

ILLINOIS-AMERICAN WATER COMPANY

IAWC EXHIBIT 4.0

REBUTTAL TESTIMONY

OF

FREDERICK L. RUCKMAN

(Docket 05-0681/06-0094/06-0095 (consol.))

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2 **REBUTTAL TESTIMONY**

3 **OF**

4 **FREDERICK L. RUCKMAN**

5 **I. INTRODUCTION**

6 **Q1. Please state your name.**

7 A. My name is Frederick L. Ruckman.

8 **Q2. Are you the same Frederick L. Ruckman who provided Direct Testimony in this**
9 **proceeding?**

10 A. Yes.

11 **Q3. What is the purpose of your Rebuttal Testimony?**

12 A. My Rebuttal Testimony will discuss the issues raised in the Direct Testimony of the Staff
13 of the Illinois Commerce Commission ("Commission"), as well as the Rebuttal
14 Testimony filed by the Office of the Attorney General of the State of Illinois ("Attorney
15 General") and the Village of Homer Glen ("Homer Glen"). In particular, my testimony
16 will address certain of the issues raised in the Rebuttal Testimony of Scott J. Rubin, the
17 Attorney General and Homer Glen's joint witness, the Direct Testimony of Commission
18 Staff Witnesses William Johnson and Joan Howard, and the Rebuttal Testimony of
19 Homer Glen witness Mary Niemiec. Issues raised by Ms. Niemiec regarding the
20 American Water Works Company, Inc. ("American Water") Customer Service Center
21 ("CSC") will be addressed in the Rebuttal Testimony of Karen Cooper (IAWC Exhibit
22 5.0).

23 **II. RESPONSE TO DIRECT TESTIMONY OF STAFF WITNESSES**

24 **Q4. Have you reviewed the Direct Testimony provided by Staff Witness Johnson in this**
25 **proceeding?**

26 A. Yes.

27 **Q5. On pages 7-8 and pages 23-25 of his Direct Testimony, Mr. Johnson suggests that**
28 **the Company modify the way it tracks and stores meter records. Does IAWC**
29 **accept this recommendation?**

30 A. Yes. As Mr. Johnson suggests, the Company will consider ways in which it can improve
31 its system for tracking meters for all of IAWC's service areas.

32 **Q6. On pages 17-18 of his Direct Testimony, Mr. Johnson recommends that the**
33 **Company be directed to file a petition with the Commission asking it to review the**
34 **15-year meter testing variance granted in Docket No. 76-0491. Does IAWC accept**
35 **this recommendation?**

36 A. Yes. As recommended, IAWC will file the petition within one year of the date of the
37 order in this proceeding.

38 **Q7. On page 20, lines 528-531 of his Direct Testimony, Mr. Johnson recommends that**
39 **IAWC be directed to amend its tariffs to provide one unified set of "Rules,**
40 **Regulations and Conditions of Service" for all of its areas statewide. What is your**
41 **position?**

42 A. IAWC accepts the recommendation. As proposed, IAWC will file the amended tariffs
43 within two years of the date of the final order in this proceeding.

44 **Q8. On pages 30 and 36 of his Direct Testimony, Mr. Johnson recommends that IAWC**
45 **be ordered to conduct complete hydrant and valve inspections, in certain areas,**

46 **within one year of the date of the order in this proceeding. Does the Company**
47 **accept his recommendation?**

48 A. Yes, it does. As I explained in my Direct Testimony, even before this proceeding began,
49 the Company had recognized concerns in this area, and it developed a plan of action.
50 Maintaining hydrants and exercising valves are labor-intensive endeavors. For this
51 reason, as discussed in my Direct Testimony, the Company is hiring an additional 38
52 employees, most of whom will be dedicated specifically to this area. With respect to
53 hydrants, in 2006 to date, all hydrants in Homer Glen, Champaign, Urbana, Alton,
54 Lincoln, Pekin and Pontiac have been inspected. All hydrants in other areas will be
55 inspected by year-end, and all hydrants will continue to be inspected annually as required
56 by the Commission's rules.

57 **Q9. Mr. Johnson (page 42, lines 1062-1063) and Ms. Howard (page 5, lines 84-85)**
58 **recommend that the Company be directed to display the purchased water surcharge**
59 **rate on its customer bills. Does IAWC accept this recommendation?**

60 A. Yes. As discussed in my Direct Testimony, the Company plans to revise its billing
61 practices to show the base volumetric rate for the "Supply Charge" (which reflects the
62 Purchased Water Surcharge) on the bills, or alternatively, provide copies of the
63 volumetric rate to customers on an annual basis in accordance with 83 Ill. Admin. Code
64 600.160.

65 **Q10. On page 46, lines 1149-1150 of his Direct Testimony, Mr. Johnson recommends that**
66 **the Commission order IAWC to notify its customers of applicable water restrictions**
67 **annually. How do you respond?**

68 A. IAWC accepts the recommendation. As discussed in my Direct Testimony, the Company
69 began notifying its Chicago Metro customers of their applicable water restrictions in May
70 2006.

71 **Q11. Have you reviewed the Direct Testimony provided by Staff Witness Howard in this**
72 **proceeding?**

73 A. Yes.

74 **Q12. On page 3, lines 40-43 of her Direct Testimony, Ms. Howard recommends that**
75 **IAWC provide drafts of proposed information to be provided to customers**
76 **concerning the credit associated with back billing for meter discrepancies following**
77 **meter change-outs. Does IAWC accept this recommendation?**

78 A. Yes, this has been done. As discussed in my Direct Testimony, the credit will be
79 provided on or before October 1, 2006.

