

REBUTTAL TESTIMONY

OF

ROY A. KING

WATER DEPARTMENT
FINANCIAL ANALYSIS DIVISION
ILLINOIS COMMERCE COMMISSION

LAKE WILDWOOD WATER COMPANY

DOCKET NO. 01-0663

MARCH 20, 2002

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

2 A. My name is Roy A. King. My business address is 527 East Capitol Avenue,
3 Springfield, Illinois, 62701. My business telephone is (217) 524-5050.

4

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

6 A. I am employed by the Illinois Commerce Commission ("Commission") as a Water
7 Engineer in the Water Department of the Financial Analysis Division ("FAD").

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9

10 **Q. How long have you been employed by the Commission?**

11 A. Since August 1979.

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13

14 **Q. Will you please briefly state your educational qualifications?**

15 A. In 1970, I graduated from Chicago Technical College with a Bachelor of Science
16 degree in Architectural Engineering. Since being employed by the Commission, I
17 have received an Associates Degree in Business Administration from Lincoln
18 Land Community College, Springfield, Illinois, and in 1985, I received a Bachelor
19 of Arts Degree in Management from the University of Illinois-Springfield (formerly
20 Sangamon State University), Springfield, Illinois.

21

22 **Q. Will you please describe your work experience?**

23 A. From 1970 to 1979, I served in the U.S. Navy. My assignments included those of
24 Maintenance Supervisor, Instructor, Counselor for a Drug and Alcohol Program,
25 and managing a division of 30 men and its related equipment.

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Since August 1979, I have been continuously employed by the Commission. Until mid-1982, I was assigned to the Public Utilities Division, Engineering Department, Gas and Electric Section as a Utility Engineer. My duties were to assist the Chief Gas Engineer and the Chief Engineer in the administration of all engineering matters associated with the regulation of privately owned gas and electric utilities in the State of Illinois. During this period, my duties included (1) evaluating rate filings and rules and regulations filings, (2) assisting the Consumer Services Division, upon request, in handling investigations and correspondence relating to electric and gas inquiries and complaints, (3) evaluating testimony presented by the utilities and assisting with cross-examination, (4) testifying as a Staff witness in applications for Certificates of Public Convenience and Necessity (“Certificates”), rate proceedings and other formal cases which contain issues requiring review by the Engineering Department, and (5) processing other work as directed by the Chief Engineer.

In 1982, Staff functions were reorganized and I was assigned to the Water and Sewer Section within the Engineering Department. My duties were very similar to those previously described, except that I worked on matters associated with water and sewer utilities.

In November of 1992, engineering and rate matters for water and sewer utilities were transferred to the Office of Policy and Planning (OPP) and I was assigned to OPP. My duties in OPP included (1) evaluating rate schedule filings, and rules

50 and regulations filings, (2) assisting the Consumer Services Division, upon
51 request, in handling inquiries and complaints, (3) evaluating testimony presented
52 by the utilities and assisting with cross-examination, (4) testifying as a Staff
53 witness in applications for Certificates, rate proceedings, and other formal cases
54 which contain issues requiring review by OPP, and (5) reviewing cost-of-service
55 studies for the water and sewer utilities, when so assigned.

56
57 In 1997, Staff's functions were reorganized and I was assigned to the Rates
58 Department within FAD (formerly Public Utilities Division). In 2000, Staff's
59 functions were reorganized forming a Water Department and I was assigned to
60 the Water Department. My duties are the same as those previously described.

61
62 **Q. Have you participated in courses and training regarding utility regulation?**

63 A. Yes, I have attended a number of courses and training regarding utility
64 regulation, including several sponsored by the National Association of Regulatory
65 Utility Commissioners (NARUC). I completed a one-week utility rate seminar co-
66 sponsored by the NARUC Water Committee and the University of Utah Center
67 for Continuing Education. I have also completed a course in Sewage Treatment
68 Plant Operations, which was sponsored by the Environmental Training Resource
69 Center at Southern Illinois University, and three courses in depreciation
70 practices, which were sponsored by Depreciation Programs, Inc.

