

DIRECT TESTIMONY

of

Philip Rukosuev

Rates Analyst
Rates Department
Financial Analysis Division
Illinois Commerce Commission

Aqua Illinois Inc., The Woodlawn Utilities Corporation, The Woodlawn Utilities Corporation – Sheridan Grove, and The Nordic Park Sewerage & Disposal Co. Inc..

Petition for Approval of Three Asset Purchase Agreements, Issuance of Three Certificates of Public Convenience and Necessity to Operate Water and/or Wastewater Services; and for the Issuance of an Order Approving Rates, Accounting Entries and Tariff Language.

Docket No. 13-0155

June 13, 2013

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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
17 of Illinois at Springfield. I have been employed by the Commission since
18 September of 2008. I have provided testimony and performed related ratemaking
19 tasks. My testimony has addressed cost-of-service and rate design for 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 the "Company") proposed water and sewer rates for The
25 Woodlawn Utilities Corporation, The Woodlawn Utilities Corporation – Sheridan
26 Grove, and The Nordic Park Sewerage & Disposal Co. Inc. I also address the
27 required finding under Section 7-204(b)(7) of the Public Utilities Act ("Act"), that
28 the proposed reorganization is not likely to result in any adverse rate impact on
29 retail customers.

30

31 **Q. Are you including any attachment to your testimony?**

32 A. Yes. I have included the following attachments that present information provided
33 by the Petitioners in response to ICC Staff Data Requests:

34 Attachment A Aqua's Response to Staff Data Request PR 1.14 Attachment
35 01.

36 Attachment B Aqua's Response to Staff Data Request PR 1.17

37

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

40 A. I have reviewed the Company's petition, including all the attached exhibits. I also
41 prepared data requests and reviewed the Company's responses to those
42 requests.

43

44 **PROPOSED ACQUISITION**

45

46 **Q. Please discuss the areas affected by the proposed acquisition.**

47 A. On February 22, 2013, Aqua, together in part with the Woodlawn Utilities
48 Corporation, the Woodlawn Utilities Corporation – Sheridan Grove, and the
49 Nordic Park Water & Sewerage Disposal Co., requested that the Commission
50 approve of three asset purchase agreements, issue three certificates of public
51 convenience and necessity to operate water and/or wastewater services, and
52 issue an order approving rates, accounting entries and tariff language. The three
53 service areas affected are the following:

54

55 1) THE WOODLAWN AREA

56 Woodlawn Utilities Corporation (“Woodlawn”) is a public utility that operates a
57 water system serving approximately 86 customers and a wastewater collection
58 system serving approximately 83 customers (collectively, the “Woodlawn
59 Systems”) within the unincorporated area of the County of Ogle, State of Illinois
60 (the “Woodlawn Area”). Pursuant to an Asset Purchase Agreement (“APA”),
61 which is subject to Commission approval, Woodlawn has agreed to sell the
62 subject water and wastewater assets to Aqua. No municipal corporation or other
63 entity is willing to provide or able to provide water service to the Woodlawn Area
64 (Company Verified Petition, par. 6, p. 3). According to Aqua’s witness Craig L.
65 Blanchette, although the City of Rochelle serves three Woodlawn water
66 customers with sewer service, the Company is unaware of its capabilities or

67 desire to serve the entire Woodlawn Area with sewer service (Aqua Ex. 2.0, p.
68 10) Furthermore, because of the geographical separation of their service areas,
69 there is no significant competition for customers and/or water services between
70 Aqua and Woodlawn; the acquisition is therefore unlikely to result in any adverse
71 rate impacts on retail customers (Company Verified Petition, par. 11, p. 4). From
72 and after the closing of the acquisition, Woodlawn will relinquish its utility
73 business to Aqua.

74 2) THE SHERIDAN GROVE AREA

75 Woodlawn Utilities Corporation – Sheridan Grove (“Sheridan Grove”) is a public
76 utility that operates a water system (the “Sheridan Grove System”) serving
77 approximately 36 customers within the unincorporated area in the County of
78 Winnebago, State of Illinois (the “Sheridan Grove Area”). Pursuant to an APA,
79 which is subject to Commission approval, Sheridan Grove has agreed to sell the
80 subject water assets to Aqua. No municipal corporation or other entity is willing to
81 provide or able to provide water service to the Sheridan Grove Area (Company
82 Verified Petition, par. 19, p. 6). According to Aqua’s witness Blanchette, although
83 the Village of New Milford is directly adjacent to the Sheridan Grove System,
84 New Milford does not have a water system with which to serve the area. (Aqua
85 Ex. 2.0, p. 10) From and after the closing of the acquisition, Sheridan Grove will
86 relinquish its utility business to Aqua.