80 **Q13. On page lines 46-49 of her Direct Testimony, Ms. Howard characterizes IAWC's**
81 **decision to refund overpayments following the meter change-outs referenced above**
82 **as a reasonable response to the problem, provided that (i) IAWC issues the credits**
83 **as promised and (ii) IAWC's internal audit actually identifies all of the customers**
84 **entitled to a refund. How do you respond?**

85 A. IAWC is committed to issuing the credits, with interest, by October 1, 2006. Moreover,
86 based on our audit methodology, I am confident that IAWC has identified the customers
87 for whom credits should be issued.

88 **Q14. On pages 2-3 of her Direct Testimony, Ms. Howard questions whether IAWC**
89 **remains committed not to bill customers for prior usage associated with**
90 **discrepancies between inside meters and outside meter-reading devices following**
91 **odometer-style meter change-outs in the Chicago Metro area. Then, on page 4, lines**
92 **58-60 of her testimony, she recommends that IAWC continue its policy of not billing**
93 **customers for such usage. What is your response?**

94 A. It has been IAWC's policy since September 2005 not to bill customers for past usage
95 relating to identified differences between inside meters and odometer-style meter-reading
96 devices following meter change-outs in the Chicago Metro area. This will continue to be
97 IAWC's policy.

98 **Q15. On page 6, lines 103-104 of her Direct Testimony, Ms. Howard recommends that**
99 **IAWC provide a draft consumer information booklet to the Consumer Services**
100 **Division prior to distribution. Does IAWC accept the recommendation?**

101 A. Yes. As discussed in my Direct Testimony, IAWC is preparing a customer information
102 booklet, and will do so in consultation with Commission Staff.

103 **III. RESPONSE TO REBUTTAL TESTIMONY OF SCOTT RUBIN**

104 **Q16. Do you agree with Mr. Rubin's statement on page 1 of his Rebuttal Testimony that**
105 **his conclusions have not changed as a result of IAWC's Direct Testimony?**

106 A. No. First, he acknowledges (pp. 18-19) that he has no reason to doubt IAWC Witness
107 John Zerbe's testimony regarding the accuracy of the American Water billing system.
108 This would appear to be a change from his Direct Testimony (pp. 10-11) that there is a
109 problem with the billing system used by American Water's subsidiaries, including IAWC.
110 Likewise, he also acknowledges (pp. 16-17) that there are procedures within the

111 American Water systems to generate and review reports regarding zero use bills, and he
112 now has shifted his argument to allegations regarding the Company's use of those reports.
113 Next, he changes his criteria (p. 13) to identify certain alleged back bills issued in 2006 to
114 account for my explanation of how bills can vary by 50% or more in the normal course.
115 Finally, he appears to agree with the Company's proposals regarding improved bill
116 formats.

117 **Q17. Mr. Rubin asserts that although the "problems" he alleges have been in existence**
118 **for several years, IAWC is only just now treating the problems as serious ones. Do**
119 **you agree with this characterization?**

120 A. No. Mr. Rubin seems to think that IAWC took no action to address any of the issues
121 raised in this case prior to receiving complaints from Homer Glen customers in the
122 summer of 2005, and only began to respond to customer concerns after the filing of the
123 Complaints in this matter. However, this is not the case. For example, IAWC initiated
124 programs for meter replacements and valve and hydrant testing long before there were
125 complaints in Homer Glen in the summer of 2005. IAWC initiated programs in 2003
126 designed to accelerate meter change-outs and improve valve and hydrant testing. In the
127 Chicago Metro District, IAWC replaced all meters that are 2" and larger in 2003, and the
128 Company began to replace large quantities of 5/8" – 1" meters in 2004. IAWC replaced
129 almost 15,000 meters in Chicago Metro from 2003 through 2005. And in the Homer
130 Glen area, all but 300 of 7,000 meters were replaced with radio read meters in the
131 summer and fall of 2005. A review of valve, hydrant and meter regulatory compliance in
132 all IAWC districts in Illinois started in February 2005, and the decision to add 38

133 employees for valve and hydrant inspection was finalized in October 2005 and hiring
134 started in 2006.

135 Prior to the filing of the Attorney General's and Homer Glen's Complaints in
136 February, 2006, IAWC was already working with Homer Glen to address the concerns
137 raised by the Homer Glen Water and Sewer Task Force, for example through completion
138 of a leak detection survey in Homer Glen in October 2005. Similarly, IAWC identified
139 concerns with odometer meter exchanges and took steps to address them in the fall of
140 2005, well before the Complaints were filed. IAWC stopped back billing following
141 meter change outs in Chicago Metro in September 2005, and had committed to conduct
142 an audit of potentially back billed customers and issue necessary credits by October 2005.
143 And to the extent the Complaints identified additional concerns, IAWC has acted to
144 address those as well. Actions IAWC has taken, or has committed to take, as outlined in
145 the Summary of Actions Taken by Illinois American Water, attached as Exhibit 4.01,
146 demonstrate that IAWC has been committed to addressing concerns with meters, valves
147 and hydrants in Chicago Metro before the summer of 2005, and was responding to
148 concerns about odometer meter exchanges before the Complaints were filed.

