

**ILLINOIS COMMERCE COMMISSION**

**Docket No. 14-0741**

**Exhibit No. 6.0**

**Rebuttal Testimony of**

**Steven Lubertozi**

**on behalf of**

**UTILITY SERVICES OF ILLINOIS, INC.**

**PREPARED REBUTTAL TESTIMONY  
OF STEVEN LUBERTOZZI  
ON BEHALF OF  
UTILITY SERVICES OF ILLINOIS, INC.**

1 **Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

2 A. My name is Steven LubertoZZi. I am the President of Utility Services of Illinois, Inc.  
3 ("USI" or "Company"). My business address is 2335 Sanders Road, Northbrook,  
4 IL 60062.

5

6 **Q. MR. LUBERTOZZI, HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS**  
7 **PROCEEDING?**

8 A. Yes, I have.

9

10 **Q. HAVE YOU REVIEWED THE DIRECT TESTIMONY OF THE STAFF AND**  
11 **INTERVENOR WITNESSES?**

12 A. Yes, I have.

13

14 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

15 A. My testimony will provide a summary of our rebuttal position, and includes  
16 objections to certain adjustments recommended by the Commission Staff ("Staff"),  
17 the Attorney General ("AG") or Galena Territory Association, Inc. ("Galena").

18

19 **Q. WOULD YOU PLEASE BEGIN WITH EACH ADJUSTMENT PROPOSED BY**  
20 **STAFF THAT YOU WILL BE ADDRESSING.**

21 A. Yes.

22

23 STAFF – COST OF COMMON EQUITY

24 **Q. DO YOU AGREE WITH STAFF’S ADJUSTMENT TO THE COST OF COMMON**  
25 **EQUITY?**

26 A. No I do not. First let me start by saying that in my direct testimony I indicated that  
27 in an effort to reduce rates for consumers the Company decided not to engage an  
28 expert witness to opine on the cost of common equity, and in the alternative opted  
29 to use a leverage formula that has been approved and used by commissions in  
30 Florida and Nevada. However, Staff’s recommendation of 8.69% is well below the  
31 cost of common equity as determined in the leverage formula, below the cost of  
32 common equity of other UI operating subsidiaries and 112 basis points (“bps”)  
33 below an cost of common equity approved by this Commission in Docket No. 14-  
34 0419, of 9.81%, which in my opinion should be the floor for the cost of common  
35 equity for USI.

36

37 **Q. WHY DO YOU BELIEVE THAT 9.81% SHOULD BE THE FLOOR FOR USI’S**  
38 **COST OF COMMON EQUITY?**

39 A. The 9.81% cost of common equity was approved by this Commission in Docket  
40 No. 14-0419. In May of 2014 Aqua Illinois, Inc. filed a general rate using a future  
41 test year ended December 31, 2015, which is the same future test year employed  
42 by USI in this proceeding. Therefore, it seems inconsistent for the Commission to  
43 approve Staff’s recommended cost of common equity of 8.69%, in this docket, for

44 one investor owned water company in Illinois when in March of 2015 the  
45 Commission approved a cost of common equity of 9.81% for a different much  
46 larger investor owned water company in Illinois using the same future test year.  
47 Furthermore, USI and Aqua both have operations in Lake, Winnebago, Will, Kane,  
48 and Vermillion Counties, so this sends an inconsistent message to capital markets.  
49 Additionally, Staff's recommendation in this docket is 135 bps below the average  
50 cost of common equity being granted or authorized for USI's sister companies.  
51 Company Exhibit 6.0, Schedule 6.1 shows recently authorized ROEs. Therefore,  
52 after review Staff's testimony and supporting schedules, USI engaged Sussex  
53 Economic Advisors, LLC to rebut Staff's position. Company witness, Dylan  
54 D'Ascendis, explains in detail the flawed analysis in Staff's approach.

55

56 **Q. WHAT IS THE LOWEST COST OF EQUITY SHOWN ON COMPANY EXHIBIT**  
57 **6.0, SCHEDULE 6.1?**

58 A. The lowest cost of equity is 9.25% that is from an Illinois Commerce Commission  
59 case, Docket No. 12-0603. I will also say that other multistate investor owned water  
60 and wastewater companies experience a similar phenomenon that is Illinois  
61 consistently approves the lowest return on common equity.

62

63 **Q. HOW MUCH DID USI SPEND OR PLAN ON SPENDING RESPONDING TO**  
64 **STAFF'S RECOMMENDED COST OF EQUITY?**

65 A. USI executed an engagement letter with Sussex Economic Advisors, LLC showing  
66 that the expected cost to rebut Staff's recommended ROE is \$49,950.