87 3) THE NORDIC PARK AREA

88 Nordic Park Sewage & Disposal Co. Inc. (“Nordic Park”) is a public utility that
89 operates a water and wastewater collection system (the “Nordic Park Systems”)

90 serving approximately 168 customers within the unincorporated area in the
91 County of Ogle, State of Illinois (the “Nordic Park Area”). Pursuant to an APA,
92 which is subject to Commission approval, Nordic Park has agreed to sell the
93 subject water assets to Aqua. No municipal corporation or other entity is willing to
94 provide or able to provide water service to the Nordic Park Area. (Company
95 Verified Petition, par. 32, p. 9). According to Aqua’s witness Blanchette, although
96 Nordic Park is in reasonably close proximity to the City of Byron, the Company is
97 not aware of the City of Byron’s capabilities or desire to serve the area. (Aqua
98 Ex. 2.0, p. 10)

99

100 **PROPOSED WATER AND SEWER RATES**

101 **Q. What water rates will apply to customers within the areas requested to be**
102 **certificated in this proceeding?**

103 A. According to Aqua’s witness Blanchette, Aqua proposes to adopt the base
104 charges and volumetric rates already in effect and being charged to customers
105 served by the Woodlawn Systems and Nordic Park System, as reflected in Aqua
106 Exs. 2.8-2.12. (Aqua Ex. 2.0, p. 11). Furthermore, Aqua proposes to consolidate
107 the customers served by the Sheridan Grove System with Aqua Illinois’
108 Consolidated Water Division (see Aqua Exs. 2.6-2.7 & 2.13-2.14). According to
109 Mr. Blanchette, the result for the customers of Sheridan Grove is a projected
110 lowering of the average monthly bill from approximately \$73.28 to \$58.47. (*Id.*)
111 My review in this docket did not include an analysis of the rate design of the four

112 areas. These rates were reviewed in the context of the most recent rate cases,
 113 and the rates were determined to be just and reasonable at that time.

114

115 **Q. What is the estimated average total monthly bill for residents receiving**
 116 **water service in the areas for which a certificate is requested?**

117 A. The table below summarizes Aqua’s proposed rates with corresponding monthly
 118 bills for each of the four service territories, the Woodlawn Utilities Corporation
 119 (Water and Sewer), the Woodlawn Utilities Corporation – Sheridan Grove, and
 120 the Nordic Park Water & Sewerage Disposal Co.:

Nordic Park - Average Residential Water Bill ¹						
	<u>Gallons (1000's)</u>	<u>Customer</u>	<u>Rates</u>	<u>Usage</u>		<u>TOTAL</u>
<u>Division:</u>	<u>Equiv. Billing Units</u>	<u>Charge</u>	<u>1000 Gallons</u>	<u>Revenue</u>	<u>Subtotal</u>	<u>BILL²</u>
Nordic Park ³	5.91	\$8.60	\$2.1300	\$12.59	\$21.19	\$21.21
Woodlawn Utilities - Average Residential Bill ⁴						
Woodlawn (water) ⁵	4.70	\$10.00	\$3.8000	\$17.87	\$27.87	\$27.90
Woodlawn (sewer)	4.70	\$15.19			\$15.19	\$15.21
Woodlawn Utilities Sheridan Grove Average Residential Water Bill ⁶						
Consolidated Division	4.87	\$20.58	\$6.5394	\$31.84	\$52.42	\$52.47

121

122 For a more complete breakdown of charges and corresponding monthly bills
 123 which reflect levels of usage from 1,000 – 10,000 gallons, please refer to Staff
 124 Ex. 4.0, Attachment A, attached, which provides a typical bill comparison by
 125 class to illustrate the impact of current rates compared to the Company’s
 126 proposed rates for the areas for which certificates are requested.

¹ 3/4" meters; no public fire protection
² Includes Gross Revenue Tax (ICC) 0.10%
³ Aqua Ex. 1.1 ; Schedule 8
⁴ 3/4" meters; no public fire protection
⁵ Aqua Ex. 1.1; Schedule 8
⁶ 3/4" meters; no public fire protection

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Q. How were the billing determinants computed?

