ILLINOIS COMMERCE COMMISSION

DOCKET NO. 06-0196

EXHIBIT NO. 1.0S

REVISED SUPPLEMENTAL DIRECT TESTIMONY OF

MICHAEL J. HOFFMAN

ILLINOIS-AMERICAN WATER COMPANY

REVISED SUPPLEMENTAL DIRECT TESTIMONY

OF

MICHAEL J. HOFFMAN

I. WITNESS BACKGROUND

Q1. Please state your name and business address.

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

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

A. Yes, I am.

II. PURPOSE OF TESTIMONY

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

A. The purpose of my Revised Supplemental Direct Testimony is to discuss certain adjustments to the reconciliation data submitted by the Company with its Direct Testimony. The adjustments affect the Exhibits filed for DuPage County, Southwest Suburban, Waycinden and Country Club. I sponsor IAWC Exhibits 1.1S, 1.2S and 1.3S.

III. DISCUSSION

A. DuPage County, Southwest Suburban and Waycinden Service Areas

Q4. Please explain the adjustments to the reconciliation data that you propose for the DuPage County, Southwest Suburban and Waycinden surcharge service areas.

A. During 2006 (effective May 14, 2006), the Company filed for prospective application a tariff that imposes a "maximum" on the level of unaccounted-for water ("UFW") recoverable under the purchased water rider ("Rider") for each of the seven water rate areas ("Maximum"). A copy of the tariff specifying the UFW "maximums" is marked as IAWC Exhibit 1.1S. Although the tariff is applicable prospectively, the Company has

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

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

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

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

A. Yes. Adjustments were made for DuPage and Southwest Suburban in new Supply Charge levels filed, which became effective on July 1, 2006. In a filing effective October 1, 2006, a similar adjustment was made for Waycinden.

Q7. Are the changes you discuss reflected in revised reconciliation Exhibits?

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

Q8. Are any other changes reflected in Exhibit 1.2S?

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

Q9. What does the Company propose with respect to the calculated O_v adjustments for DuPage, Southwest Suburban and Waycinden?

A. If the adjustments are approved by the Commission, the Company proposes to include the O_v adjustment for each of the three rate areas in the Rider Information Sheet calculation that becomes effective April 1, 2007, with applicable interest accruing from January 1, 2006 at the rate specified by the Commission in 83 Illinois Administrative Code, Part 280.70(e)(1). As indicated in Second Revised Data Response DGK-018, the Company proposes that the O_v factor would be in effect for a nine-month period from April 1, 2007, through December 31, 2007. A calculation of the required adjustment for each rate area (without interest) is shown in the footnotes in Exhibit D of IAWC Exhibit 1.2S.

Q10. What is the Company's intent with respect to 2006 Rider cost recovery related to UFW?

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

Q11. Are costs associated with UFW above the applicable Maximums also eliminated for 2005?

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

B. Country Club Service Area

Q12. Please explain the adjustments you propose with respect to the Country Club service area.

A. The Company has revised its estimate of wastewater flows for 2006. This revision was reflected in an Information Sheet filing made on June 15, 2006 that became effective on July 1, 2006.

Q13. Why did the Company revise this estimate?

A. Changes were made within the DuPage County Water District system in late 2005 and early 2006 that have led to greater efficiencies in the handling of wastewater flows. The biggest change made was the repair of storm sewer system by DuPage County Water District, which has resulted in a marked decrease in wastewater flows. The Company

determined that the combination of these changes and repairs should reduce the amount of wastewater flow in this service area by approximately 60% per month. Accordingly, the estimated amount of wastewater flows was correspondingly reduced. This change affects the calculation of the VSC component of the Rider (Schedules A and C of Exhibit 1.3S).

Q14. Are there other changes to the Country Club reconciliation data?

A. Yes. Schedule A is adjusted to reduce the "*R*" component of the Rider to reflect a three-month portion ($3,941) of the amount which the Company elected not to collect through the Rider ($15,764) at the time of the initial filing.

Q15. Are the changes you discuss reflected in the revised reconciliation Exhibit?

A. Yes. The changes to Exhibits A, C and D are reflected in IAWC Exhibit 1.3S.

Q16. Does this complete your Revised Supplemental Direct Testimony?

A. Yes, it does.