67

68 **Q. HOW SHOULD THESE COSTS BE TREATED?**

69 A. These costs must be included as a component of rate case expense and amortized  
70 over five years.

71

72 **Q. IN YOUR OPINION WHAT SIGNAL DOES A COST OF COMMON EQUITY OF**  
73 **8.69% SEND TO THE CAPITAL MARKETS?**

74 A. In my opinion, Staff, and ultimately the Commission, are encouraging the capital  
75 markets to invest outside of the State of Illinois, or if you are going to invest in  
76 Illinois, invest in Aqua and not USI.

77

78 **Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING COST OF COMMON**  
79 **EQUITY?**

80 A. As testified to by Company Witness D'Ascendis, if the Staff recommended cost of  
81 common equity is authorized by the ICC in this proceeding, it will be the lowest  
82 authorized ROE for a water utility in the entire country. In my opinion, this is  
83 something the Commission should not allow. The lowest ROE would signal to  
84 investors that Illinois is not a place to invest.

85

86 **Q. WHAT COST OF COMMON EQUITY DO YOU RECOMMEND THAT THE**  
87 **COMMISSION USE IN THIS CASE?**

88 A. Based on the corrections to Staff's analysis proposed by Company witness Dylan  
89 D'Ascendis, the cost of common equity should be 10.12%, as shown in Company  
90 Exhibit 10.0, Schedule 10.09.

91

92 STAFF – CAPITAL STRUCTURE/COMMON EQUITY

93 **Q. DO YOU AGREE WITH THE COMMON EQUITY COMPONENT OF THE**  
94 **CAPITAL STRUCTURE USED BY STAFF, AS SHOWN ON ICC STAFF EXHIBIT**  
95 **5.0, SCHEDULE 5.1?**

96 A. No. Staff Exhibit 5.0, Schedule 5.1 indicates that the Common Equity component  
97 of the capital structure is from December 31, 2015. However, the source of the  
98 information for the \$171,231,433 is Utilities Inc.'s ("UI") June 30, 2014 financials.  
99 Now that UI's 2014 financial audit is complete, the Common Equity component of  
100 the Capital Structure should be \$187,444,000. UI's 2014 audited financials were  
101 provided to the parties during the discovery process. USI Exhibit 6.0, Schedule 6.2  
102 shows USI's recommended Weighted Average Cost of Capital after adjusting for  
103 the correct cost of common equity and capital structure.

104

105 STAFF – UTILITY PLANT IN SERVICE RELATED TO ADM. CODE 280

106 **Q. WHAT PLANNED CAPITAL EXPENDITURES DOES THE COMPANY EXPECT**  
107 **TO MAKE TO COMPLY WITH THE REQUIREMENTS OF 83 ILLINOIS**  
108 **ADMINISTRATIVE CODE 280?**

109 A. Since the filing of Staff's direct testimony USI responded to Staff Data Requests  
110 RWB 7.01 through 7.03 detailing a forecasted amount of \$643,140, supporting its

111 inclusion in rate base and depreciation period of eight years. Those costs are  
112 necessary to comply with the required implementation of 83 Ill. Adm. Code 280  
113 and must be included in this docket for ratemaking purposes. Attached as USI  
114 Exhibit 6.0, Schedule 6.3 is the Project Cost Summary provided in response to  
115 RWB 7.01.

116

117 STAFF – AVAILABILITY CHARGE

118 **Q. IS THE COMPANY WILLING TO ACCEPT STAFF'S PROPOSAL TO SET THE**  
119 **CONSOLIDATED AVAILABILITY CHARGE AT \$8.50?**

120 A. Yes the Company will accept the \$8.50 consolidated availability charge, which is  
121 reflected in our rebuttal schedules.

122

123 STAFF – WATER BASE FACILITIES CHARGES

124 **Q. STAFF PROPOSED THAT IF THE COMMISSION APPROVES A REVENUE**  
125 **REQUIREMENT OTHER THAN THE ONE PROPOSED BY THE COMPANY**  
126 **THEN THE BASE FACILITY CHARGE SHOULD NOT CHANGE AND THE**  
127 **COMPANY SHOULD COLLECT THE REMAINING REVENUE REQUIREMENT**  
128 **THROUGH THE USAGE CHARGE. DOES THE COMPANY AGREE WITH THIS**  
129 **PROPOSAL?**

130 A. Yes, the Company accepts this methodology.

131

132 **Q. IF ALL OF STAFF'S RECOMMENDATIONS WERE ADOPTED DO YOU AGREE**  
133 **THAT THE PERCENTAGE OF REVENUES COLLECTED FROM BASE**

134 **FACILITY CHARGES WOULD BE SUBSTANTIALLY MORE THAN 50% OF**  
135 **THE REVENUE REQUIREMENT, AND IS IT THAT APPROPRIATE?**

136 A. I would agree with Staff witness Boggs who expressed the opinion in his response  
137 to a data request by the Attorney General that Staff's recommendation does not  
138 substantially increase the proportion of the revenue requirement recovered from  
139 the Base Facility Charge. In my opinion the proportion recovered through the BFC  
140 is appropriate, because as I stated in my direct testimony a majority of a utility's  
141 costs are fixed.