149 **Q18. Mr. Rubin continues to claim there are "widespread" problems at IAWC. What is**
150 **your response?**

151 A. Mr. Rubin continues to focus on problems that are limited in scope and that IAWC is
152 already addressing as the basis for his claim that there are "widespread" problems. As I
153 described in my Direct Testimony, Mr. Rubin continues to base his assertions on
154 extrapolations from small data sets. The fact remains that most of the problems that Mr.

155 Rubin refers to are related to the program of meter replacement in Chicago Metro and the
156 extreme drought in Illinois in 2005.

157 **Q19. At pages 19-20, Mr. Rubin also discusses examples of certain matters that he**
158 **believes indicate that there are concerns with meter reading and/or billing issues in**
159 **portions of the American Water system other than IAWC. Would you respond?**

160 A. Yes. Mr. Rubin references discussion in RWE Board Minutes regarding non-revenue
161 water ("NRW"). As I describe in more detail below, American Water is actively
162 addressing this area, and takes steps to reduce NRW where it is economical to do so.
163 Further, neither the New Jersey data referenced by Mr. Rubin nor the Arizona matter he
164 references indicate that there is a concern. The New Jersey data reflects circumstances
165 and practices specific to the operations of the utility providing service in that State. With
166 regard to Arizona, in the fall of 2005, as a result of the actions of two meter readers in
167 Arizona who have since been appropriately disciplined, the Staff of the Arizona
168 Commission conducted an informal investigation of Arizona-American Water Company's
169 ("AAWC") meter-reading and billing procedures. AAWC had already started an internal
170 investigation and provided refunds and courtesy credits to affected customers. To date
171 the Arizona Commission has not taken any formal action with regard to this matter.

172 **Q20. On page 3, Mr. Rubin disputes your testimony that many of the issues in this case**
173 **stem from problems associated with drought and meter exchanges in Homer Glen in**
174 **2005. What is your response?**

175 A. Mr. Rubin continues to extrapolate from a small set of data to reach a conclusion that
176 problems at IAWC are "pervasive." However, he offers little evidence in support of his
177 conclusions, and makes no effort to account for the impact of the drought and the

178 odometer meter exchanges on his assertions. For example, he offers no response to my
179 testimony that the increase in complaints in the summer of 2005 was concentrated in
180 Homer Glen. As I previously stated, the events in Homer Glen in 2005 reflect an unusual
181 set of problems that occurred in Chicago Metro and were exacerbated by the severe
182 drought experienced at the time. This is demonstrated by IAWC Exhibit 4.02, which
183 demonstrates the direct correlation between the drought (as represented by increased
184 system delivery) and the escalated level of complaints in the summer and fall of 2005.
185 Moreover, as my Direct Testimony shows, IAWC moved aggressively to address these
186 problems.

187 **Q21. On pages 2-3 of his Rebuttal, Mr. Rubin continues to recommend that there should**
188 **be an independent audit. What is your response?**

189 A. As I stated in my Direct Testimony, I believe an audit is unwarranted, and nothing Mr.
190 Rubin has said in his Rebuttal changes that conclusion. Moreover, Mr. Rubin appears to
191 dismiss the review performed by Staff Witness Johnson. I believe that Mr. Johnson's
192 inspection of the Company's meter, valve, hydrant and complaint records, coupled with
193 IAWC's back bill audit and other affirmative steps it is taking in response to customer
194 concerns, eliminate the need for an additional audit and the associated costs.

195 **BACK BILLS AND BILL VARIATIONS**

196 **Q22. Despite the conclusion of the back bill audit, Mr. Rubin continues to assert that**
197 **there are back billing problems at IAWC, and that such problems began as early as**
198 **2003 and continue into 2006. What is your response?**

199 A. I must first emphasize that IAWC is entitled to issue bills for prior unbilled service,
200 which have been commonly referred to as back bills throughout this proceeding, to

201 residential customers for service rendered within the previous 12 months and to
202 commercial customers within the past 24 months. Thus, back bills can be appropriate,
203 and the fact that IAWC may have issued back bills in 2003 (or, for that matter, in 2006) is
204 not indicative of a “problem.” Second, it is correct that, as shown in the audit in IAWC
205 Exhibit 1.02, back bills were issued following odometer style meter change outs as early
206 as 2003. Thus, the fact that there are back bills dating to 2003 in the audit also does not
207 indicate a back bill problem but is a reflection of an older meter technology that needed
208 to be updated. Moreover, when IAWC identified (in September 2005) a possible concern
209 over back billing beyond 12 months for residential customers, IAWC moved quickly to
210 address this concern, by halting the issuance of back bills for odometer meter exchanges
211 in Chicago Metro and by deciding to conduct an audit and issue appropriate credits.
212 IAWC has now completed the audit, and has prepared a letter to customers receiving the
213 credit, attached as IAWC Exhibit 4.03, describing the credit and the reasons for it.
214 Customers receiving a credit will also receive interest dating from the payment of the bill
215 following the meter exchange through the date of the refund, with the interest amount set
216 at the rate specified in 83 Ill. Admin. Code 280.70(e).

217 Mr. Rubin's arguments about back billing continuing into 2006 lack support. In
218 response to my testimony that there were a variety of normal usage situations that would
219 explain a 50% variation in a customer's bill from one month to another, Mr. Rubin (p. 13)
220 altered his criteria to select accounts that had consumption in a normal residential range
221 in the relevant month in 2005 (between 5,000 and 20,000 gallons) and then select the
222 accounts that had consumption increase by at least 10,000 gallons and by at least 100%.
223 Using these revised criteria, Mr. Rubin identified only 480 accounts that had increases

224 that to him "looked like" back billing. Considering that the initial data set to which Mr.
225 Rubin applied his criteria to arrive at the 480 accounts had approximately 80,000 unique
226 accounts, the accounts Mr. Rubin identifies cannot be considered a sufficient basis to
227 claim there is a "widespread" problem with back billing. Instead, it represents another
228 example of Mr. Rubin's use of small data sets to extrapolate system-wide problems. As
229 explained in my Direct Testimony, there are many reasons why usage of a given
230 customer account can change from one billing period to another, and there is no basis for
231 Mr. Rubin's assumption that such changes relate to back billing.

232 **Q23. Mr. Rubin's rebuttal testimony (pp. 8-10) discusses your explanations for variations**
233 **in bill amounts. Please comment on his testimony.**

234 A. In general, Mr. Rubin does not address many of the explanations for why a customer's
235 bill may vary by 50% or more under conditions of normal usage. In fact, as I described
236 above, Mr. Rubin appears on page 13 of his rebuttal testimony to accept my analysis as to
237 why a bill might vary by 50% from one period to another, and alters his criteria of the
238 7,900 accounts he initially asserted may have been "back billed." Specifically, he picked
239 only those accounts with normal residential usage and consumption in 2005 (5,000 to
240 20,000 gallons) who experienced an increase of 10,000 gallons and 100% in a
241 corresponding month in 2006. In so doing, Mr. Rubin identifies a far smaller group of
242 customers who meet his new criteria. It appears that, as before, Mr. Rubin focuses on
243 small data sets from which he extrapolates his statistically insignificant conclusions
244 statewide.

245 **Q24. Is Mr. Rubin's Exhibit AG/HG 2.2 another example of this?**

246 A. Yes. In AG/HG Exhibit 2.2, Mr. Rubin has selected 50 customers with variations in bill
247 amounts from over 80,000 accounts in the initial data set. Based on this tiny sample
248 (0.06%), he asserts that there is a widespread problem with bill discrepancies. Given
249 that, under Mr. Rubin's criteria, these customers had meter exchanges in 2005, but the
250 high bill identified was in 2006, I do not believe any of these high bills relate to meter
251 exchanges. Further, in reviewing these 50 accounts, there is no basis to believe that any
252 are cases of back bills for odometer device discrepancies identified in Chicago Metro
253 following meter changes outs or are cases of impermissible back bills. As I have
254 testified, back billing by itself is not improper under Commission rules.

255 **Q25. Mr. Rubin also cites two complaints, provided in AG/HG Exhibit 2.3, that the**
256 **Attorney General received in July 2006 as supporting his claim that that back**
257 **billing is widespread. What is your reaction?**

258 A. The allegations of two individuals do not support Mr. Rubin's contention that there is
259 widespread back billing. There is no indication from the account histories of these two
260 customers that any back billing took place. In fact, as my discussion below shows, these
261 two accounts illustrate IAWC's efforts to ensure that customers are satisfied with their
262 service.

263 **Q26. Please describe the history of the customer account referenced in the July 10, 2006**
264 **complaint report to the Attorney General and included in AG/HG Exhibit 2.3.**

265 A. This customer disputed high usage water bills for the months of January and February
266 2006. On February 1, 2006, a bill was issued for 28,500 gallons of water usage and on
267 March 1, 2006, a bill was issued for 20,250 gallons. The customer called the CSC on

268 March 7, 2006, about receiving two consecutive high bills. She was advised that the bills
269 were based on actual meter readings and that she may have a leak in her internal
270 plumbing. A leak detection kit was then sent to her. A 30-day hold was put on the
271 account while the customer investigated any leaks. In response to the customer's inquiry,
272 a service order was also issued to have an IAWC Field Service Representative ("FSR")
273 visit the residence and inspect for leakage. No leaks were detected and the FSR advised
274 the customer that she may want to have her water softener inspected to ensure that it was
275 not malfunctioning and causing the high water consumption. The customer then
276 requested that her water meter be tested. Another service order was issued and the meter
277 was pulled for testing and replaced with another meter. The meter was tested on March
278 16, 2006, with the test results well within the accepted accuracy rates. However, the
279 customer then requested her meter be replaced, and a new meter was installed on March
280 20, 2006. On April 7, 2006, the customer called the CSC, continuing to dispute the high
281 usage and requesting a courtesy adjustment to her account. (It is IAWC's policy to issue
282 a one-time courtesy credit for any customer who experiences a leak in their plumbing.)
283 Although IAWC and the customer had inspected for leaks multiple times and none were
284 detected, and a meter test of the meter in place during this period proved to be accurate,
285 on June 12, 2006, IAWC provided a courtesy adjustment for the months of January-
286 March 2006 in the amount of \$159.51 (the cost of 40,500 gallons).

287 **Q27. Can you also describe the situation surrounding the second letter in AG/HG Exhibit**
288 **2.3?**

289 A. Yes. The second letter attached to AG/HG Exhibit 2.3 was dated July 7, 2006. On
290 March 7, 2005, that customer called from Florida regarding a high bill he had received.

291 The Customer Service Representative that took the call issued a service order to
292 investigate the high bill. The customer called again on the next day and requested that
293 someone contact his contractor to meet the FSR at the home, on his behalf. The service
294 order was carried out on the same day and it was noted that there was a small leak. After
295 having the leak repaired, the customer sent a copy of the repair bill to the CSC and a leak
296 adjustment credit was given on the account for \$141.97. A letter advising the customer
297 of the adjustment was mailed on May 30, 2005. In November, 2005, the CSC received a
298 letter from the customer stating that there was a leak in his irrigation system that would
299 not be repaired until the following year when it is put back into service. He requested
300 that his account be adjusted based on the previous year's usage. A letter was mailed from
301 the CSC on November 23, 2005, advising the customer to provide receipts for repairs to
302 the irrigation system in order to be considered for a leak adjustment on this account.
303 There was no further contact with the customer until IAWC called the residence in
304 August, 2006 to discuss the possibility of a leak adjustment. A second courtesy leak
305 adjustment of \$94.62 was given on the account on August 28, 2006. As with the first
306 letter in AG/HG Exhibit 2.3, this customer's concerns appeared to be based on high usage
307 and possible leaks, not back billing.

308 **Q28. Mr. Rubin criticizes your analysis of his exhibit AG/HG 1.5 because AG/HG Exhibit**
309 **1.5 was based only on review of the 474 customers in the audit. What is your**
310 **response?**

311 A. Although neither Mr. Rubin's Direct Testimony (p. 18) nor AG/HG 1.5 itself referred to
312 the source of the information in the table as being the 474 customers in the audit, the fact
313 that the 39 customers in AG/HG 1.5 were drawn from the audit renders AG/HG 1.5 of

314 little import. As I described in my Direct Testimony, the back bill audit process initially
315 reviewed over 10,000 accounts in the Chicago Metro area and selected only 474 where
316 there was a discrepancy between the inside meter and the outside odometer device and
317 the customer was billed for the higher inside amount. Thus, the 474 accounts (out of over
318 10,000) had already been selected as accounts of concern where there was the possibility
319 for large bill increases (depending on the rate of under-registration of the odometer
320 device), and were not representative of Chicago Metro as a whole. In creating AG/HG
321 1.5, Mr. Rubin has simply cherry-picked certain accounts with large bill increases from a
322 set of accounts IAWC had already identified as likely having bill increase concerns. As
323 such, AG/HG 1.5 is another example of taking a small data set and improperly
324 extrapolating it. I also note that those customers on AG/HG 1.5 entitled to a credit
325 pursuant to the audit will receive one on or before October 1, 2006.

326 **Q29. Would you address Mr. Rubin's statement (p. 9) that the bills increases in AG/HG**
327 **1.5 could not be explained by customers returning from vacation because bills over**
328 **30,000 gallons in a month are unusually large?**

329 A. Yes. To begin with, a customer returning from vacation is only one possible explanation.
330 However, I also disagree that 30,000 gallons of use in a month is "extremely unusual."
331 Mr. Rubin himself (Rebuttal, p. 13) suggests that 20,000 gallons of usage is the upper end
332 of the "normal residential range," so, as I have discussed earlier, a 50% increase from the
333 normal residential range to 30,000 gallons would not be "extremely unusual." I also
334 question Mr. Rubin's reference to the bill frequency analysis provided in IAWC's last rate
335 case – this analysis relied on 2002 data and reflects an annual average. It says nothing

336 about the likelihood of 30,000 gallons of usage in individual summer months during a
337 period of extreme drought.

338 **Q30. Mr. Rubin also asserts (p. 15) that customers with back bills received letters that**
339 **were "part of the problem." Is that correct?**

340 A. No. As I discuss in my Direct Testimony, the Company issues letters to customers in a
341 variety of circumstances. These letters are appropriate to the situations involved. The
342 letter customers receive in cases of back-billing following the discovery of an improperly
343 functioning outside reading device, provided as IAWC Exhibit 1.07, describes what has
344 been found, how much is being back-billed, and for what period. Mr. Rubin has
345 expressed no criticism over that letter. When customer consumption is found to be 50%
346 higher than the last three-month average, that customer will receive a different letter
347 alerting them to the increase in consumption. The letter that Mr. Rubin attached as
348 AG/HG Exhibit 2.4 is actually a letter sent to all Homer Glen residents in the summer of
349 2005 discussing the drought and its impact on water use. Because the letter was sent to
350 all Homer Glen residents, most of whom experienced no back billing, it appropriately
351 addresses issues of concern to all of those residents. Mr. Rubin's criticism of that letter is
352 therefore misplaced.

353 **METER REPLACEMENTS**

354 **Q31. Mr. Rubin (pp. 4-5) criticizes the rate of IAWC's meter replacement. Is his**
355 **criticism valid?**

356 A. No. Mr. Rubin appears unaware of the practical considerations surrounding the
357 replacement of thousands of meters (over 16,700 through March, 2006), which requires a
358 substantial investment of time and resources by the Company. Even so, Mr. Rubin notes

359 (p. 5) that IAWC is proceeding "slightly faster" than ICC rules require. IAWC has
360 prioritized meter replacement to replace meters in those areas where the deadline for
361 testing under Commission rules is first approaching. Mr. Rubin overlooks the fact that
362 many of the meters that are scheduled to be replaced between now and 2010 are not yet
363 due for testing or did not become due for testing until recently. For example, over 15,000
364 meters in Bolingbrook only came due for testing in 2005. In fact, aside from the
365 Bolingbrook meters, all other meter replacements in Chicago Metro will be completed by
366 the end of 2007.

