

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 06-0196

EXHIBIT NO. 1.0R

**SUPPLEMENTAL DIRECT TESTIMONY OF
MICHAEL J. HOFFMAN**

ILLINOIS-AMERICAN WATER COMPANY

1 SUPPLEMENTAL DIRECT TESTIMONY

2 OF

3 MICHAEL J. HOFFMAN

4

5 I. WITNESS BACKGROUND

6 Q1. Please state your name and business address.

7 A. My name is Michael J. Hoffman. My business address is 727 Craig Road, Saint Louis,
8 Missouri 63141.

9 Q2. Are you the same Michael J. Hoffman who submitted Direct Testimony in this
10 proceeding?

11 A. Yes, I am.

12 II. PURPOSE OF TESTIMONY

13 Q3. What is the purpose of your Supplemental Direct Testimony?

14 A. The purpose of my Supplemental Direct Testimony is to discuss certain adjustments to
15 the reconciliation data submitted by the Company with its Direct Testimony. The
16 adjustments affect the Exhibits filed for DuPage County, Southwest Suburban and
17 Waycinden. I sponsor IAWC Exhibits 1.1R and 1.2R.

18 III. DISCUSSION

19 Q4. Please explain the adjustments to the reconciliation data that you propose.

20 A. During 2006 (effective May 14, 2006), the Company filed for prospective application a
21 tariff that imposes a “maximum” on the level of unaccounted-for water (“UFW”)
22 recoverable under the purchased water rider (“Rider”) for each of the seven water rate
23 areas (“Maximum”). A copy of the tariff specifying the UFW “maximums” is marked as
24 IAWC Exhibit 1.1R. Although the tariff is applicable prospectively, the Company has
25 calculated an adjustment (O_v) for each of the three water rate areas in which 2005 UFW

26 exceeded the applicable Maximum for the area: DuPage County, Southwest Suburban
27 and Waycinden. For 2005, UFW was not above the applicable Maximum for any of the
28 other rate areas. As discussed below, under the Company's proposal, the balance of the
29 O_v adjustment for each of the three rate areas would be refunded to customers with
30 interest. The O_v adjustment calculated for each of the three rate areas is shown in
31 Exhibit D of Exhibit 1.2R for each area.

32 **Q5. Does the Company propose to apply the UFW Maximums in calculating other**
33 **components of the Rider?**

34 A. Yes. As originally calculated, the estimated current cost of purchased water ("*VSC*")
35 (which was based on actual 2005 purchase and sales data) reflected an assumed level of
36 UFW for each of the three areas (DuPage County, Southwest Suburban, Waycinden) that
37 was above the applicable Maximum. For this reason, the Company believes that the *VSC*
38 for each of these areas should be adjusted.

39 **Q6. Has the required adjustment already been made to apply the Maximum to the *VSC***
40 **component for any of the rate areas?**

41 A. Yes. Adjustments were made for DuPage and Southwest Suburban in new Supply
42 Charge levels filed that became effective on July 1, 2006.

43 **Q7. What does the Company propose with respect to the Waycinden area *VSC***
44 **adjustment?**

45 A. The Company intends to file a new Information Sheet for Waycinden to be effective
46 October 1, 2006. That Information Sheet will adjust the Waycinden *VSC* to apply the
47 applicable Maximum.

48 **Q8. Are the changes you discuss reflected in revised reconciliation Exhibits?**

49 A. Yes. The change to the VSC for each area is shown in revised Exhibits A and C for
50 DuPage County, Southwest Suburban and Waycinden, respectively. The revised
51 reconciliation Exhibits for all three areas are included in IAWC Exhibit 1.2R.

52 **Q9. Are any other changes reflected in Exhibit 1.2R?**

53 A. Yes. The Company initially proposed, for Waycinden, to forego recovery of \$67,825,
54 which is the Cumulative Unrecovered Supply Charge shown on Exhibit D, because it
55 believed that the City of Des Plaines' purchased water bill issued to the Company was
56 stated in 100's of cubic feet, not 1000's of gallons. The Company believed initially that
57 inclusion of the under-recovery in the calculation would increase the Supply Charge to an
58 unreasonably high level. The Company has since clarified that the City of Des Plaines'
59 bill is mislabeled, and that the usage amounts are shown in 1000's of gallons, not in 100's
60 of cubic feet (as the bill states). Therefore, the Company has determined that the utility-
61 determined reconciliation component (R_v) should be included on Exhibit A for
62 Waycinden. This change is shown on the revised Exhibit A for Waycinden that appears
63 in IAWC Ex. 1.2R.

64 **Q10. What does the Company propose with respect to the calculated O_v adjustments for**
65 **DuPage, Southwest Suburban and Waycinden?**

66 A. If the adjustments are approved by the Commission, the Company proposes to include the
67 O_v adjustment for each of the three rate areas in the Rider Information Sheet calculation
68 that becomes effective April 1, 2007, with applicable interest accruing from January 1,
69 2006 at the rate specified by the Commission in 83 Illinois Administrative Code, Part
70 280.70(e)(1). A calculation of the required adjustment for each rate area (without
71 interest) is shown in the footnotes in Exhibit D of IAWC Exhibit 1.2R for each rate area.

72 **Q11. What is the Company's intent with respect to 2006 Rider cost recovery related to**
73 **UFW?**

74 A. As discussed above, when the revised Waycinden Rider becomes effective, there will be
75 no recovery under the *VSC* component for any estimated costs associated with UFW
76 above the applicable Maximum for any area. Furthermore, when the 2006 reconciliation
77 is filed in March 2007, the actual data will be adjusted to eliminate any costs associated
78 with UFW above the applicable Maximum for any area. This will assure that, as a result
79 of the reconciliation, the Rider will not recover costs associated with UFW above the
80 applicable Maximum for any rate area for the full calendar year 2006 (even though the
81 *VSC* adjustments for DuPage, Southwest/Suburban and Waycinden were made during the
82 course of the year).

83 **Q12. Are costs associated with UFW above the applicable Maximums also eliminated for**
84 **2005?**

85 A. Yes. This is accomplished through the O_v adjustments discussed above.

86 **Q13. Does this complete your Supplemental Direct Testimony?**

87 A. Yes, it does.