A. According to the Company’s Response to Staff DR PR 1.17, “Aqua utilized the annual reports of the systems being acquired.” Please refer to DR PR 1.17 (attached as Staff Ex. 4.0, Attachment B) for a detailed discussion of Aqua’s methodology to calculate its billing determinants.

Q. Are these billing determinants reasonable?

A. Yes. Aqua proposes to adopt the rates currently in effect for the Woodlawn Water / Sewer and Nordic Park Water Divisions. Based on the information and citations to the appropriate authority provided by the Company, and the fact that this information is based on the Commission’s review regarding the development of customer charges in past proceedings, the proposed billing determinants are reasonable. Second, my review of DR PR 1.17 indicates adequate support for the proposed billing determinants. Third, it appears that the areas under consideration are stable in terms of customer growth, which directly effects the change in the billing determinants from year to year. According to the Company, Aqua is not projecting any customer growth in either the Woodlawn water system or sewer system, nor the Sheridan Grove water system. In the Nordic Park water system, Aqua is anticipating customer growth of 1 customer in 2013 and customer growth of 2 customers per year in the years 2014 – 2016. (Company’s Response to Staff DR PR 1.20)

150 **Q. What miscellaneous charges does Aqua propose for each of the three new**
151 **service territories?**

152 A. For each new service territory, Aqua proposes to adopt Commission-approved
153 miscellaneous charges, return check charges, late payment fees, state add-on
154 taxes and other fees that are consistent with those charged in its other Illinois
155 divisions as reflected in Aqua Ex. 2.8 – 2.10. (Aqua Ex. 2.0, p. 12). According to
156 the Company:

157 At present, Aqua Illinois' existing miscellaneous charges are
158 consistent throughout all systems in the state. The
159 Company, Commission Staff and the Commission are all
160 familiar with Aqua Illinois' fees currently established and in
161 place. Moreover, Aqua Illinois sees no need to impose
162 different miscellaneous charges for any of these Systems.
163 Maintaining uniform miscellaneous charges will simplify the
164 transition of new customers into the greater Aqua Illinois
165 system and will also result in increased efficiencies, fewer
166 ambiguities and more consistent customer service. (*Id*)
167

168 I agree with the Company's basis for maintaining uniform miscellaneous charges
169 and I recommend the Commission adopt them.

170

171 **Q. Should Aqua's proposed water and sewer rates be approved for the areas**
172 **under consideration?**

173 A. Yes. Based on my review, the Commission should approve Aqua's proposed
174 water and sewer rates and find that the proposed reorganization is not likely to
175 result in any adverse rate impacts on retail customers as required under Section
176 7-204(b)(7) of the Act. The acquisition of the three systems will not adversely
177 affect the rates paid by current customers. Aside from miscellaneous charges,

178 customers in the Woodlawn Area and Sheridan Grove territory will see practically
179 no change in their base facilities charge and usage rates, while the Nordic Park
180 customers will experience a decrease in their average monthly bills.

181
182 While the Company recognizes that it will be operating these acquired systems at
183 a loss for 2013, the Company claims that this net loss will not have any
184 significant impact on the Company's management and operation of these
185 systems nor on its existing customers. (Company's Response to Staff DR PR
186 1.02) According to Aqua, after operating these areas and investing the necessary
187 capital to operate these systems effectively, Aqua will then determine when a
188 rate case is necessary and the amount of revenue required to operate these
189 systems, at which time Aqua will seek approval of a rate increase from the Illinois
190 Commerce Commission. (*Id.*)

191
192 **Q. Do you have any other matters to discuss?**
193 A. Yes. The Company should file the necessary tariffs for the three service
194 territories within ten (10) days of the date of service of the Final Order if the
195 certificate is approved, with an effective date of not less than five (5) working
196 days after the date of filing, for service rendered on and after their effective date,
197 with individual tariff sheets to be corrected within that time period, if necessary.

198

199 **RECOMMENDATIONS**

200 **Q. What is your recommendation regarding rates for the three service**
201 **territories in the proposed certificate area?**

202 A. First, I recommend that if the Commission approves Aqua's proposed acquisition
203 of these three utility systems. The Commission should also approve the
204 Company's proposed water and sewer rates for the three service territories.