142

143 STAFF – COST OF SERVICE STUDY

144 **Q. STAFF WITNESS BOGGS RECOMMENDS THAT USI PERFORM AND**  
145 **PROVIDE IN THE COMPANY'S NEXT RATE FILING A FULL, INDEPTH COST**  
146 **OF SERVICE STUDY ALONG THE LINES OF THOSE PERFORMED IN THE**  
147 **AMERICAN WATER WORKS ASSOCIATION'S WATER RATES MANUAL M1,**  
148 **SIXTH EDITION FOR BOTH WATER AND SEWER. DOES THE COMPANY**  
149 **AGREE WITH THIS RECOMMENDATION?**

150 A. Yes, USI will provide a cost of service study ("COSS") consistent with the American  
151 Water Works Association's Water Rates Manual M1, Sixth Edition. However, USI  
152 will need to engage an expert to perform such a study, and USI seeks permission  
153 to defer all costs associated with the COSS, with the understanding that Staff's will  
154 review these costs in USI's next rate case. Furthermore, it is the Company  
155 expectation that these cost will be fully recovered similar to rate case expense in  
156 USI next rate case.

157

158 **Q. WOULD YOU PLEASE ADDRESS EACH ADJUSTMENT PROPOSED BY THE**  
159 **AG.**

160 A. Yes.

161

162 AG – FUEL EXPENSE

163 **Q. PLEASE EXPLAIN THE AG’S WITNESS’ FUEL ADJUSTMENT AND WHY YOU**  
164 **DISAGREE.**

165 A. AG witness Frank Radigan, suggests that fuel can be purchased for “about \$2.40  
166 per gallon.” The reason articulated by the AG for its opinion that the projected fuel  
167 costs are too high is not an analysis and without supporting evidence this  
168 adjustment should be rejected. For example, on March 18, 2015 fuel in Northern  
169 Cook County Illinois was selling for \$2.48 to \$2.79 per gallon, see USI Exhibit 6.0,  
170 Schedule 6.4, prices that both exceed Mr. Radigan’s estimation. I would also note  
171 that the single day price that Mr. Radigan used was from the winter, which fails to  
172 reflect higher prices that typical occur in the summer months as a result of higher  
173 demand and the switch to environmentally mandated summer blend which is more  
174 expensive to produce. However, I am not recommending that the Commission  
175 accept this range either. It simply illustrates that a one day generalization is not  
176 something the Commission should rely upon for ratemaking purposes. Company  
177 witness Kersey performed a detailed analysis using government statistics and  
178 actual historical data to predict future fuel costs. This analysis indicates the price  
179 of fuel that should be included for ratemaking purposes is \$ 2.7062 per gallon. Staff

180 witness Everson also performed a detailed analysis. However, Ms. Everson's  
181 analysis excluded an adjustment to localize the estimate costs. USI recommends  
182 that the Commission adopt the price of fuel included in USI Exhibit 8.0, Schedule  
183 8.2.

184

185 AG – RENT EXPENSE

186 **Q. PLEASE EXPLAIN THE AG'S RENT ADJUSTMENT AND WHY YOU**  
187 **DISAGREE.**

188 A. AG witness Radigan recommends that the Commission reject the incremental rent  
189 expense of \$53,564 because at the time of submitting his prefiled direct testimony  
190 he believed additional information should have been available. However, USI did  
191 not forecast the rent expense to begin until October of 2015, so as 2015  
192 progresses and get closer to the estimated move date USI will execute a lease  
193 agreement. The Company also provided information in response to a data request  
194 that showed the current fair market rental value of office space in the Chicago  
195 metropolitan area. AG's recommendation should be rejected. USI accepts Staff's  
196 adjustment, which is fully reflected in USI's rebuttal exhibits.

197

198 AG – UNCOLLECTIBLES EXPENSE

199 **Q. PLEASE EXPLAIN WHY YOU DISAGREE WITH THE AG'S UNCOLLECTIBLES**  
200 **ADJUSTMENT.**

201 A. AG witness Radigan recommends that the Commission only include \$30,000 of  
202 uncollectible expense, which well below USI's actual bad debt expense and is  
203 explained in more detail in witness Kersey's testimony. As explained in witness  
204 Kersey's testimony the AG overlooked two accounts when calculating uncollectible  
205 expense.

206

207 **Q. DO YOU HAVE ANY OTHER INFORMATION PERTAINING TO**  
208 **UNCOLLECTIBLES THAT WOULD YOU LIKE TO DISCUSS?**

209 A. Yes, the amount of uncollectible expense, \$30,000, recommended by AG witness  
210 Radigan is well below the level of uncollectible expense approved by this  
211 Commission in prior dockets involving USI's business units prior to consolidation.  
212 USI Exhibit 6.0, Schedule 6.5 shows the approved uncollectible expense, which  
213 totals \$99,090. This \$99,090 excludes business units that have not had rate  
214 increases under UI's ownership and excludes any increase in uncollectible  
215 expense due to the rate increase from this case. USI estimated, in its direct case  
216 that USI would have \$109,149 of uncollectible expense, which is in line with past  
217 Commission practice. Additionally, the analysis shows that USI's uncollectible  
218 percentage of 1.0972% shown in Staff's Gross Revenue Conversion Factor, ICC  
219 Staff Ex. 1.0, Schedule 1.07W is reasonable and should be included for ratemaking  
220 purposes, and that the AG's adjustment must be rejected.

