

1 was integral to the capital improvements to the distribution system that were necessary to
2 the eliminate the leaks discovered by survey.

3 **Q. Do you agree with the Attorney General’s adjustments to plant in service related to**
4 **the service area boundary survey costs for Apple Canyon and Lake Wildwood?**

5 A. No, I do not. According to USOA Accounting Instruction 19 (13) “Engineering Services –
6 includes amounts paid to other companies, firms or individuals engaged by the utility to
7 plan, design, prepare estimates, supervise, inspect, or give general advice and assistance in
8 connection with construction work.” Boundary information is essential to accurately locate
9 construction work such as replacement and extension of mains. Therefore, based on this
10 accounting instruction, it is appropriate and reasonable to capitalize the service area
11 boundary survey instead of expensing it. In addition, according to the description of the
12 expense account 631 – Contractual Services – Engineering, “this account shall include
13 costs paid to outside engineers or engineering firms to perform ongoing, recurring work for
14 the utility.” It is clear that this service area boundary survey is not an ongoing or recurring
15 expense and thus should not be treated as an expense.

16 **Q. Do you agree with the Attorney General’s adjustments to plant in service related to**
17 **the inventory reclassification for Apple Canyon and Lake Wildwood?**

18 A. Yes, I do.

19 **Q. Do you agree with the Attorney General’s adjustments to plant in service related to**
20 **two storage tanks currently not in service for Lake Wildwood?**

21 A. Yes, I do.

22
23 ADJUSTMENT TO ACCUMULATED DEFERRED INCOME TAXES

1 **Q. Do you agree with Staff's adjustments to Accumulated Deferred Income Taxes as**
2 **result of rate base adjustments that you indicated will not be opposed by the**
3 **Companies?**

4 A. Yes, I do.

5
6 ORIGINAL COST DETERMINATION

7 **Q. Do you agree with Staff's recommendation regarding the Original Cost**
8 **Determination?**

9 A. In part, I agree. I agree with the necessity for the Commission to approve an Original Cost.
10 However, the Original Cost should be changed to reflect the adjustments to plant included
11 in my rebuttal exhibits.

12
13 RECOMMENDATIONS CONCERNING COMMISSION ORDERED ADJUSTMENTS
14 FROM PRIOR CASES

15 **Q. Do the Companies oppose Staff's recommendations regarding booking prior**
16 **Commission-ordered adjustments?**

17 A. No. The Companies will file the actual journal entries for all recommended retirements
18 and Commission-ordered adjustments within 60 days of the final order.

19 **Q. Have the Companies changed their review process regarding booking Commission-**
20 **ordered adjustments?**

21 A. Yes, the Company has a formal process to review Commission-ordered adjustments from
22 prior cases. Prior orders, testimonies, and other documents are reviewed in detail by the
23 employees responsible for preparing the rate case and their direct supervisor.

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REVENUES – HOMESERVE USA

Q. Do you accept Staff’s adjustment to revenues related to HomeServe USA?

A. Yes, I do.

REVENUES – NEW CUSTOMER CHARGE

Q. Do you agree with Staff’s and the Attorney General’s adjustment to revenues related to the proposed increase to the New Customer Charge?

A. Yes, I do.

401(K) CONTRIBUTION

Q. Do you agree with Staff’s adjustment to remove the 401(k) contribution based on incentives?

A. No, I do not.

Q. Please explain why you don’t agree with Staff’s adjustment.

A. I believe that aligning employees with Key Performance Indicators (“KPI”) and rewarding them based on results is appropriate. However, on February 19, 2013 at Utilities, Inc’s (“UI”) Board of Director’s Meeting, the Board decided to eliminate the incentive portion of the 401(k) contribution and return to UI’s past practice to giving 4% of salaries to all eligible employees as part of a defined contribution retirement plan. Historically, UI gave 4% to all eligible employees as a defined contribution. Eliminating the incentive based portion of the 401(k) contribution returns UI’s contribution to the 4% contribution level as of January 1, 2012. This 4% contribution is no longer based on the KPIs and should not be

1 considered “incentive compensation” and therefore Staff’s recommendation should not be
2 adopted.