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74 **Q. Are you a member of any professional organizations?**

75 A. Yes, I am a member of the Illinois Potable Water Operator's Association, Illinois
76 Section of the American Water Works Association and American Water Works
77 Association.

78
79 **Q. Have you previously testified before the Illinois Commerce Commission?**

80 A. Yes, I have previously testified before the Commission on numerous issues
81 related to my duties.

82

83 **Q. What is the purpose of this proceeding?**

84 A. Lake Wildwood Water Company ("Lake Wildwood" or "Company") has filed
85 revised tariff sheets seeking a general increase in water rates in its service area.

86

87 **Q. What is your assignment in this case?**

88 A. I was assigned by the Manager of the Water Department to participate on behalf
89 of the department to examine Lake Wildwood's supplemental rebuttal testimony
90 to assess the reasonableness of its request for adjustments to the depreciation
91 rates. Specifically, I am responsible for presenting testimony concerning the
92 reasonableness of the proposed depreciation rates presented by the Company's
93 witness Mr. Steven M. Lubertozzi.

94

95 **Q. Are you familiar with Mr. Lubertozzi's supplemental rebuttal testimony**
96 **concerning depreciation rates being proposed for Lake Wildwood water**
97 **facilities?**

98 A. Yes, I have personally reviewed the testimony presented by Mr. Lubertozzi.

99

100 **Q. Have you previously performed any depreciation studies and/or testified**
101 **and recommended depreciation rates?**

102 A. I participated in the following dockets which included requests for approval of
103 depreciation rates:

104	Illinois-American Water Company	-	Docket No.	92-0116
105	Consumers Illinois Water Company	-	Docket Nos.	95-0307 and
106				95-0342 (Consolidated)
107	Citizens Utilities Company of Illinois	-	Docket No.	94-0481
108	Northern Illinois Water Corporation	-	Docket No.	97-0254
109	Consumers Illinois Water Company	-	Docket No.	98-0632
110	Consumers Illinois Water Company	-	Docket No.	99-0258
111	Illinois-American Water Company	-	Docket No.	00-0340
112	Consumers Illinois Water Company	-	Docket No.	00-0337

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115 **Q. What analysis have you performed in regards to the depreciation rates**
116 **recommended by Staff to Mr. Lubertozzi?**

117 A. None. In this instance, the Company does not have sufficient plant retirement
118 experience to permit a simulated plant balance method for estimating the service
119 life or the net salvage values. Therefore, I examined the average service lives
120 and salvage values of other companies with reasonably comparable facilities for
121 which I had previously performed similar depreciation studies to determine the
122 appropriated average service lives and salvage values for this depreciation
123 study.

124

125 **Q. Could you please describe the Average Service Life Method?**

126 A. The Average Service Life Method (ASL) recovers the original cost adjusted for

127 net salvage over the average life of the plant, according to the following formula:

128

$$\frac{\text{Original Cost minus Salvage}}{\text{Average Service Life (yrs.)}} = \text{Annual Depreciation Rate}$$

131

132 **Q. How do the depreciation rates proposed by Lake Wildwood compare with**
133 **the rates approved by the Commission in similar cases that you have**
134 **considered?**

135 A. The depreciation rates proposed are consistent with the average service lives
136 and net salvage values that were approved for CIWC, Northern Illinois Water
137 Corporation, and Illinois-American Water Company.

138

139 **Q. During your investigation of earlier Illinois-American Water Company and**
140 **Consumers Illinois Water Company rate proceedings, did you review any**
141 **other depreciation studies?**

142 A. Yes, I consider the practice typical. In those cases, I reviewed depreciation
143 studies relating to Iowa-Illinois American Water Company, Kentucky-American
144 Water Company, New Jersey Water Company, Consumers Illinois Water
145 Company (formerly Inter-State Water Company), as well as, the depreciation
146 rates being utilized by Artesian Water Company, Inc. and Elizabethtown Water
147 Company.