221

222 AG – SALES

223 **Q. PLEASE EXPLAIN THE AG'S WITNESS' SALES ADJUSTMENT, AND WHY YOU**  
224 **DISAGREE.**

225 A. AG witness Radigan recommends that the Commission reduce USI's revenue  
226 requirement by \$130,000. However, USI did not include in its original filing an  
227 increase to the revenue requirement of \$130,000. Therefore, it would be  
228 completely inappropriate to reduce the revenue requirement \$130,000. I believe  
229 that the AG's witness may be confused as to the adjustment proposed by USI. Just  
230 to be 100% clear USI did not include a \$130,000 sales adjustment. USI did include  
231 a 2.65% reduction to water sold, which is a rate design issue. Revenue  
232 requirement, as a component of rate case, would never change due to reduced  
233 consumption. Here is an example: for ratemaking purposes, first assume a water  
234 company sells 100,000,000 gallons of water and a commission authorized this  
235 water company to generate \$400,000 in revenue. Below is the calculation:

100,000,000	Gallons Sold
<u>    / 1,000</u>	Per KGAL
100,000	KGAL billed
<u>    * \$ 4.00</u>	Cost per KGAL
\$ 400,000	Total Revenue

236  
237 Now assume, for ratemaking purposes, that consumption or Gallons Sold is  
238 expected to decline by 20%. The total revenue needed must remain unchanged at  
239 \$400,000. Below is a revised calculation with the 20% reduction in Gallons Sold:

80,000,000	Gallons sold
<u>    / 1,000</u>	Per KGAL
80,000	KGAL billed
<u>    * \$ 5.00</u>	Cost per KGAL
\$ 400,000	Total Revenue

240

241 The key components that need to change are the Gallons Sold and the cost per  
242 thousand gallons. However, this is not what Mr. Radigan recommends and his  
243 \$130,000 must be rejected.

244

245 **Q. HOW DO YOU RESPOND IF WITNESS RADIGAN IS RECOMMENDING THAT**  
246 **CONSUMPTION OR GALLONS SOLD NOT BE REDUCED BY 2.65%?**

247 A. Witness Radigan does suggest that sales levels be adjusted such that sales are  
248 assumed to not decrease; however his ultimate recommendation is a revenue  
249 reduction. In response to reduced gallons sold, USI offers the following responses.  
250 First, Mr. Radigan is correct our forecast does have merit. As more fully described  
251 in witness Kersey's testimony USI's per customer consumption includes all factors,  
252 including rate increases, heavy rains, extreme heat, extreme cold and every other  
253 factor imaginable. Declining consumption is not just a reality facing USI. The Water  
254 Research Foundation ("WRF") and the U.S. Environmental Protection Agency  
255 ("EPA") jointly sponsored a study entitled North America Residential Water Usage  
256 Trends Since 1992 ("the Study"). The Study summarizes there is "...a pervasive  
257 trend toward lower water usage per household. The magnitude of the decline is  
258 consistent across North American utilities and is confirmed by more detailed data"  
259 (p. xxvii). Furthermore, the Study stated that "Many water utilities across the United  
260 States and elsewhere are experiencing declining water sales among households.  
261 While "water conservation" is normally seen as positive, this gradual erosion in  
262 residential consumption may force utilities to raise rates to provide sufficient

263 revenues” (p. xxi). USI actual results of declining usage is consistent with the WRF  
264 and EPA findings.

265

266 **Q. HAVE EXECUTIVE ORDERS BEEN ISSUED REGARDING WATER**  
267 **CONSUMPTION?**

268 A. Yes, Executive Order (“EO”) 13423 Strengthening Federal Environmental, Energy,  
269 and Transportation Management was signed on January 24, 2007 and stated that  
270 “EO 13423 requires federal agencies to lead by example in advancing the nation’s  
271 energy security and environmental performance by achieving the following goals:  
272 Water Conservation: Reduce water consumption intensity 16 percent by 2015,  
273 compared to an FY 2007 baseline.” This was only one of the goals stated in the  
274 EO.

275 EO 13514 Federal Leadership in Environmental, Energy, and Economic  
276 Performance was signed on October 5, 2009 and included the following goal to  
277 reduce potable water consumption intensity 26 percent by fiscal year 2020,  
278 compared to a fiscal year 2007 baseline and reduce industrial, landscaping, and  
279 agricultural water use 20 percent by FY 2020, compared to an FY 2010 baseline.

