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BEFORE THE
ILLINOIS COMMERCE COMMISSION

IN THE MATTER OF:)
)
ILLINOIS-AMERICAN WATER)
COMPANY and SOUTH BELOIT)
WATER, GAS AND ELECTRIC)
COMPANY) No. 05-0724
)
PETITION FOR APPROVAL OF)
PROPOSED REORGANIZATION IN)
ACCORDANCE WITH 7-102 and)
7-204 OF THE PUBLIC UTILITIES)
ACT.)

Chicago, Illinois
April 7th, 2006

Met, pursuant to notice, at 10:00 a.m.

BEFORE:

MS. CLAUDIA SAINSOT, Administrative Law Judge

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APPEARANCES:

DEFREES & FISKE, LLC, by
MS. LESLIE RECHT
200 South Michigan Avenue
Suite 1100
Chicago, IL 60604
(312)372-4000
for South Beloit Water, Gas and Electric
Company;

MR. JOHN J. REICHART
727 Craig Road
St. Louis, MO 63141
for Illinois-American Water Company;

ILLINOIS COMMERCE COMMISSION, by
MS. LINDA M. BUELL
572 East Capitol Avenue
Springfield, IL 62701
(217)557-1142
for Staff.

SULLIVAN REPORTING COMPANY, by
Devan J. Moore, CSR
License No. 084-004589

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I N D E X

<u>Witnesses:</u>	<u>Direct</u>	<u>Cross</u>	<u>Re-direct</u>	<u>Re-cross</u>	<u>By Examiner</u>
Richard E. Potter					29

E X H I B I T S

<u>Number</u>	<u>For Identification</u>	<u>In Evidence</u>
South Beloit Exhibit Nos. 1.0 - 5.0		32
IAWC Exhibit Nos. MJH-1.0		32
IAWC Exhibit Nos. MJH-1.1 through 1.6		32
IAWC Exhibit Nos. MJH-2.0,		32
IAWC Exhibit Nos. BK-1.0, BK-2.0R, BK-2.1		35
IAWC Exhibit Nos. BK-2.2 and BK-3.0		35
Staff Exhibit Nos. 1.0 and 5.0		37
Staff Exhibit Nos. 2.0 and 6.0		38
Staff Exhibit Nos. 3.0 and 7.0		39
Staff Exhibit Nos. 4.0 and 8.0		40

1 JUDGE SAINSOT: By the authority vested in me
2 by the Illinois Commerce Commission, I now call
3 Docket No. 05-0724. It is the Petition of
4 Illinois-American Water Company and South Beloit
5 Water, Gas and Electric Company for Reorganization in
6 Accordance with Section 7-102 and 7-204 of the Public
7 Utilities Act.

8 Will the parties identify themselves
9 for the record, please.

10 MS. RECHT: Leslie Recht for the Law Firm of
11 Defrees & Fiske, appearing on behalf of South Beloit
12 Water, Gas and Electric Company. My address is
13 200 South Michigan, Suite 1100, Chicago, Illinois
14 60604.

15 MR. REICHART: Appearing on behalf of
16 Illinois-American Water, John Reichart. My address
17 is 727 Craig Road, St. Louis, Missouri 63141.

18 MS. BUELL: Appearing on behalf of Staff
19 witnesses of the Illinois Commerce Commission, Linda
20 M. Buell, 527 East Capitol Avenue, Springfield,
21 Illinois 62701.

22 JUDGE SAINSOT: Are there any further

1 appearances?

2 Let the record reflect that there are
3 none.

4 Okay. Petitioners, would you like to
5 proceed?

6 MS. RECHT: Yes. Judge, we had a status
7 hearing earlier this week. And at that status
8 hearing what we agreed was that the Applicants,
9 Illinois-American Water and South Beloit, would
10 present their testimony of the their witnesses in
11 written form. South Beloit has brought copies of its
12 testimony, Richard E. Potter, and also the testimony
13 of Barbara Siehr.

14 And, also, at the status conference
15 earlier this week you indicated that you wanted to
16 cross-examine Richard Potter. So he is available,
17 Judge, online to be sworn in and cross-examined this
18 morning. Barbara Siehr is not available because
19 there were no questions for her. And I have hard
20 copies for the court reporter of the South Beloit
21 testimony and also the testimony to be offered by
22 Illinois-American.

1 JUDGE SAINSOT: Okay. What exhibit number is
2 Mr. Potter? Why don't we start with him.

3 MS. RECHT: We've marked Mr. Potter's testimony
4 as SBWGE Exhibit 1.0. And after that, it's in parens
5 REP-1. We also have supplemental direct testimony of
6 Mr. Potter that's marked as SBWGE Exhibit 2.0 in
7 parens REP-2.

8 JUDGE SAINSOT: So you're proffering
9 Mr. Potter's testimony?

10 MS. RECHT: We'd like to call Mr. Potter and
11 have him sworn so that he can testify this morning.

12 JUDGE SAINSOT: Mr. Potter?

13 MR. RICHARD E. POTTER: Yes, your Honor.

14 JUDGE SAINSOT: Could you raise your right
15 hand, please.

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(Witness sworn.)

RICHARD E. POTTER,

called as a witness herein, having been first duly sworn, was examined and testified as follows:

EXAMINATION

BY

JUDGE SAINSON:

Q Okay. I just have a few questions of you for point of clarification.

On page 6 of your direct testimony you talk about average hydraulic gradients. Could you define that.

A Your Honor, that's a term that relates to elevation changes that would cause changes in pressures that then creates a need for engineering design to accommodate adequate pressure at customer locations and services.

So what the analysis is speaking to is that on average hydraulic gradients is different among each of the three systems. They're extreme on each system based on the location from the elevated storage or the pumping booster station. But, again,

1 speaking to the fact that on average the system has
2 significantly different hydraulic pressures and
3 gradients based on elevation.

4 So there was some additional devices
5 needed to be able to interconnect the system such as
6 pressure reducing balance. We don't over pressure
7 services in one location, and then also all future
8 companies, pressure was added to them.

9 Q Okay. Thank you very much. I have one
10 more question for you.

11 You -- on pages 3 and 4 of your direct
12 testimony you spoke about a Wisconsin Utility Holding
13 Company issue. Could you elaborate as to what that
14 is.

15 A Certainly. We were unclear about the
16 impact of that particular Act as it relates to our
17 situation, owning further assets in Illinois and
18 Wisconsin and being South Beloit Water, Gas and
19 Electric Company under the holding company of the
20 Lange Energy (phonetic), whether that would cause a
21 problem for an entity to acquire an asset in
22 Wisconsin and be able to do so without being

1 constrained or made to meet provisions of that
2 requirement that they otherwise would not have had
3 not being a Wisconsin Utility otherwise. And that
4 was, indeed, the determination by some of the parties
5 that were interested otherwise but were basically not
6 willing to spend the effort to further determine
7 whether that was going to be a requirement that they
8 had to meet or not.

9 Q And that's a statute or what?

10 A Yes. The specific act, I'm a little bit
11 out of my area of expertise here. But suffice it to
12 say it was intended to protect Wisconsin customers
13 and rate payers as it relates to assets that
14 utilities might own outside of Wisconsin outside of
15 the control of Wisconsin State Authority.

16 Q Okay. Thank you very much.

17 A You're welcome.

18 Q I have no further questions. You've been
19 very helpful, Mr. Potter.

20 MS. RECHT: Your Honor, we'd like to offer into
21 the record the direct testimony of Richard E. Potter
22 marked as Exhibit 1.0, the supplemental testimony of

1 Richard E. Potter marked as 2.0, the affidavit of
2 Richard E. Potter marked as Exhibit 3.0, the direct
3 testimony of Barbara Siehr marked as Exhibit 4.0, and
4 the affidavit of Barbara Siehr marked as Exhibit 5.0.

5 JUDGE SAINSOT: Any objection?

6 MS. BUELL: Staff has no objections to SBWGE
7 1.0 or 2.0 but was wondering why Mr. Potter would
8 need an affidavit since he is presently available.

9 MS. RECHT: That's just the procedure that we
10 had agreed to. I can take it out, if you want. I
11 just thought rather than going through on the record
12 the information that's in the affidavit -- I didn't
13 do that because we were putting the affidavit in.

14 MS. BUELL: That's fine. No objection from
15 Staff, your Honor.

16 JUDGE SAINSOT: Okay. That being the case,
17 South Beloit Exhibit 1.0, 2.0, 3.0, 4.0 and 5.0 are
18 entered into evidence.

