REBUTTAL TESTIMONY

of

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Accountant

Accounting Department

Financial Analysis Division

Illinois Commerce Commission

Illinois-American Water Company Petition for Issuance of Certificate of Public Convenience and Necessity, and for Approval of Rates and Accounting Entries to Record the Acquisition of the Village of Pesotum Water System

Docket No. 06-0564

January 30, 2007

TABLE OF CONTENTS

WITNESS IDENTIFICATION 1

PURPOSE OF TESTIMONY 1

SCHEDULES 1

AGREED UPON ACCOUNTING ENTRIES 2

SUMMARY 4

CONCLUSION 4

SCHEDULES

Schedule 5.1 – Agreed Upon Accounting Entries

Schedule 5.2 – Estimated Total Contributions in Aid of Construction Received

WITNESS IDENTIFICATION

Q. Please state your name and business address.

A. My name is Bonita A. Pearce. My business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. Have you previously filed testimony in this proceeding?

A. Yes, my direct testimony was filed January 4, 2007 as ICC Staff Exhibit 2.0.

PURPOSE OF TESTIMONY

Q. What is the purpose of your rebuttal testimony?

A. The purpose of my rebuttal testimony is:

1) to respond to the rebuttal testimony of Michael J. Hoffman (IAWC Exhibit No. MJH-1.0R) regarding Illinois-American Water Company's ("Company" or "Illinois-American") responses to the recommendations I proposed in my direct testimony (ICC Staff Exhibit 2.0); and,

2) to present the agreed upon accounting entries to record the acquisition of the Village of Pesotum's water system, by Illinois-American.

SCHEDULES

Q. Are you sponsoring any schedules with your testimony?

A. Yes, I am sponsoring the following schedules as part of this testimony:

Schedule 5.1 – Agreed Upon Accounting Entries; and

Schedule 5.2 – Estimated Total Contributions in Aid of Construction Received.

AGREED UPON ACCOUNTING ENTRIES

Q. Please describe ICC Staff Exhibit 5.0, Schedule 5.1, Agreed Upon Accounting Entries.

A. Schedule 5.1 reflects the accounting entries to record this transaction, as agreed upon by Illinois-American and Staff of the ICC.

Q. Explain how these entries differ from the entries you proposed in ICC Staff Exhibit 2.0, Schedule 2.1.

A. The accounting entries in ICC Staff Exhibit 5.0, Schedule 5.1 reflect the following differences from the entries I proposed in ICC Staff Exhibit 2.0, Schedule 2.1:

1) Journal Entry #2 of ICC Staff Exhibit 5.0, Schedule 5.1 reflects a higher amount of Accumulated Amortization of Contributions In Aid of Construction ("CIAC") related to Tap-on fees as shown on line 21, $17,079;

2) Consequently, there is a corresponding decrease in the amount of Utility Plant Acquisition Adjustment reflected on line 23, $9,011; and,

3) Journal Entry #3 of ICC Staff Exhibit 5.0, Schedule 5.1 reflects the one-time amortization of the revised Utility Plant Acquisition Adjustment as described in item (2).

Q. Do you agree with the rationale set forth by Illinois-American witness Michael J. Hoffman regarding the methodology to estimate accumulated amortization related to CIAC?

A. Based on the rebuttal testimony of Mr. Hoffman (IAWC Exhibit No. MJH-1.0R) and the 2nd Revised response to Staff Data Request WD 1.20 attached to the rebuttal testimony of Mr. Hoffman (IAWC Exhibit No. MJH-1.1R), the methodology described by Mr. Hoffman as the basis for estimating accumulated amortization related to CIAC appears reasonable. Accordingly, I do not object to it.

Q. Did this methodology impact your calculation of accumulated amortization related to CIAC, as previously reflected on ICC Staff Exhibit 2.0, Schedule 2.2?

A. Yes. I have revised my previous estimate of the accumulated amortization related to CIAC based on information contained in the rebuttal testimony of Mr. Hoffman and the Company's 2nd Revised Response to Staff Data Request WD 1.20. The revised calculation is presented on ICC Staff Exhibit 5.0, Schedule 5.2, attached.

SUMMARY

Q. Please summarize your recommendations.

A. I recommend the following:

1. The Commission should approve the agreed upon accounting entries to record the estimated purchase costs of the water system from the Village of Pesotum as reflected on the attached Schedule 5.1; and
2. The Commission should order the Company to provide actual accounting entries to record the purchase of the water system within six months of finalizing the acquisition.

CONCLUSION

Q. Does this conclude your prepared rebuttal testimony?

A. Yes, it does.

Illinois-American Water Company
Village of Pesotum
Agreed Upon Accounting Entries

Line No.		Account Number (a)	Description (b)	Debit (c)	Credit (d)
1			**Journal Entry #2 To clear the balances recorded in Utility Plant Purchased and transfer to the appropriate accounts.**		
2	(a)	104	Utility Plant Purchased or Sold		($161,549)
3	(a)	114	Utility Plant Acquisition Adjustment		
4	(a)	303	Land & Land Rights - SS	$4,877	
5	(a)	303	Land & Land Rights - Water Tower	2,027	
6	(a)	304	Structures & Improvements - SS	17,465	
7	(a)	304	Structures & Improvements - SS	2,437	
8	(a)	331	Transmission & Distribution Mains	195,060	
9	(a)	333	Services	42,028	
10	(a)	334	Meters	8,768	
11	(a)	334	Meter Installations	9,709	
12	(a)	335	Hydrants	29,497	
13	(a)	108	Accum. Depr. - Structures & Improvements - SS		(19,426)
14	(a)	108	Accum. Depr. - Structures & Improvements - Water Tower		(294)
15	(a)	108	Accum. Depr. - