

REBUTTAL TESTIMONY

of

CHERI L. HARDEN

Rates Department

Financial Analysis Division

Illinois Commerce Commission

Aqua Illinois, Inc.

Proposed General Increase in Water Rates for the Kankakee Water Division

Docket No. 14-0419

October 30, 2014

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

2 A. My name is Cheri L. Harden. My business address is 527 East Capitol Avenue,
3 Springfield, Illinois 62701.

4

5 **Q. Are you the same Cheri Harden who filed direct testimony in this case?**

6 A. Yes, I am. I provided direct testimony in this case as Staff Ex. 4.00, filed on e-
7 Docket on September 4, 2014.

8

9 **Q. Please state the purpose of your rebuttal testimony.**

10 A. I respond to the rebuttal testimony presented by David R. Monie (Aqua Ex. 9.0)
11 for Aqua Illinois, Inc. ("Aqua" or "Company") I also discuss the Company's Cost
12 of Service ("COS") Study submitted in the Company's supplemental response to
13 Staff Data Request ("DR") CLH 2.06 ("Supplemental COS Study"), which uses
14 system Coincident Peak ("CP") demand factors rather than the Non-Coincident
15 Peak ("NCP") demand factors the Company applied in its Original COS Study.

16

17 **Q. Please list the schedules that are part of your rebuttal testimony.**

18 A. I am not sponsoring any schedules as part of my rebuttal testimony.

19

20 **Q. Please summarize your overall recommendations.**

21 A. I recommend the Company's proposed rate design using the NCP demand
22 factors in the Original COS Study to be applied to the revenue requirement
23 approved in the Final Order for this docket.

24
25 I recommend that the Company be ordered in all future rate cases to prepare and
26 provide rates using a Base-Extra Capacity Method COS Study using CP demand
27 factors to allocate system costs in addition to any other COS studies or rates the
28 Company might choose to propose.

29
30 **Q. What recommendation did you make in your direct testimony regarding**
31 **Aqua's proposed rates?**

32 A. I recommended that the Company provide rates based on the Supplemental
33 COS Study, which uses CP demand factors rather than the NCP demand factors
34 the Company applied in its Original COS Study. This approach would employ
35 CP demand factors to allocate system costs that are used jointly by multiple rate
36 classes. Because they are used by multiple classes jointly, these plant
37 investments are driven by collective peak demands, rather than the peak
38 demands of individual rate classes as in NCP demand factors.

39
40 **Q. Did the Company comply with your request to provide rates based on the**
41 **Supplemental COS Study?**

42 A. Yes. Company witness David R. Monie presents Aqua Schedule 9.2 with his
43 rebuttal testimony, which provides amended consumption charges in the format
44 of Aqua Schedule E-5 based on the Supplemental COS Study.

45

46 **Q. Does the Company agree to rates based on the Supplemental COS Study?**

47 A. No. Mr. Monie strongly believes that the Company's Original COS Study which
48 uses NCP demand factors for allocating costs among the various customer
49 classes is the correct method that should be used by Aqua and the Company
50 continues to recommend the rate design it proposed in its direct testimony.
51 (Aqua Ex. 9.0, 2-8)

52

53 **Q. How does the Company support its preference for NCP demand factors?**

54 A. Mr. Monie supports the use of NCP demand factors to allocate extra costs by
55 citing the American Water Works Association Manual of Water Supply Practices,
56 Sixth Edition, 2012 ("AWWA M1"), Appendix A. (Aqua Ex. 9.0, 2-4) Mr. Monie
57 mentions specific circumstances that would support the use of NCP demand
58 factors as: 1) a utility serving a bedroom residential community; or 2) when the
59 utility wants to encourage the shift of the demands of one or more classes to off-
60 peak periods. (Aqua Ex. 9.0, 4-5)

61

62 **Q. Do you agree the AWWA M1 requires the use of NCP demand factors for all**
63 **other circumstances?**

64 A. No. The AWWA M1 also states that the selection of the appropriate
65 methodology for determining the customer class peaking factors should be
66 considered on an individual utility basis, which emphasizes that there isn't a
67 category to fit all utilities. (AWWA M1, 321)