367 **Q32. Has IAWC made its meter replacement program a priority?**

368 A. Yes. In fact, IAWC has accelerated the meter replacement process by employing an
369 outside contractor and working evenings and weekends. IAWC has made the
370 replacement of all meters in Chicago Metro a priority not only to ensure compliance with
371 the Commission's test rules, but also because IAWC believes the investment in radio read
372 meters throughout its service area will continue to improve service, for example by
373 reducing estimated reads. In fact, in Chicago Metro, estimates dropped below 4% in
374 January 2006, and below 2% in March 2006, and have been approximately 2% since that
375 time.

376 **NON-REVENUE WATER**

377 **Q33. Mr. Rubin states that IAWC's purchased water reconciliation in Docket 06-0196 is**
378 **the appropriate docket in which to make adjustments to IAWC's rates for non-**
379 **revenue water. Do you agree?**

380 A. Yes. Docket 06-0196 is the appropriate proceeding to address rate adjustments related to
381 NRW. I note that with respect to IAWC's service areas subject to the Purchased Water

382 Surcharge Rider ("PWSR"), IAWC filed a tariff effective May 14, 2006 that designates a
383 maximum unaccounted-for water component for the purposes of determining the
384 purchased water charge in the PWSR reconciliation.

385 **Q34. Do you have any comments on Mr. Rubin's general discussion of non-revenue**
386 **water?**

387 A. Yes. While I agree with his definition of NRW, I disagree with his determination of what
388 represents a high level of NRW. According to the American Water Works Association
389 ("AWWA"), ten to twenty percent NRW is the range within the industry, depending on
390 the age and condition of the system (see IAWC Ex. 1.04). In fact, the AWWA Manual
391 M52 referenced in IAWC Exhibit 1.04 stated that "[i]t is not uncommon to find unbilled
392 water to be over 20% in an older system." I also note that the AWWA Manual M52 is
393 dated 2006, while Mr. Rubin relies on AWWA committee reports dating back to July
394 1996 for his position that 10% NRW should be the goal. In addition, the AWWA Water
395 Distribution Systems Handbook, published in 2000, states in Section 17.2.1 (see IAWC
396 Exhibit 4.04) that: "A commonly accepted rule-of-thumb for acceptable levels of
397 unaccounted-for water is 15 percent, although this value is highly site specific. The real
398 rule for deciding whether unaccounted-for water exists at an acceptable level is an
399 economic one; the economic savings in water production at least offsets the cost of
400 reducing unaccounted-for water." Mr. Rubin's discussion ignores the economics of
401 reducing NRW, and in particular the impact on rates of the cost to reduce NRW.

402 I also disagree with Mr. Rubin's characterization of unaccounted for flow ("UFF")
403 as not relevant for economic regulatory purposes. To begin with, UFF is a regulatory
404 requirement applied by the Illinois Department of Natural Resources to IAWC's lake

405 water operations and so is highly relevant to IAWC's service in Chicago Metro. In
406 addition, because UFF accounts for both sales to end users and estimates of unmetered
407 uses and unavoidable leaks, and given that there are legitimate reasons for unmetered
408 uses and unavoidable leakage, UFF is a better proxy for comparisons among utilities.

409 **Q35. Mr. Rubin also argues (p. 7) that NRW is a state-wide problem. What is your**
410 **response?**

411 A. Mr. Rubin references the levels of NRW in various IAWC service areas. As noted above,
412 levels of NRW above 20% are not uncommon for older systems of the type operated in
413 several areas by IAWC. Furthermore, the cost associated with NRW should be compared
414 with the cost of measures that would be required to reduce NRW.

415 Moreover, as I explained above, recent tariff filings in Chicago Metro have
416 designated a maximum level of NRW for the Chicago Metro service areas. In addition,
417 in accordance with recent Illinois legislation (P.A. 94-0950) requiring the filing of tariffs
418 before year-end that establish maximum unaccounted-for-water percentages applicable to
419 rate or surcharge cost recovery, IAWC will file proposed tariff maximums for NRW for
420 all its service districts.

421 **Q36. Have steps been taken by IAWC and American Water with regard to NRW?**

422 A. Yes. American Water has taken steps to address NRW throughout the American Water
423 system where it is economical to do so. American Water (through its subsidiary
424 American Water Works Service Company, Inc.) recently created and filled the position of
425 Non Revenue Water Manager for the Central Region, which includes IAWC. While
426 American Water and IAWC have historically taken measures to manage NRW, the
427 purpose of the Non Revenue Water Manager is to create a more systematic approach to

428 evaluating the sources, contributing factors and volumes of NRW. These evaluations are
429 being undertaken both at the Regional, IAWC and District level. Upon completion of
430 these evaluations, the Non Revenue Water Manager will develop a program to reduce
431 NRW below current levels where prudent.