280 Additionally, EO 13693 of March 19, 2015 Planning for Federal Sustainability in  
281 the Next Decade includes the following “reducing agency potable water consumption  
282 intensity measured in gallons per gross square foot by 36 percent by fiscal year  
283 2025 through reductions of 2 percent annually through fiscal year 2025 relative to  
284 a baseline of the agency’s water consumption in fiscal year 2007.”

285

286 **Q. ARE YOU AWARE OF ANY OTHER FACTS OR CIRCUMSTANCES THAT**  
287 **HAVE CAUSED USI TO SEE REDUCED CONSUMPTION?**

288 A. Yes, there have been policy changes, specifically the Energy Independence &  
289 Security Act of 2007 that mandated water and energy efficiencies, such as low flow  
290 toilets, clothes washers, shower head, faucets and dishwashers.

291

292 **Q. IN AG EXHIBIT 1.0, LINE 184 WITNESS RADIGAN CLAIMS THAT USI**  
293 **NEITHER PERFORMED AN ANALYSIS NOR PROVIDED A WEATHER-**  
294 **NORMALIZED SALES PROJECTION. HOW DO YOU RESPOND TO HIS**  
295 **CLAIM?**

296 A. First I will start by saying the USI did perform an analysis, which was referenced  
297 in Mr. Radigan's own testimony, See AG Exhibit 1.0, Lines 155 – 156, so it is  
298 incorrect to say that the Company performed no analysis. As to the weather-  
299 normalized comment, it is my experience, that weather normalized consumption  
300 may be appropriate if the utility only analyzes one year of data and that one year  
301 had an extreme weather event, which is not the case for USI.

302

303 **Q. DO YOU HAVE ANY OTHER COMMENTS REGARDING MR. RADIGAN'S**  
304 **TESTIMONY?**

305 A. Yes. Witness Radigan states on Line 170 of AG Exhibit 1.0 that one of the largest  
306 drivers of water use is rainfall. However, he provides no evidence to support his

307 assertion and even if he had it would not change the fact that USI consumption  
308 has declined by 2.65%.

309 Additionally, witness Radigan provides no real analysis regarding this topic. He did  
310 provide a chart plotting rainfall but provides no support for the source of the data  
311 or an indication as to where the normal was derived from. Not to mention that the  
312 rainfall data that was provided was only from one of USI's 23 different service  
313 territories.

314

315 **Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION?**

316 A. The Commission should reject witness Radigan's adjustment to sales and set rates  
317 on the consumption levels that was fully supported and included in the Company's  
318 original filing.

319

320 AG – DEFERRED MAINTENANCE EXPENSE

321 **Q. WHAT IS YOUR REPOSE TO THE AG'S RECOMMENDATION TO REDUCE**  
322 **ANNUAL DEFERRED MAINTNENANCE EXPENSE BY \$194,339?**

323 A. AG witness Radigan recommends that the Commission reduce our projected  
324 annual deferred maintenance expense because he believes it is too high.  
325 However, Radigan provides no analysis to support his annual level of expense of  
326 \$300,000. The reason articulated by the AG for its opinion that the annual deferred  
327 maintenance expense should be \$300,000 is not an analysis and without  
328 supporting evidence this adjustment should be rejected.

329

330 **Q. WHAT LEVEL OF ANNUAL DEFERRED MAINTNENANCE EXPENSE IS THE**  
331 **COMPANY INCLUDING IN REBUTTAL AND WHY?**

332 A. USI's rebuttal position included annual deferred maintenance expense that is  
333 below the AG's recommended level of expense. As noted in ICC Staff Exhibit 1.0  
334 the Company included amortization of deferred costs over five years and Staff  
335 extended the amortization period to 10 years, and the Company does agree with  
336 10 year amortization period.

337

338 AG – RETURN ON EQUITY

339 **Q. WHAT IS YOUR REPONSE TO THE AG'S RECOMMENDATION TO APPROVE**  
340 **AN ROE OF 9.25%?**

341 A. The reason articulated by the AG for its opinion that USI's cost of common equity  
342 should be 9.25% lacks any real analysis and without supporting evidence this  
343 adjustment should be rejected. The Company and Staff, while in disagreement  
344 over the ultimate cost of common equity, have prepared and submitted qualitative  
345 analyses that this Commission can rely upon in rendering a decision on the cost  
346 of common equity.

347

348 GALENA – RESPONSE

349 **Q. WOULD YOU PLEASE ADDRESS EACH ISSUE RAISED BY GALENA THAT**  
350 **YOU WILL BE ADDRESSING?**

351 A. Yes, Galena raised some issues in its testimony that I will be addressing.

352

353 **Q. PLEASE RESPOND TO THE FIRST ISSUE?**

354 A. Galena first questions whether the proposed increases for water and wastewater  
355 are the actual increase in costs to provide service to The Galena Territory or  
356 whether they are a consequence of USI's attempt to charge statewide uniform  
357 rates. There are many drivers that cause rates to increase, which includes capital  
358 spending, inflation, maintenance projects and in this case consolidation. However,  
359 since Galena's last rate case, which had a test year ended December 31, 2008  
360 USI made improvements specifically to Galena, which are currently not reflected  
361 in USI revenue requirement.