68
69 **Q. Has the Commission approved rates for the Company based on a COS
70 Study using CP demand factors in the past?**

71 A. Yes. In Docket Nos. 10-0194 and 11-0436 Aqua agreed to set rates using CP
72 demand factors and the Commission approved the agreement. (Docket No. 10-
73 0194, Final Order, 22-23 and Docket No. 11-0436, Final Order, 40)

74
75 **Q. Are there additional issues related to whether the Original or Supplemental
76 COS Study should be used to set rates in this docket other than the use CP
77 demand factors versus NCP demand factors?**

78 A. Yes, in my direct testimony I recommended that the Company revise its
79 proposed rates based on the Supplemental COS Study so that the rates for
80 Public Fire Protection did not collect more than the COS.

81
82 **Q. Did the Company address your concern about the Public Fire Revenue in
83 its rebuttal testimony?**

84 A. Yes. Mr. Monie states that the results of the Supplemental COS Study set the
85 cost for public fire protection below the current rates. (Aqua Ex. 9.0, 7 and Aqua

86 Schedule 9.1) Mr. Monie increases the usage charges to account for the lower
87 fire protection costs from the Supplemental COS Study.

88

89 **Q. Do these new fire protection rates fully address the concern you voiced in**
90 **your direct testimony?**

91 A. Yes. In Docket No. 09-0319, the Commission found, “that the Public Utilities Act
92 requires public fire protection charges to be set no higher than the cost of
93 service.” (Docket No. 09-0319, Final Order, 184) However, the current fire
94 protection charges would have to be lowered in order to not over-collect the fire
95 protection costs that are calculated in the Supplemental COS Study and the
96 usage charges would increase by 1%.

97

98 **Q. What do you conclude after your review of the Company’s rebuttal**
99 **testimony?**

100 A. Based on my review and analysis of the Company’s rebuttal testimony, for
101 purposes of this docket only, and without conceding my arguments that using a
102 CP demand factor is generally appropriate, I do not object to the Company’s
103 proposed rate design to be applied to the revenue requirement approved in the
104 Final Order. I reach this conclusion because switching to an NCP demand factor
105 in this case, as the Company proposes, will avoid a decrease in fire protection
106 rates which would require a 1% increase in the usage charges. As shown on
107 Aqua Schedule 9.1, continuing to set rates based on this Supplemental COS

108 Study using CP demand factors would lower the fire protection rates from their
109 current levels. As Mr. Monie points out, a significant part of a water system is
110 designed to meet fire protection requirements. Given that large fires do not
111 always occur regularly, there may be instances when a CP demand factor may
112 not fully reflect the demand requirements for fire protection. (Aqua Ex 9.0, 6)
113 However, I recommend that this issue continue to be reviewed in the Company's
114 next rate case.

115

116 **Q. Please state your recommendation.**

117 A. I recommend the Company's proposed rate design be applied to the revenue
118 requirement approved in the Final Order for this Docket.

119

120 **Q. Do you have any other recommendations?**

121 A. Yes, I continue to recommend that the Company be ordered in all future rate
122 cases to prepare and provide rates using a Base-Extra Capacity Method COS
123 Study using CP demand factors to allocate system costs in addition to any other
124 COS Studies or rates the Company might wish to propose so that this issue can
125 continue to be examined.

126

127 **Q. What documents did you review with regard to the rate case expense**
128 **associated with the testimony of Mr. Monie?**

129 A. I examined the Company's monthly supplemental responses to Staff Data
130 Request BAP 7.08 that included invoices for the rate case expense associated
131 with Mr. Monie's testimony.

132
133 **Q. Do you propose an adjustment to the rate case expense associated with**
134 **Mr. Monie's testimony?**

135 A. No, I am not proposing an adjustment. The rate case expense associated with
136 Mr. Monie¹ is presented by Staff Witness Pearce in ICC Staff Exhibit 7.00,
137 Schedule 7.01 at page 2.

138
139 **Q. Does this conclude your rebuttal testimony in these proceedings?**

140 A. Yes.

¹ Mr. Monie is employed by G.P.M. Associates