432 Under the guidance of the Non Revenue Water Manager, IAWC continues to
433 evaluate the levels of NRW over time in each of its water systems, as well as the current
434 practices employed to manage those levels (such as the frequency at which system
435 delivery meters are calibrated, the extent to which fire department officials report water
436 use from fire hydrants, the assumptions and methods used to account for unmetered flows
437 of water, and an assessment of the effectiveness of leak surveys). IAWC is also
438 implementing a tracking mechanism for unmetered flows of water from its water
439 systems, which approximates the flow rate from different types of leaks and estimates a
440 length of time over which a leak has occurred. These steps will help the Company
441 address the appropriate amount of NRW and conduct cost-benefit analyses regarding
442 NRW.

443 **DATA AVAILABILITY**

444 **Q37. Do you agree with Mr. Rubin's continued assertions (pp. 10-12) that he was not**
445 **provided with necessary data?**

446 A. No. The data requests Mr. Rubin refers to were typically complex, multi-variable
447 requests for customer account data. IAWC made every effort to respond fully to the
448 Attorney General's requests. However, as I describe in my Direct Testimony (p. 24),
449 development of specialized queries of the billing system requires substantial time and
450 resources. For example, Mr. Rubin asserts that since IAWC provided him with the "list"

451 of accounts he requested in AG 3.19, IAWC should have been able to provide him with
452 "machine readable" version in response to AG 3.20. But AG 3.20 was a different
453 question, which asked for not just the "list" but added several additional variables which
454 made the question more complex and resource-intensive to respond to.

455 Moreover, where appropriate (e.g., data request AG 2.7 and AG 3.20), IAWC
456 objected to the Attorney General's requests as burdensome. Under the Commission's
457 procedural rules, 83 Ill. Admin. Code 200.350, it is the Attorney General's obligation to
458 follow up informally on data requests to the Company. Although the Attorney General
459 contacted IAWC to request clarifications and revisions on some data responses, the
460 Attorney General did not do so regarding data responses that Mr. Rubin now complains
461 about (AG 2.7 and AG 3.20). The Attorney General gave no indication that it was
462 dissatisfied with the responses to AG 2.7 or AG 3.20.

463 **Q38. Did the Company rely on data in its testimony that it had not provided to Mr.**
464 **Rubin?**

465 A. In general, I used the same base data IAWC provided Mr. Rubin in my testimony. Thus,
466 in my evaluation of Mr. Rubin's calculation of 7,900 alleged back bills, I used the same
467 year on year base data Mr. Rubin used in concluding the majority of these accounts
468 involved normal usage for the customer. When analyzing the random sample of 400 of
469 the 7,900 bills, I did review historical usage on each account to determine that none were
470 back bills and usage was in line with the customer's normal use. But I point out that the
471 scope of that review was limited; unlike Mr. Rubin's request for 24 months of data on all
472 customers in Illinois.

473 **Q39. Do you think that IAWC's responses to Mr. Rubin's data requests represent any**
474 **data quality problem?**

475 A. No. Mr. Rubin makes much of IAWC's supposed inability to provide his desired outputs
476 from the billing system. However, he expresses no doubt in Mr. Zerbe's testimony that
477 the billing system is accurate, nor does he appear to challenge Mr. Zerbe's testimony (pp.
478 7-8) that requests to the billing system for unusual data compilations require complex and
479 time consuming queries, and that the need for such queries does not indicate poor or
480 unreliable data. I would point out again that the Attorney General made no effort to
481 contact IAWC to resolve the discovery production problems Mr. Rubin now alleges.

482 **ESTIMATED READS**

483 **Q40. Mr. Rubin (p. 13) insists that the Ascent Group study from 2005 citing the industry**
484 **benchmark for estimates as 2% should take precedence over the 2006 American**
485 **Water Works Association Research Foundation's 2006 study citing 5%. What is**
486 **your response?**

487 A. While I question how two studies performed by the same group, using the same
488 methodologies, and examining much of the same data can arrive at such different
489 conclusions, I think Mr. Rubin's discussion misses the key point, which is that as IAWC
490 replaces meters with radio reads, its percentage of estimates is declining, and is now at
491 5% state-wide (and likely to be even lower by year's end). In particular, the accelerated
492 conversion to radio read meter reading devices in the Chicago Metro District has helped
493 to increase the actual meter reading rate by nine percentage points in the first four months
494 of 2006. Chicago Metro estimates dropped below 4% in January 2006, and below 2% in
495 March 2006, and have been approximately 2% since that time. I also note that IAWC has

496 significantly reduced the number of consecutive estimates in the year from August 2005
497 to August 2006.

498 **ZERO USE BILLS**

499 **Q41. Is there any requirement in the Commission's rules regarding consecutive zero**
500 **bills?**

501 A. No. There is no requirement with respect to consecutive zero consumption bills (bills
502 which indicate no water usage during the billing period) in the Commission's rules.

503 **Q42. What is your understanding of the basis for Mr. Rubin's concern about zero use**
504 **bills?**

505 A. My understanding is that he considers prompt investigation of zero use bills an industry
506 best practice.

507 **Q43. Does Mr. Rubin acknowledge that IAWC has procedures in place to track zero use**
508 **bills?**

509 A. Yes. He acknowledges that the Company can track zero use bills through the E-CIS
510 system. He also cites to the "ZERO" service order that the Company issues to investigate
511 accounts with three or more consecutive zero bills.