362

363 **Q. PLEASE RESPOND TO GALENA'S SECOND ISSUE?**

364 A. Galena expressed concerned about the lack of cost control by GTU. However, USI  
365 makes every effort to contain costs when possible, and neither the Staff, the AG  
366 nor Galena identified any unreasonable costs.

367

368 **Q. PLEASE RESPOND TO GALENA'S FINAL ISSUE?**

369 A. Galena wanted clarification of the acquisition of Oakwood by GTU. This includes  
370 what costs of Oakwood are included in GTU's rates to the Association and its  
371 members and what benefits, if any, GTU achieved for The Galena Territory by  
372 acquiring a system over 200 miles from Galena. When Oakwood was acquired, UI  
373 already anticipate merging all UI operating subsidiaries in Illinois, so the 200 mile  
374 separation was irrelevant especially since all services have been and continued to

375 be provided by USI's shared services organization Water Service Corp. There are  
376 costs included from all 23 operating areas in all customer's rates.

377

378 **Q. ARE THERE BENEFITS ASSOCIATED WITH A CONSOLIDATED RATE**  
379 **STRUCTURE?**

380 A. Yes, consolidated rates are common place in other regulated utilities like gas and  
381 electric. Consolidated rates will allow USI to spread capital costs over a larger  
382 base of customers, which ultimately benefits all customers and can protect  
383 customers from rate shock. If a small standalone utility requires a significant  
384 capital improvement these costs can be spread over a larger base of customers.

385

386 **Q. CAN YOU SUMMARIE USI'S REBUTTAL POSITION?**

387 A. Yes I can. Based on USI's acceptance of most of Staff's adjustments, the rebuttal  
388 positions presented by USI and rejection of all of AG's adjustments USI, still using  
389 the future test period ended December 31, 2015, now recommends a weighted  
390 average cost of capital of 8.31%, which generates a water and wastewater revenue  
391 increase of \$2,854,654 as shown in USI Exhibit 7.1, Schedule 7.01W and USI  
392 Exhibit 7.2, Schedule 7.01S.

393

394 **Q. DOES THIS CONCLUDE YOUR PREPARED REBUTTAL TESTIMONY?**

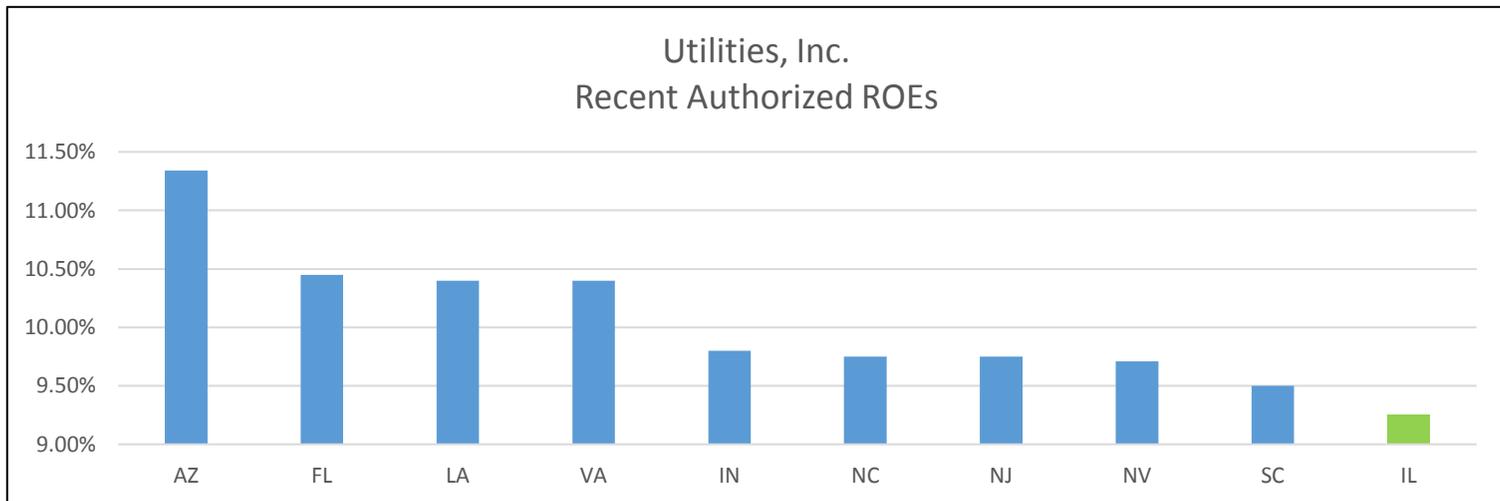
395 A. Yes. It does.