205
206 Second, the Commission should find that the proposed reorganization is not
207 likely to result in any adverse rate impact on retail customers, as required under
208 Section 7-204(b)(7) of the Act. Based on my analysis, the Company's proposed
209 water and sewer rates for the three service territories are appropriate. My review
210 in this docket did not include an analysis of the rate design of the four areas.
211 These rates were reviewed in the context of the most recent rate cases, and the
212 rates were determined to be just and reasonable at that time.

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

219

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

221 A. Yes.

Aqua Illinois, Inc.
Responses to: Illinois Commerce Commission
ICC Docket No. 13-0155
PR First Set of Data Requests
Woodlawn Water

<u>Meter Size:</u>	<u>Rates</u>	<u>Usage Charges / 1000 Gallons:</u>		<u>Rates</u>
3/4 inch	\$10.00	Per 1000 Gallons		\$3.8000
1 inch	\$15.00			

<u>Level of Usage (gallons):</u>	<u>Current Monthly Bill</u>	<u>Proposed Monthly Bill</u>	<u>Dollar Change</u>	<u>Percent Change</u>
1,000	\$13.80	\$13.80	\$0.00	0.00%
2,000	\$17.60	\$17.60	\$0.00	0.00%
3,000	\$21.40	\$21.40	\$0.00	0.00%
4,000	\$25.20	\$25.20	\$0.00	0.00%
5,000	\$29.00	\$29.00	\$0.00	0.00%
6,000	\$32.80	\$32.80	\$0.00	0.00%
7,000	\$36.60	\$36.60	\$0.00	0.00%
8,000	\$40.40	\$40.40	\$0.00	0.00%
9,000	\$44.20	\$44.20	\$0.00	0.00%
10,000	\$48.00	\$48.00	\$0.00	0.00%

Aqua Illinois is proposing to adopt the existing rates of the Woodlawn Water System. There will be no bill impact of the existing rates versus Aqua Illinois' proposed rates.

Aqua Illinois, Inc.
Responses to: Illinois Commerce Commission
ICC Docket No. 13-0155
PR First Set of Data Requests
Woodlawn Sewer

<u>Meter Size:</u>	<u>Rates</u>			<u>Usage Charges / 1000 Gallons:</u>	<u>Rates</u>
Monthly Base Charge	\$15.19			Per 1000 Gallons	\$3.0000
<hr/>					
		<u>Current</u>	<u>Proposed</u>	<u>Dollar</u>	<u>Percent</u>
<u>Level of Usage (gallons):</u>		<u>Monthly Bill</u>	<u>Monthly Bill</u>	<u>Change</u>	<u>Change</u>
1,000		\$18.19	\$18.19	\$0.00	0.00%
2,000		\$21.19	\$21.19	\$0.00	0.00%
3,000		\$24.19	\$24.19	\$0.00	0.00%
4,000		\$27.19	\$27.19	\$0.00	0.00%
5,000		\$30.19	\$30.19	\$0.00	0.00%
6,000		\$33.19	\$33.19	\$0.00	0.00%
7,000		\$36.19	\$36.19	\$0.00	0.00%
8,000		\$39.19	\$39.19	\$0.00	0.00%
9,000		\$42.19	\$42.19	\$0.00	0.00%
10,000		\$45.19	\$45.19	\$0.00	0.00%

Aqua Illinois is proposing to adopt the existing rates of the Woodlawn Sewer System. There will be no bill impact of the existing rates versus Aqua Illinois' proposed rates.

Aqua Illinois, Inc.
Responses to: Illinois Commerce Commission
ICC Docket No. 13-0155
PR First Set of Data Requests
Nordic Woods Water

<u>Meter Size:</u>	<u>Rates</u>	<u>Usage Charges / 1000 Gallons:</u>		<u>Rates</u>
5/8 inch	\$4.55	Per 1000 Gallons		\$2.1300
3/4 inch	\$8.60			
1 inch	\$10.94			
1 1/2 inch	\$14.08			

<u>Level of Usage (gallons):</u>	<u>Current Monthly Bill</u>	<u>Proposed Monthly Bill</u>	<u>Dollar Change</u>	<u>Percent Change</u>
1,000	\$10.73	\$10.73	\$0.00	0.00%
2,000	\$12.86	\$12.86	\$0.00	0.00%
3,000	\$14.99	\$14.99	\$0.00	0.00%
4,000	\$17.12	\$17.12	\$0.00	0.00%
5,000	\$19.25	\$19.25	\$0.00	0.00%
6,000	\$21.38	\$21.38	\$0.00	0.00%
7,000	\$23.51	\$23.51	\$0.00	0.00%
8,000	\$25.64	\$25.64	\$0.00	0.00%
9,000	\$27.77	\$27.77	\$0.00	0.00%
10,000	\$29.90	\$29.90	\$0.00	0.00%

Aqua Illinois is proposing to adopt the existing rates of the Nordic Woods System. There will be no bill impact of the existing rates versus Aqua Illinois' proposed rates.