512 **Q44. Mr. Rubin states that there are thousands of accounts with consecutive zero bills**
513 **and this demonstrates IAWC is not addressing this issue. What is your response?**

514 A. As I stated in my Direct Testimony, it is not uncommon for a residence to have zero
515 usage bill, as customers who are absent from their homes on a seasonal basis will have
516 zero usage bills for part of the year, people will routinely leave the water service active in
517 a home that is for sale, or leave an irrigation system active in the off-season, and
518 landlords may request that service remain on between renters. Thus the presence of

519 thousands of consecutive zero use bills is not, in itself, indicative of any problem or
520 failure to investigate.

521 **Q45. Is Mr. Rubin's concern that IAWC may not be complying with its procedures for**
522 **tracking and investigating consecutive zero use bills justified?**

523 A. No. IAWC's district personnel regularly investigate consecutive zero use bills as
524 appropriate. As I mentioned above, there is no Commission rule regarding zero use bills.
525 However, in order to ensure that IAWC's procedures on consecutive zero bills are being
526 followed to the letter, I have asked the various District managers to emphasize the review
527 and investigation of consecutive zero use bills on a going forward basis.

528 **IV. RESPONSE TO REBUTTAL TESTIMONY OF MARY NIEMIEC**

529 **Q46. Have you reviewed the Rebuttal Testimony provided by Homer Glen Witness Mary**
530 **Niemiec in this proceeding?**

531 A. Yes.

532 **Q47. Do you agree with her Rebuttal Testimony?**

533 A. No. I disagree with much of her testimony. To avoid restating the Direct Testimony I
534 have already provided, I will limit my rebuttal to the points I address below.

535 **Q48. On pages 3 and 7 of her Rebuttal Testimony, Ms. Niemiec denies that Homer Glen**
536 **"encouraged" its residents to file complaints with the ICC. How do you respond?**

537 A. Homer Glen has stated that it encouraged customers to complain to the Commission. As
538 Paragraph 32 of Homer Glen's Verified Original Petition explains: "In response to the
539 rash of complaints against IAW, Homer Glen encouraged its residents to not only contact
540 the village but also to contact the ICC directly."

541 **Q49. On page 5 of her Rebuttal Testimony, Ms. Niemiec says that the back bill audit was**
542 **not a "full audit." Do you agree?**

543 A. No. Ms. Niemiec suggests (p. 5) that the audit was inadequate because it "only covers
544 those customers who had their meter changed by [the Company] since 2003." But as
545 described above and in my Direct Testimony, the Company began making meter change-
546 outs in Chicago Metro in 2003, so it was logical for the audit to begin at that time.
547 Moreover, the audit started with a review of over 10,000 accounts to identify those
548 accounts with differences between the inside meter and the odometer-style meter-reading
549 device at the time of change-out. Only when the customers were selected for further
550 review was the audit narrowed to identify those customers who were billed from the
551 inside meter following a discrepancy with the odometer device. If the recorded usage
552 was not "different for the inside and outside meter," the customer simply could not have
553 been billed for identified differences between those meters—*i.e.* the customer could not
554 have received a back bill.

555 **Q50. On page 6 of her Rebuttal Testimony, Ms. Niemiec suggests that you've contradicted**
556 **yourself as to the cause of "spiking" bills in Homer Glen. How do you respond?**

557 A. There is no contradiction. Ms. Niemiec apparently believes that I attribute the
558 Company's decision to issue credits for previously back billed amounts to Homer Glen
559 customers *solely* to the drought of 2005. That was not my testimony. Rather, I testified
560 that the drought exacerbated the impact of inside/outside odometer-style meter
561 discrepancies because customers were using more and more water—and the increased
562 usage affected the amount of those bills related to under-registration of the odometer
563 devices. The decision to issue credits, by contrast, was based on IAWC's determination

564 that some customers could possibly have been billed for usage that occurred more than
565 twelve months before their back bills were issued.

566 **Q51. On page 8, lines 168 and 169 of her Rebuttal Testimony, Ms. Niemiec states that**
567 **"there was no discussion or offer of refunds for the overbilling until after the formal**
568 **complaint was filed with the ICC and [the Company] began to respond to data**
569 **requests from Homer Glen and the Attorney General." How do you respond?**

570 A. Her statement is not correct. IAWC committed to stop issuing back bills for odometer
571 meter exchanges in September 2005, well before the Complaints were filed. Indeed, in
572 October 2005, when the Company made the decision to conduct an audit of all customers
573 possibly receiving back bills related to odometer meter device discrepancies, the
574 Company was already offering refunds to individual customers who complained about
575 back bills following meter change-outs. As I stated before, billing for unbilled service is
576 allowed under the Commission's rules, and no one in this proceeding has submitted any
577 evidence questioning the accuracy of *inside* meters, which were the source of the back
578 bill reading. To the contrary, Staff Witness Johnson's investigation found that the
579 Company's meter testing records for Homer Glen complied with 83 Ill. Admin. Code
580 600.340.

581 Along similar lines, the Company did not believe it should have to pay interest
582 because, under 83 Ill. Admin. Code 280.75, interest is only due when a billing "is later
583 found to be incorrect" due to an error. The readings from the *inside* meters accurately
584 reflected the customer's usage, so there was no error in measuring the quantity or volume
585 of service provided. To eliminate any concern, however, IAWC decided to issue the
586 back bill credit with interest to all customers who were possibly impacted by

587 inside/outside meter exchange discrepancies in order to ensure that no customer would be
588 improperly back billed.

589 **Q52. Does this complete your Rebuttal Testimony?**

590 A. Yes, it does.

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