148

149 **Q. In your opinion is the Company's request to raise the annual depreciation**
150 **rates from overall composite rates of 1.55% to 2.99%, appropriate?**

151 A. Overall, the depreciation rates recommended appear to be appropriate.

152

153 **Q. Do you support the Company's proposal to utilize separate rates for each**
154 **primary account in order to calculate the depreciation expense?**

155 A. Yes, I am recommending that the depreciation expense be calculated utilizing
156 separate rates for each primary account. In my opinion, separate depreciation
157 rates for primary accounts are more sensitive to the service life and retirement in
158 a specific account than a composite rate. As such, rates by primary accounts
159 result in a more accurate allocation and recovery of depreciation expense.

160

161 **Q. Have you attached any Exhibits to your testimony?**

162 A. Yes, Schedule 6.01 is a one page document which sets forth the calculation for
163 the depreciation expense for primary accounts using the select average service
164 lives and salvage values. Schedule 6.02 is a one-page document which sets
165 forth the comparison of the existing and proposed depreciation rates used by the
166 Company for each account.

167

168 **Q. Does this conclude your Rebuttal Testimony?**

169 A Yes, it does.

Lake Wildwood Depreciation

Docket No. 01-0663
 ICC Staff Exhibit 6.00
 Schedule 6.01

Account Number	Account Title	Plant Balance (\$)	Depreciation Reserve (\$)	Net Salvage		Unrecovered Cost(\$)	Average Life (Yrs.)	Annual Expense	
				(%)	Amount (\$)			\$	%
SOURCE OF SUPPLY PLANT									
303	Land	\$923							
304	Structures	\$60	\$0	-25%	(\$15)	\$75	30.0	\$3	4.17%
307	Wells	\$38,645	\$0	-30%	(\$11,594)	\$50,239	60.0	\$837	2.17%
339	Other Plant								
	SUBTOTAL	\$39,628	\$0		(\$11,609)	\$50,314		\$840	2.12%
PUMPING EQUIPMENT									
303	Land								
304	Structures	\$93,289	\$0	-25%	(\$23,322)	\$116,611	30.0	\$3,887	4.17%
307	Power Ger. Equipment								
311	Pumping Equipment	\$65,642	\$0	-25%	(\$16,411)	\$82,053	40.0	\$2,051	3.13%
339	Other Plant		\$0						
	SUBTOTAL	\$ 158,931	\$ -		\$ (39,733)	\$ 198,664		\$ 5,938	3.74%
WATER TREATMENT PLANT									
304	WT Structures & Improvements	\$15,444		-25%	(\$3,861)	\$19,305	30.0	\$644	4.17%
320	Water Treatment Equipment	\$4,303	\$0	-25%	(\$1,076)	\$5,379	35.0	\$154	3.57%
	SUBTOTAL	\$19,747	\$0		(\$4,937)	\$24,684		\$797	4.04%
TRANSMISSION & DISTRIBUTION PLANT									
330	Dist. Reservoirs & Standpipes	\$39,623	\$0	-15%	(\$5,943)	\$45,566	60.0	\$759	1.92%
331	Mains	\$291,372	\$0	-70%	(\$203,960)	\$495,332	90.0	\$5,504	1.89%
333	Services	\$185,971	\$0	-100%	(\$185,971)	\$371,942	60.0	\$6,199	3.33%
334	Meters	\$27,734	\$0	13%	\$3,605	\$24,129	14.0	\$1,723	6.21%
334	Meter Installations	\$8,197	\$0	-100%	(\$8,197)	\$16,394	45.0	\$364	4.44%
335	Hydrants	\$25,885	\$0	-70%	(\$18,120)	\$44,005	43.0	\$1,023	3.95%
339	Other Equipment	\$0	\$0	50%	\$0	\$0	10.0	\$0	0.00%
	SUBTOTAL	\$578,782	\$0		(\$418,586)	\$997,368		\$15,573	2.69%
GENERAL PLANT									
340	Office Equipment	\$1,161	\$0	0%	\$0	\$1,161	19.0	\$61	5.26%
341	Transportation								
343	Tools, Shop & Garage Equipment	\$15,326	\$0	5%	\$766	\$14,560	13.0	\$1,120	7.31%
344	Laboratory Equipment	\$91	\$0	5%	\$5	\$86	20.0	\$4	4.75%
346	Communication Equipment								
347	Misc. Equipment								
	SUBTOTAL	\$16,578	\$0		\$771	\$15,807		\$1,185	7.15%
	SUBTOTAL UTILITY PLANT	\$813,666			(\$474,093)	\$1,286,836		\$24,334	2.99%
INTANGIBLE PLANT									
	Organization	\$27,712				\$27,712			
	Franchise & Consents	\$0				\$0			
	TOTAL	\$27,712				\$27,712			
	TOTAL UTILITY PLANT	\$841,378			(\$474,093)	\$1,314,548		\$24,334	2.89%