**COST OF COMMON EQUITY AUTHORIZED  
 UTILITIES, INC.**

State	Company Name	Case Number	Date Authorized	Authorized ROE
AZ	Bermuda Water Company	W-O1812A-10-0521	Feb-12	11.34%
FL	Cypress Lakes	130212-WS	Sep-14	10.45%
LA	Louisiana Water Service, Inc.	U-32848	May-14	10.40%
VA	Massanutten Public Service Corp.	09-0548	Oct-10	10.40%
IN	Twin Lakes, Utilities, Inc.	44388	Apr-14	9.80%
NC	Carolina Water Service of North Carolina	W-354, SUB 336	Mar-14	9.75%
NJ	Montague	WR12110983	Jun-13	9.75%
NV	Utilities Inc. of Central Nevada	12-12033	May-13	9.71%
SC	Carolina Water Service of South Carolina	2013-275-WS	Mar-14	9.50%
IL	Apple Canyon Utility Company	12-0603	Sep-13	9.25%
<b>Average</b>				<b>10.04%</b>

**Notes:**

AZ The Arizona Commission granted a WACC of 8.82% with a 100% equity financed capital structure. Using Staff Proposed capital structure and costs shown in Docket No. 14-0741, ICC Staff Exhibit 5.0, Schedule 5.1 that would generate an ROE of 11.34%.



**Weighted Average Cost of Capital**

**December 31, 2014**

	<u>Amount</u>	<u>Percent of Total Capital</u>	<u>Cost</u>	<u>Weighted Cost</u>
Short-term Debt	\$6,496,098 <sup>1</sup>	1.74%	1.69% <sup>1</sup>	0.03%
Long-term Debt	\$178,726,842 <sup>1</sup>	47.96%	6.66% <sup>1</sup>	3.19%
Common Equity	\$187,444,000 <sup>2</sup>	50.30%	10.12% <sup>3</sup>	5.09%
Total Capital	\$372,666,940	100.00%		
<b>Weighted Average Cost of Capital</b>				<b>8.31%</b>

**Notes:**

(1) Source for Amount and Cost are from ICC Staff Exhibit 5.0, Schedule 5.1 - Staff Proposal

(2) UI's 2014 audited financial statements

(3) USI Exhibit 10.0, Schedule 10.09

\*Percent to Total Capital and Weighted Cost are calculations

PARTIAL RESPONSE TO  
 RWB - 7.01

INTOOLLECT IMPLEMENTATION SERVICES		Intoollect Hours	Intoollect Price Estimate
<b>Sections</b>			
280.40 Deposits		231 \$	39,270.00
280.50 Billing		252 \$	42,840.00
280.65 Late Payment		301 \$	51,170.00
280.70 Preferred Payment Date		196 \$	33,320.00
280.80 Budget Payment Plan		903 \$	153,510.00
280.120 Deferred PayAtr		308 \$	52,360.00
280.130 Serv Disconnection		287 \$	48,790.00
280.160 Medical Certification		308 \$	52,360.00
Crystal to BIP, Bill+Letter Print		3328 \$	432,640.00
<i>Hours specific to IL rule requirements for bill and disconnect letter content</i>			
		1000 \$	130,000.00
<i>Hours specific to migrate field orders and standard reports</i>			
		2328 \$	302,640.00
GRAND TOTAL FOR PUBLIC ESTIMATE (intoollect Time) Plus UMW time to spec, test, train, document processes		6,114 \$	906,260.00
ORACLE - LICENSE			
ORACLE - License quote for BI Publisher		\$	39,520.00
<b>Estimated Costs filed with ICC</b>			
280.40 Deposits		\$	39,270.00
280.50 Billing		\$	42,840.00
280.65 Late Payment		\$	51,170.00
280.70 Preferred Payment Date		\$	33,320.00
280.80 Budget Payment Plan		\$	153,510.00
280.120 Deferred PayAtr		\$	52,360.00
280.130 Serv Disconnection		\$	48,790.00
280.160 Medical Certification		\$	52,360.00
BI Publisher - Hours specific to IL rule requirements		\$	130,000.00
<i>Intoollect Subtotal</i>		\$	603,620.00
BI Publisher Application		\$	39,520.00
<i>Estimated costs included in Implementation Plan filed with ICC</i>		\$	643,140.00

<- Estimate of \$432,640 broken out for hours specific to IL rule requirements.

