

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

AQUA ILLINOIS, INC. :  
 : Docket No. 16-\_\_\_\_  
Petition for the Initiation of the Annual :  
Reconciliation of the Purchased Water :  
Surcharge :

Direct Testimony of

**PAUL J. HANLEY**

Controller  
Aqua Illinois, Inc.

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1 **I. INTRODUCTION AND BACKGROUND**

2 **A. Identification of Witness**

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

4 A. My name is Paul J. Hanley. My business address is 1000 South Schuyler Avenue,  
5 Kankakee, Illinois 60901.

6 **Q. By whom are you employed and in what capacity?**

7 A. I am employed by Aqua Illinois, Inc. (“Aqua Illinois” or “Company”) as Controller.

8 **Q. Please state your educational, professional and business background and  
9 experience.**

10 A. I am a Certified Public Accountant (“CPA”), with a degree in accountancy from the  
11 University of Illinois. I am a member of the American Institute of Certified Public  
12 Accountants and the Illinois CPA Society. Since receiving my Accountancy degree I  
13 have held three positions as an accountant, with increasing levels of responsibility,  
14 culminating in my current position with Aqua Illinois.

15 **Q. What are your responsibilities as Controller of Aqua Illinois?**

16 A. As Controller, I am responsible for supervising Aqua Illinois’ financial operations. These  
17 duties include overseeing the budget, forecasting, overseeing rates, and supervising the  
18 day-to-day financial operations of the Company.

19 **Q. Have you previously testified in regulatory proceedings before the Illinois  
20 Commerce Commission (the “Commission”)?**

21 A. Yes. Such proceedings include, but are not limited to: Docket No. 13-0595, a petition  
22 requesting a certificate of public convenience and necessity to operate a water supply and  
23 distribution system in McHenry County Illinois; Docket No. 14-0419, a proceeding  
24 related to the Company's proposed general increase in water rates for the Kankakee  
25 service territory; Docket No. 15-0384, a petition requesting approval of an Asset  
26 Purchase Agreement and the issuance of a certificate of public convenience and necessity  
27 to operate a water system in portions of unincorporated McHenry County; and  
28 Docket No. 16-0182, a petition requesting the annual reconciliation of Aqua Illinois'  
29 Qualifying Infrastructure Plant ("QIP") Riders ("QIP Riders") in effect for specific rate  
30 areas during calendar year 2015.

31 **B. Purposes of Direct Testimony**

32 **Q. What is the purpose of your direct testimony in this proceeding?**

33 A. The purpose of my direct testimony is to discuss the reconciliation data submitted herein,  
34 as discussed below and attached hereto, with respect to operation of Aqua Illinois'  
35 Purchased Water Reconciliation Rider in effect for the Company's North Maine Water  
36 Rate Zone ("Rate Zone") during the period June 1, 2015 – December 31, 2015.

37 **Q. Are you sponsoring any exhibits?**

38 A. Yes, I am sponsoring Aqua Exhibits ("Exs.") 1.1 through 1.7, which contain the 2015  
39 reconciliations for the Rate Zone. These exhibits show: a) the costs recoverable for  
40 purchased water from the Village of Niles; b) the revenues arising from the purchased  
41 water surcharge from the North Maine water customers; and c) the reconciliation  
42 components determined by the utility to be recovered or refunded during the period

43 September 1, 2016 through December 31, 2016, following the filing of the reconciliation.  
44 I am also sponsoring Aqua Ex. 1.8, the Information Sheet that supports and reflects the  
45 adjustment to Aqua Illinois' Purchased Water Surcharge, which will take effect on  
46 September 1, 2016.

47 **C. Summary of Conclusions**

48 **Q. Please summarize the conclusions of your direct testimony.**

49 A. As required by Sections 655 of the Rules, Aqua Exs. 1.1 through 1.7 include a calculation  
50 of the utility-determined variable reconciliation component ("Rv") necessary to adjust  
51 actual revenue collected under the rider for the applicable rate zone to an amount  
52 equivalent to the actual level of purchased water cost from the reconciliation period June  
53 2015 through December 2015.

54 **II. RECONCILIATION**

55 **Q. Please describe Aqua Illinois.**

56 A. Aqua Illinois provides water and sewer public utility service in certain areas of Kankakee,  
57 Vermilion, Will, Boone, Knox, Lake, Cook, Dekalb, Kane, Ogle, Winnebago, McHenry  
58 and Champaign Counties in the State of Illinois. Aqua is a public utility within the  
59 meaning of the Illinois Public Utilities Act (the "Act"), 220 ILCS 5/3-105.