3 **Q. Do you oppose the Attorney General’s adjustment related to 401(k) expenses?**

4 A. No, I do not.

5

6 CAP-TIME ADJUSTMENT

7 **Q. Do you agree with Staff’s and the Attorney General’s adjustment for Cap-Time?**

8 A. Yes, I do.

9

10 APPEAL COSTS

11 **Q. Do you agree with Staff’s and the Attorney General’s adjustment to remove appeal
12 costs?**

13 A. No, I do not.

14 **Q. Please explain.**

15 A. First, it is incorrect to characterize the Companies’ appeal costs as related to dissatisfaction
16 with the Commission’s Order. In fact, the appeal was initiated by Illinois Attorney General
17 and Intervenors, and the Companies’ briefs urged the Court to uphold the Commission’s
18 Order and Staff’s positions with respect to the proper role of public comments and the
19 recovery of the costs of Companies’ pro-rata share of the billing and accounting systems.
20 Secondly, the legal costs associated with the Companies cross-appeal represent a normal
21 and legitimate cost of doing business, related to the Companies’ statutory right to seek
22 redress from the appellate court and advance their views as to the proper application of the
23 Public Utilities Act. Even if the Companies do not ultimately prevail, the public interest

1 and customers are served by the development of precedent that guides the Companies and
2 Commission in future proceedings at the Commission. Taxpayers and customers fund the
3 costs of the Commission's and Intervenor's participation in appellate court process even
4 when they are unsuccessful. It would be inequitable to preclude the Companies from
5 recovering its legitimate costs for the same efforts.

6 **Q. What would you propose if the Commission decides to remove the appeal costs?**

7 A. If the Commission decides to remove the appeal costs, the Companies should at least be
8 able to defer and amortize the costs.

9
10 RATE CASE EXPENSE

11 **Q. Do you agree with Staff's and the Attorney General's adjustment to remove or reduce
12 certain rate case expense items?**

13 A. No. I do not agree with the Staff's adjustment to completely remove legal fees. The
14 Companies have provided an engagement letter for legal services in response to Staff Data
15 Request RWB 8.01 as well as further detailed explanations in response to Staff Data
16 Requests RWB 8.02 – 8.03. In addition, I have updated rate case expense through January
17 31, 2013 based on the 2nd Supplemental Rate Case Expense Staff Data Request RWB 5.01
18 filed on February 20, 2013. This adjustment is reflected in my schedules. The evidence of
19 legal expenses provided to Staff consists of the detailed time records similar to those
20 provided to and approved by the Commission in Consolidated Dockets 11-0561 through
21 11-0566. The data responses also show the current estimate is consistent with the level of
22 expense that has been incurred in recent UI rate case, and the current Apple Canyon and

1 Lake Wildwood cases have required and are expected to require the same or increase
2 amount of work that was involved in those cases.

3 **Q. Do you agree with Staff's and the Attorney General's adjustment to remove external**
4 **consulting fees for SFIO?**

5 A. No. I do not agree with the adjustment to completely remove external consulting fees.
6 Although, there is no written agreement between UI and SFIO, a detailed explanation of
7 the services performed by SFIO is included in response to Staff Data Requests RWB 8.03 –
8 8.10 and is included as Exhibit 2.4. As of January 31, 2013, no costs related to SFIO have
9 been incurred by the Companies. Since then, SFIO has been performing services as
10 outlined in the responses to the above referenced data requests specifically related to these
11 proceedings.

12 **Q. Do you agree with Staff's adjustment related to restating the unamortized rate case**
13 **expense from the last rate case?**

14 A. Yes, I do.

15 **Q. Have the Companies updated their rate case expenses in your rebuttal exhibits?**

16 A. Yes, I have updated the actual rate case expenses through January 31, 2013 plus an
17 estimate of the amount to bring the case to conclusion. This estimate does not include
18 potential rehearing and appeal costs, which cannot be predicted with certainty at this time.
19 Supporting documentation of the additional rate case expense have been provided to Staff
20 in supplemental responses to Staff data requests, and we will continue to supplement those
21 responses as the cases progress.

22

23 UNACCOUNTED-FOR WATER

1 **Q. Do you oppose Staff's and the Attorney General's adjustment to decrease**
2 **maintenance expenses due to unaccounted-for water?**

3 A. No, I do not. Although, I will incorporate the Attorney General's calculation due to Staff's
4 incorrect figure for Purchased Power in its calculation.

5
6 PUBLIC UTILITY TAX

7 **Q. Do you agree with Staff's adjustment to remove Add-On Taxes from the Companies'**
8 **income statements?**

9 A. Yes, I do.

10 **Q. Do you agree with Staff's proposed tariff language related to the "Annual Gross**
11 **Revenue Tax Recovery Charge?"**

12 A. Yes, I do.

13
14 COMPUTER AND VEHICLE DEPRECIATION RATES

15 **Q. Do you agree with Attorney General's computer depreciation rates?**

16 A. No, I do not agree with the Attorney General's proposal to change the depreciation rate for
17 computer hardware to 5 years and computer software to 15 years. The Commission has
18 already approved 7 years for all computer assets in prior cases. Based on the Companies'
19 experience, the service lives of these assets are consistent with the depreciation expense
20 approved by the Commission in past cases. In addition to the reduction to depreciation
21 expense proposed, the Attorney General failed to make the appropriate adjustment to the
22 associated Accumulated Depreciation.