DUE DATE ICC

2/1/2016  
 2/1/2016  
 8/1/2015  
 8/1/2015  
 2/1/2016  
 2/1/2016  
 8/1/2015  
 8/1/2015  
 2/1/2016

Local Fuel Prices Northern Cook County

March 18, 2015 and 1:15pm CT



Not Logged In | Log In | Sign Up | Points Leaders | Follow Us | 1:15 PM  
 by GasBuddy.com  
**ChicagoGasPrices.com**  
 NEW YEAR, NEW SAVINGS!  
 Special Offers | View Offers Now  
 Home | Gas Prices | Points & Prizes | Forum | Community | Maps | Mobile | Widgets | Media | Special Offers | Blog | Help  
 Top Features: Gas Price Heat Map | Trip Cost Calculator | Fuel Logbook | Gas Price Charts | Win Prizes | Fuel Saving Tips

Current National Average **2.428** Current Crude Price **42.350** (US\$ / Barrel)

Search Gas Prices

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Lowest Regular Gas Prices in the Last 24 hours

Regular Gas	Midgrade	Premium	Diesel Fuel
Price	Station	Area	Thanks
<b>2.48</b> update	<b>Mobil</b> 1101 Waukegan Rd & Shermer Rd	<a href="#">map</a> Northbrook	<a href="#">kwyzibo</a> 32 minutes ago
<b>2.49</b> update	<b>7-Eleven</b> 2800 Dundee Rd & Pfingsten Rd	<a href="#">map</a> Northbrook	<a href="#">qqqq8866</a> 2 hours ago
<b>2.59</b> update	<b>Marathon</b> 812 Waukegan Rd & Dundee Rd	<a href="#">map</a> Northbrook	<a href="#">kwyzibo</a> 31 minutes ago
<b>2.59</b> update	<b>Marathon</b> 1975 Shermer Rd & Techny Rd	<a href="#">map</a> Northbrook	<a href="#">how_much</a> 16 hours ago
<b>2.59</b> update	<b>BP</b> 1998 Willow Rd & Shermer Rd	<a href="#">map</a> Northbrook	<a href="#">kby446</a> 1 hour ago
<b>2.59</b> update	<b>CITGO</b> 501 Dundee Rd & Skokie Blvd	<a href="#">map</a> Northbrook	<a href="#">joe60035</a> 2 hours ago
<b>2.63</b> update	<b>Mobil</b> 3155 Dundee Rd & Landwehr Rd	<a href="#">map</a> Northbrook	<a href="#">John...</a> 43 minutes ago
<b>2.78</b> update	<b>BP</b> 4095 Dundee Rd & Sanders Rd	<a href="#">map</a> Northbrook	<a href="#">John...</a> 40 minutes ago
<b>2.79</b> update	<b>Mobil</b> 1999 Willow Rd & Shermer Rd	<a href="#">map</a> Northbrook	<a href="#">kby446</a> 1 hour ago
<b>2.79</b> update	<b>BP</b> 2401 Sanders Rd & Willow Rd	<a href="#">map</a> Northbrook	<a href="#">rolls88</a> 3 hours ago

**AUTHORIZED UNCOLLECIBLE EXPENSE**  
**UI'S ILLINOIS OPERATING ENTITIES**

No.	Docket No.	Company Name	Test Year	Expense
(1)	12-0603	Apple Canyon Utility Company	December 31, 2011	\$ 13,138
(2)	11-0141	Camelot Utilities, Inc.	December 31, 2009	1,922
(3)	03-0398	Cedar Bluff Utilities, Inc.	December 31, 2002	4
(4)	11-0561	Charmar Water Company	September 30, 2010	1,498
(5)	11-0562	Cherry Hill Water Company	September 30, 2010	546
(6)	11-0563	Clarendon Water Company	September 30, 2010	1,663
(7)	02-0592	Del-Mar Water Company	December 31, 2001	594
(8)	11-0565	Ferson Creek Utilities Company	September 30, 2010	5,144
(9)	10-0280	Galena Territory Utilities, Inc.	December 31, 2008	2,672
(10)	11-0059	Great Northern Utilities, Inc.	December 31, 2009	1,021
(11)	11-0566	Harbor Ridge Utilities, Inc.	September 30, 2010	4,034
(12)	Short Form	Holiday Hills Utilities, Inc.	December 31, 2011	1,001
(13)	11-0564	Killarney Water Co.	September 30, 2010	6,981
(14)	11-0142	Lake Holiday Utilities Corporation	December 31, 2009	18,111
(15)	Short Form	Lake Marian Water Corporation	December 31, 2011	786
(16)	12-0604	Lake Wildwood Utilities Corporation	December 31, 2011	20,512
(17)	86-0310	Medina Utilities Corporation	December 31, 1985	51
(18)	10-298	Northern Hills Water and Sewer Company	December 31, 2008	1,594
(19)	94-0499	Valentine Water Service, Inc.	December 31, 1993	1
(20)	94-0369	Walk-Up Woods Water Company	December 31, 1993	5
(21)	10-0110	Whispering Hills Water Company	December 31, 2008	17,597
(22)	Short Form	Wildwood Water Service Company	December 31, 2011	215
<b>Total</b>				<b>\$ 99,090</b>

**Notes:**

Business units not shown include and reason why:

- (1) Oakwood - no rate case under UI's ownership
- (2) Westlake - no rate case under UI's ownership