60 **Q. Did Aqua Illinois have the Purchased Water Riders in effect during 2015?**

61 A. Yes. Prior to the Company's acquisition of the North Maine Water and Sewer Systems  
62 on April 30, 2015, Aqua Illinois was notified in a letter dated April 29, 2015 by the  
63 Village of Niles of a pass-through water rate increase. The purchased water rate from the  
64 Village of Niles was increased from \$6.90 per one thousand gallons to \$7.90 per one

65 thousand gallons. The new rate became effective July 1, 2015. When Aqua Illinois  
66 learned of the rate increase from the Village of Niles, Aqua Illinois implemented its own  
67 Purchased Water Surcharge on the customers of the Rate Zone. The Surcharge, in the  
68 amount of \$0.8131, became effective on June 1, 2015 and continues to be in effect today.  
69 As a result of the reconciliation of the seven months ending December 2015, Aqua  
70 Illinois is implementing a utility-determined reconciliation component (“Rv”) of \$28,910,  
71 which represents an over-recovery that will be refunded to customers of the Rate Zone.

72 **Q. Is there a requirement that Aqua Illinois file reconciliation data with respect to the**  
73 **operation of the Purchased Water Surcharge?**

74 A. Yes. Section 655.50 of the Illinois Administrative Code, 83 Ill. Admin. Code §655.50,  
75 requires that an annual reconciliation regarding the operation of a utility’s purchased  
76 water/sewer treatment surcharge be filed with the Commission on or before March 15<sup>th</sup> of  
77 the calendar year following a year in which the surcharge was in effect.

78 **Q. Did Aqua Illinois file reconciliation data as required?**

79 A. Yes. The instant filing reflects Aqua Illinois’ petition and annual reconciliation for the  
80 Rate Zone covering the period June 1, 2015 – December 31, 2015, as required by Part  
81 655. However, this annual reconciliation did not meet the March 15<sup>th</sup> deadline due to a  
82 misinterpretation of the 12-month period to be reconciled. Moving forward, Aqua  
83 Illinois will be filing the annual reconciliation of the preceding calendar year by  
84 March 15<sup>th</sup> of the subsequent year.

85 **Q. Do Aqua Exs. 1.1 through 1.7 reflect the calculation of the “Rv” component of the**  
86 **Purchased Water Surcharge for the respective Rate Zone?**

87 A. Yes. In each exhibit, Aqua Illinois is submitting the information required by Section 655  
88 of the Illinois Administrative Code. A brief description of each exhibit is provided as  
89 follows:

- 90 • Aqua Ex. 1.1 – Calculation of the Purchased Water Surcharge and summary of  
91 the various components of the reconciliation.
- 92
- 93 • Aqua Ex. 1.2 – Change in the Purchased Water Surcharge and the adjustment to  
94 the rate per 1000 gallons resulting in the new rate for the period September –  
95 December 2016.
- 96
- 97 • Aqua Ex. 1.3 – Estimated water sales for the period September – December 2016.
- 98
- 99 • Aqua Ex. 1.4 – Comparison of the surcharge received from the North Maine  
100 water customers versus the purchased water costs paid to the Village of Niles.
- 101
- 102 • Aqua Ex. 1.5 – Monthly detail of the purchased water costs paid to the Village of  
103 Niles.
- 104
- 105 • Aqua Ex. 1.6 – Monthly detail of the actual water sales and the surcharge revenue  
106 received from the water customers of North Maine.
- 107
- 108 • Aqua Ex. 1.7 – Metered Ratio of the North Maine water system.

109 **Q. Do the Commission rules require that any other information be submitted with the**  
110 **annual reconciliation filing?**

111 A. Yes. Section 655.50(f) of the Commission’s Rules, 83 Ill. Admin. Code §655.50(f),  
112 requires that certain information be provided to the Commission’s Manager of the Water  
113 Department and Manager of Accounting. This information has been provided or made  
114 available to these respective Managers.

115 **III. PURCHASED WATER SURCHARGE**

116 **Q. Is Aqua Illinois implementing an adjustment to its Purchased Water Surcharge?**

117 A. Yes. Aqua Illinois is adjusting its Purchased Water Surcharge, beginning on  
118 September 1, 2016. Because the costs associated with this surcharge will not change, and

119 because Aqua Illinois is able to more closely predict the amount of customer billings and  
120 purchased water from the Village of Niles, the Company is able to more precisely  
121 approximate the necessary surcharge amount. The amount of the adjustment to the  
122 Surcharge has been calculated at (-\$0.1185), which results in an updated purchased water  
123 surcharge of (\$0.6946) to become effective on September 1, 2016.

124 **Q. Is Aqua Illinois providing any additional information in light of the adjustment to**  
125 **its Purchased Water Surcharge?**

126 A. Yes. As required by Section 655.60, Aqua Illinois is providing an Information Sheet  
127 supplemental to the purchased water surcharge rider that reflects the amount of the  
128 adjusted surcharge (83 Ill. Admin. Code §655.60). The Information Sheet is supported  
129 by workpapers and other documentation, as necessary.

130 **IV. CONCLUSION**

131 **Q. Does this conclude your direct testimony?**

132 A. Yes.