Aqua Illinois, Inc.
Responses to: Illinois Commerce Commission
ICC Docket No. 13-0155
PR First Set of Data Requests
Woodlawn - Sheridan Grove Water

Woodlawn - Sheridan Grove Water					
<u>Meter Size:</u>	<u>Rates</u>	<u>Usage Charges / 1000 Gallons:</u>	<u>Rates</u>		
3/4 inch	\$43.44	Per 1000 Gallons	\$6.1410		
Aqua Illinois Proposed Rates: Aqua's Consolidated Rate Zone: ILL C.C. 49; Section No. 2					
<u>Meter Size:</u>	<u>Rates</u>	<u>Usage Charges / 1000 Gallons:</u>	<u>Rates</u>		
3/4 inch	\$20.58	Per 1000 Gallons	\$6.5394		
<u>Level of Usage (gallons):</u>	<u>Current</u>	<u>Proposed</u>	<u>Dollar</u>	<u>Percent</u>	
	<u>Monthly Bill</u>	<u>Monthly Bill</u>	<u>Change</u>	<u>Change</u>	
1,000	\$49.58	\$27.12	-\$22.46	-45.30%	
2,000	\$55.72	\$33.66	-\$22.06	-39.60%	
3,000	\$61.86	\$40.20	-\$21.66	-35.02%	
4,000	\$68.00	\$46.74	-\$21.27	-31.27%	
5,000	\$74.15	\$53.28	-\$20.87	-28.14%	
6,000	\$80.29	\$59.82	-\$20.47	-25.50%	
7,000	\$86.43	\$66.36	-\$20.07	-23.22%	
8,000	\$92.57	\$72.90	-\$19.67	-21.25%	
9,000	\$98.71	\$79.43	-\$19.27	-19.53%	
10,000	\$104.85	\$85.97	-\$18.88	-18.00%	

**Aqua Illinois, Inc. Responses to: Illinois Commerce Commission ICC Docket No. 13-0155
PR First Set of Data Requests**

PR 1.17 Please provide a detailed explanation and analyses as to how the billing determinants were established for all water and sewer divisions. Please provide any work papers that support the data.

RESPONSE:

Aqua utilized the annual reports of the systems being acquired and each system is summarized below. Aqua has proposed to adopt the rates as currently in affect for the Woodlawn Water / Sewer and Nordic Park Water Divisions.

Woodlawn Water:

- 2011 Annual Report; page 17W
- Average residential consumption per month = 4,852,470 gallons / 86 customers / 12 months = 4,702 gallons / month.
- Woodlawn Utilities Corporation Schedule of Rates for Water Service effective April 13, 2007. Woodlawn

Sewer:

- 2011 Annual Report; page 23S
 - Flat rate residential sewer service - \$15.19 per month.
- Woodlawn Utilities Corporation Schedule of Rates for Sewer Service effective May 24, 2000. Nordic Park

Water:

- 2011 Annual Report; page 17W
- Average residential consumption per month = 11,917,080 gallons / 168 customers / 12 months = 5,911 gallons / month.
- Nordic Park Water Schedule of Rates for Water Service effective July 10, 2002. Woodlawn – Sheridan Grove Water:
 - 2011 Annual Report; page 17W
 - Average residential consumption per month = 2,103,490 gallons / 36 customers / 12 months = 4,869 gallons / month.
 - Aqua Illinois Schedule of Rates ILL. C. C. No. 49 Section 2 effective February 1, 2013.
 - Aqua Illinois is proposing to consolidate the customers in Sheridan Grove with Aqua Illinois' Consolidated Water Division, as reflected in Aqua Exs. 2.6-2.7.

Supporting documents attached as PR 1.17 Attach 01. Please also see the pro formas in the direct testimony of Paul Hanley Aqua Exs. 1.1 – 1.3 and Aqua's response to PR 1.14.

Witness: Paul Hanley