LAKE WILDWOOD							
COMPARISON OF COMPANY'S PRESENT AND STAFF'S PROPOSED DEPRECIATION RATES-WATER							
COMPANY'S PRESENT RATES				STAFF'S PROPOSED RATE:			
Account Number	Account Title	Plant Balance	Percent %	Annual Expense	Percent (%)	Annual Expense (\$)	Present vs. Proposed
SOURCE OF SUPPLY PLANT							
303.00	Land	\$923	0.00%	\$0	0.00%	\$0	\$0
304.00	Structures	\$60	1.50%	\$1	4.17%	\$3	\$2
307.00	Wells	\$38,645	1.50%	\$580	2.17%	\$839	\$259
	SUBTOTAL	\$39,628	1.50%	\$581		\$841	\$261
PUMPING EQUIPMENT							
304.31	Structures & Improvements	\$93,289	1.50%	\$1,399	4.17%	\$3,890	\$2,491
311.31	Pumping Equipment	\$65,642	1.50%	\$985	3.13%	\$2,055	\$1,070
	SUBTOTAL	\$158,931	1.50%	\$2,384		\$5,945	\$3,561
WATER TREATMENT PLANT							
304.00	WT Structures and Improvements	\$15,444	1.50%	\$232	4.17%	\$644	\$412
320.41	Water Treatment Equipment	\$4,303	1.50%	\$65	3.57%	\$154	\$89
	SUBTOTAL	\$19,747		\$296		\$798	\$501
TRANSMISSION & DISTRIBUTION PLANT							
330.51	Dist. Reservoirs & Standpipes	\$39,623	1.50%	\$594	1.92%	\$761	\$166
331.51	Mains	\$291,372	1.50%	\$4,371	1.89%	\$5,507	\$1,136
333.51	Services	\$185,971	1.50%	\$2,790	3.33%	\$6,193	\$3,403
334.51	Meters	\$27,734	1.50%	\$416	6.21%	\$1,722	\$1,306
334.51	Meter Installations	\$8,197	1.50%	\$123	4.44%	\$364	\$241
335.51	Hydrants	\$25,885	1.50%	\$388	3.95%	\$1,022	\$634
339.51	Other	\$0	1.50%	\$0	0.00%	\$0	\$0
	SUBTOTAL	\$578,782		\$8,682		\$15,569	\$6,887
GENERAL PLANT							
340.00	Office Equipment	\$1,161	1.50%	\$17	5.26%	\$61	\$44
343.61	Tools, Shop & Garage Equipment	\$15,326	1.50%	\$230	7.31%	\$1,120	\$890
344.00	Laboratory Equipment	\$91	1.50%	\$1	4.75%	\$4	\$3
	SUBTOTAL	\$16,578		\$249		\$1,186	\$937
	SUBTOTAL UTILITY PLANT	\$813,666		\$12,191		\$24,338	\$12,147
INTANGIBLE PLANT							
	Organization	\$27,712					
	Franchise & Consents	\$0					
	SUBTOTAL	\$27,712					
	TOTAL UTILITY PLAN	\$841,378					