19 (Whereupon, South Beloit Exhibit
20 Nos. 1.0 - 5.0 were admitted
21 into evidence.)

22 MS. RECHT: Thank you, your Honor.

1 John, do you want to identify your
2 exhibit?

3 MR. REICHART: Yes.

4 May I do so now, Judge?

5 JUDGE SAINSOT: Yes, you may.

6 MR. REICHART: Staff has previously -- I'm
7 sorry. Staff.

8 JUDGE SAINSOT: It's okay, John.

9 MR. REICHART: The company has previously
10 prepared a document for submission at the hearing
11 today. The person identified is IAWC Exhibit No.
12 MJH-1.0, titled the direct testimony of Michael J.
13 Hoffman. It includes attachment MJH-1.1 through
14 MJH-1.6. In addition, we've prepared an affidavit
15 for Mr. Hoffman that's been labeled as IAWC Exhibit
16 No. MJH-2.0.

17 Moving to our next witness, we have a
18 document labeled IAWC Exhibit No. BK-1.0, titled
19 direct testimony of Bob Kahn; the second document
20 labeled IAWC Exhibit No. BK-2.0R, titled revised
21 supplemental direct testimony of Bob Kahn; and,
22 finally, Mr. Kahn's affidavit, which I think I may

1 need to correct the labeling on. It should read now
2 IAWC Exhibit No. BK-3.0.

3 MS. RECHT: It's not completely clear on this
4 one, John. Do you mind if I just write in 3.0?

5 MR. REICHART: Yes. Thank you.

6 JUDGE SAINSOT: You mean you don't mind?

7 MR. REICHART: I don't mind. Thank you for
8 doing that.

9 JUDGE SAINSOT: Okay. Is there any objection
10 to the admission of IAWC Exhibit MJH-1.0, MJH-1.1
11 through 1.6, MJH-2.0, BK-1.0, BK-2.0R and BK-3.0, all
12 of which are labeled IAWC documents?

13 MS. BUELL: No objection from Staff, your
14 Honor.

15 MR. REICHART: Judge, can I make one more
16 notation?

17 Attached to the Exhibit BK-2.0R are
18 two attachments. And just for the record I'd like to
19 identify them. The first is the map of the proposed
20 certificated area currently labeled IAWC Exhibit No.
21 BK-2.1. The second exhibit, which is labeled IAWC
22 Exhibit No. BK-2.2 is the metes and bounds

1 description. These are attached to the underlying
2 revised supplemental direct testimony of Mr. Kahn.
3 And we just wanted to identify those. It is our
4 intent to have them included in the submission as
5 well.

6 JUDGE SAINSOT: Thank you. Is there any
7 objection to those two documents?

8 MS. BUELL: No objection from Staff, your
9 Honor.

10 JUDGE SAINSOT: That being the case, your
11 motion is granted, Counsel. And all of the
12 previously mentioned exhibits are entered into
13 evidence.

14 MR. REICHART: Thank you.

15 (Whereupon, IAWC Exhibit Nos.
16 MJH-1.0, MJH-1.1 through 1.6,
17 MJH-2.0, BK-1.0, BK-2.0R,
18 BK-2.1, BK-2.2 and BK-3.0 were
19 admitted into evidence.)

20 MS. BUELL: John, did you move Barbara Siehr's
21 testimony in?

22 MS. RECHT: I did.

1 MS. BUELL: You did?

2 MS. RECHT: Yes.

3 MS. BUELL: Okay. And that would be 4.0 and
4 her affidavit is 5.0; is that correct?

5 MS. RECHT: Yes.

6 MS. BUELL: Thank you.

7 JUDGE SAINSOT: Okay. Anything from Staff?

8 MS. BUELL: Yes, your Honor. Staff moves for
9 admission into evidence the direct testimony of
10 Thomas Q. Smith. This has previously been marked for
11 identification as ICC Staff Exhibit 1.0. It consists
12 of a cover page and 11 pages of narrative testimony.
13 And it was filed via the Commission e-docket system
14 on March 31st, 2006.