23 **Q. Do you agree with Attorney General's vehicle depreciation rates?**

1 A. No, I do not agree with the Attorney General’s proposal to change the depreciation rate for
2 vehicles to 5 years. The Commission has already approved 4 years for vehicle assets in
3 prior cases. Based on the Companies’ experience, the service lives of these assets are
4 consistent with the depreciation expense approved by the Commission in past cases. In
5 addition to the reduction to depreciation expense proposed, the Attorney General failed to
6 make the appropriate adjustment to the associated Accumulated Depreciation.

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8 RATE DESIGN

9 **Q. Do you agree with Staff’s recommendations regarding the use of a Cost of Service**
10 **(“COS”) Study and the proposed changes to the rate design?**

11 A. Yes, in part, I do. I agree that a COS Study would assign costs based upon cost causation.
12 However, I disagree with certain allocations of costs assigned by Staff in its COS Study. At
13 this time, the Companies have not been able to fully understand Staff’s cost allocation
14 methodology and believe it may be incorrect.

15 **Q. Have the Companies been able to propose an alternative rate design?**

16 A. Yes. The Companies have modeled a rate design after a previously Commission approved
17 rate design in Consolidated Docket Nos. 11-0561 through 11-0566. This rate design
18 provides for a simplified methodology consistent with AWWA meter flow factors. This
19 simplified rate design is appropriate for these Companies as its customer base (not
20 including Availability Customers) is homogeneous.

21

22 MISCELLANEOUS

1 **Q. Do you agree with Staff’s recommendation for the miscellaneous tariff changes for the**
2 **Companies?**

3 A. Yes, I do.

4 **Q. Do you agree with Staff’s recommendation related to monthly billing cycles for**
5 **Availability customers?**

6 A. Yes, I do.

7 **Q. Do you agree with Staff’s recommendation to change “Applies to the following**
8 **Territories” to state “Apple Canyon Lake Subdivision in Thompson Township, Jo**
9 **Daviess County, Illinois,” on the Original title sheet of the Company’s proposed Rules**
10 **for Apple Canyon?**

11 A. Yes, I do.

12 **Q. Do you agree with Staff’s recommendation to change “Applies to the following**
13 **Territories” to state “Lake Wildwood Subdivision in Hopewell and Roberts**
14 **Townships, Marshall County, Illinois,” on the Original title sheet of the Company’s**
15 **proposed Rules for Lake Wildwood?**

16 A. Yes, I do.

17 **Q. What Return on Equity (“ROE”) has been used to calculate the revenue requirements**
18 **shown in your rebuttal exhibits?**

19 A. I have used Staff’s recommended ROE.

20 **Q. Why have the Companies used Staff’s ROE in these dockets?**

21 A. In most other jurisdictions where Utilities, Inc.’s owns sewer and water companies the
22 operating companies will either engage a cost of equity expert or use the formulaic
23 approach, if applicable. Since I am unaware of a formulaic approach available to

1 determine cost of equity in Illinois the Company's only other alternative is to engage a cost
2 of equity expert, which can cost in excess of \$30,000 if the witness needs to provide direct
3 and rebuttal testimony, respond to data requests, and travel to a hearing or adopt Staff's
4 proposal. Ultimately these costs would be passed on to ratepayers as rate case expense.

5 **Q. Have you included updated tariff sheets reflecting the Companies' Rebuttal positions?**

6 A. Yes, the updated tariff sheets reflecting the Companies' Rebuttal positions are attached as
7 Exhibit 2.2.

8 **Q. Have you made all of the prior adjustments that you discussed?**

9 A. Yes, all of the adjustments discussed above are contained in Exhibit No. 2.0, Schedule 2.1
10 for each Company.

11 **Q. Have you included new income statements, rate base schedules, rate schedules and
12 supporting work papers?**

13 A. Yes, I have. The adjusted customer rates after incorporating the Staff's adjustments that I
14 have discussed are contained in Exhibit No. 2.0, Schedule 2.1 for each Company. I used
15 Staff's work papers and exhibits, which were provided during the course of discovery.

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

17 A. Yes, it does.

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