15 JUDGE SAINSOT: Do you have an affidavit?

16 MS. BUELL: Yes, I do. Staff moves for
17 admission into the record the affidavit of Thomas Q.
18 Smith, previously marked for identification as ICC
19 Staff Exhibit 5.0 and filed in the Commission
20 e-docket system on April 5th, 2006.

21 JUDGE SAINSOT: Is there any objection to
22 admission of Staff Exhibit 1.0 and Staff Exhibit 5.0?

1 MS. RECHT: No, your Honor.

2 MR. REICHART: No, your Honor.

3 JUDGE SAINSOT: That being the case, your
4 motion is granted, Counsel. And those two exhibits
5 are entered into evidence.

6 (Whereupon, Staff Exhibit
7 Nos. 1.0 and 5.0 were admitted
8 into evidence.)

9 MS. BUELL: Thank you, your Honor.

10 Staff also moves for admission into
11 the record the direct testimony of Mary H. Everson
12 previously marked for identification as ICC Staff
13 Exhibit 2.0. This document consists of a cover page
14 and 11 pages of narrative testimony and was filed via
15 the Commission's e-docket system on March 31st, 2006.

16 Staff also offers the affidavit of
17 Mary H. Everson, previously marked for identification
18 as ICC Staff Exhibit 6.0 and filed via the
19 Commission's e-docket system on April 5th, 2006.

20 JUDGE SAINSOT: Any objection to admission of
21 those two documents into the record?

22 MS. RECHT: No, your Honor.

1 MR. REICHART: No, your Honor.

2 JUDGE SAINSOT: That being the case, your
3 motion is granted, Counsel. And Staff Exhibits 2.0
4 and 6.0 are entered into evidence.

5 (Whereupon, Staff Exhibit
6 Nos. 2.0 and 6.0 were admitted
7 into evidence.)

8 MS. BUELL: Thank you, your Honor.

9 Staff also moves for admission into
10 the record the direct testimony of Mike Luth. This
11 has been previously marked for identification as ICC
12 Staff Exhibit 3.0. It consists of the cover page, 6
13 pages of narrative testimony, and a one-page Schedule
14 3.0. This testimony was previously filed via the
15 Commission's e-docket system on March 31st, 2006. In
16 connection therewith, Staff also offers the affidavit
17 of Mike Luth, previously marked for identification as
18 ICC Staff Exhibit 7.0 and filed via the Commission's
19 e-docket system on April 5th, 2006.

20 JUDGE SAINSOT: Any objection to the admission
21 of Staff Exhibit 3.0 and Staff Exhibit 7.0.

22 MS. RECHT: No, your Honor.

1 JUDGE SAINSOT: Okay. Hearing no objections,
2 those two exhibits, Staff Exhibit 3.0 and Staff
3 Exhibit 7.0, are entered into evidence.

4 (Whereupon, Staff Exhibit
5 No. 3.0 and 7.0 were admitted
6 into evidence.)

7 MS. BUELL: Thank you, your Honor.

8 And, finally, Staff offers the direct
9 testimony of Michael McNally. This testimony has
10 previously been marked for identification as ICC
11 Staff Exhibit 4.0. It consists of a cover page and
12 five pages of narrative testimony and was filed via
13 the Commission's e-docket system on March 31st, 2006.

14 In connection therewith, Staff offers
15 the affidavit of Michael McNally, previously
16 identified as ICC Staff Exhibit 8.0 and filed via the
17 Commission's e-docket system on April 5th, 2006.

18 JUDGE SAINSOT: Any objection to admission of
19 Staff Exhibit 4.0 or Staff Exhibit 8.0?

20 MS. RECHT: No, your Honor.

21 JUDGE SAINSOT: Hearing no objection, your
22 motion is granted, Counsel. And Staff Exhibit 4.0

1 and Staff Exhibit 8.0 are entered into evidence.

2 (Whereupon, Staff Exhibit
3 Nos. 4.0 and 8.0 were admitted
4 into evidence.)

5 MS. BUELL: Thank you, your Honor.

6 Staff has no further evidence to enter
7 into the record.

8 MS. RECHT: Your Honor, could I ask whether you
9 would like to have the affidavit that South Beloit
10 submitted this morning filed in e-docket? We didn't
11 get a chance to do that because we just got them
12 signed yesterday.

13 JUDGE SAINSOT: Do you have hard copies here
14 with the court reporter?

15 MS. RECHT: Oh, yes.

16 JUDGE SAINSOT: You don't need to file it. I
17 will file everything that she has.

18 MS. RECHT: Thank you, your Honor. I just
19 wanted to clarify and make sure you didn't need that
20 done.

21 JUDGE SAINSOT: Sure.

22 Okay. Is there anything further?

1 MS. BUELL: Yes, your Honor, there is. As
2 Staff mentioned at the April 5th status hearing, Ms.
3 Everson does make three recommendations to the
4 Commission. And Staff believes that in order for the
5 Commission to have a full and complete record that a
6 statement needs to be made by counsel for both South
7 Beloit and Illinois-American that they agreed to
8 Ms. Everson's recommendations.

9 JUDGE SAINSOT: Do you want to say what they
10 are?

11 MS. BUELL: Yes, your Honor. The first one
12 starts on page 10 of Ms. Everson's testimony, and she
13 recommends that South Beloit be ordered to provide
14 copies to the manager of accounting of all documents
15 related to South Beloit's final reconciliation of its
16 water surcharge, cost and revenue that are provided
17 to Illinois-American within 30 days of the completion
18 of its reconciliation and transfer documents to
19 Illinois-American or 60 days after closing, whichever
20 comes first.

21 MS. RECHT: Your Honor, on behalf of South
22 Beloit, I'm stating for the record that South Beloit

1 will comply with this request by Staff and is willing
2 to have that be a condition in the order issued in
3 this docket.

4 MS. BUELL: And then further, on page 11 of
5 Ms. Everson's direct testimony, we ask that the
6 Commission order Illinois-American to provide copies
7 of any future amendments to the wholesale agreement
8 that it has with the City of Beloit in Wisconsin to
9 be mentioned with a copy to the manager of accounting
10 within 30 days after the effective date of the
11 amendment.

12 She further recommends to the
13 Commission that Illinois-American be ordered to
14 furnish a copy of the final journal entries to the
15 Commission with respect to the proposed transaction
16 within six months after the closing with a copy to
17 the manager of accounting.

18 JUDGE SAINCOT: Is that the third
19 recommendation?

20 MS. BUELL: Yes, it is. I just read the second
21 and third, yes.

22 MR. REICHAERT: Your Honor, with regard to those

1 two recommendations, on behalf of Illinois-American,
2 I can represent that we are in agreement -- or we
3 have agreed to comply with those recommendations and
4 would not object to both recommendations being a
5 condition on the part of the Commission for granting
6 the draft order as it will be drafted.

7 MS. BUELL: Staff has nothing further, your
8 Honor.

9 JUDGE SAINSOT: Anything further from the
10 companies?

11 MS. RECHT: The only additional item, your
12 Honor, is to discuss for the record the procedural
13 schedule for submitting a draft order in this docket.

14 JUDGE SAINSOT: At the last status hearing we
15 discussed getting it out a little before a month from
16 now. And you suggested that you just take a month.
17 Of course, you don't have to use the whole month, but
18 that gives you some leeway in case an emergency pops
19 up or something.

20 Is that still agreeable to all
21 parties?

22 MS. BUELL: It's agreeable to Staff, your

1 Honor.

2 MR. REICHART: It's agreeable to
3 Illinois-American, your Honor.

4 And we would ask, to the extent that
5 we did provide the order early, if your schedule
6 permits, if you could treat it as an expedited
7 docket, we'd certainly appreciate that.

8 JUDGE SAINSOT: I certainly will. And given
9 the high quality of work that you all have done so
10 far, I'm sure it will be easy for me to get that
11 order out.

12 That being said, the record is going
13 to be marked heard and taken. And a proposed draft
14 order should come out -- what's today, the 7th? So
15 we'll say May 7th. Is May 7th a weekday? Somebody
16 check.

17 MS. BUELL: No, it's Sunday. Friday, May 5th.

18 JUDGE SAINSOT: Friday, May 5th. Okay.

19 Okay. Anything further?

20 MS. RECHT: No, your Honor.

21 MS. BUELL: Nothing from Staff, your Honor.

22 MR. REICHART: No, your Honor.

1 JUDGE SAINCOT: Okay. Thanks.

2 MS. BUELL: Thank you.

3 HEARD AND TAKEN.

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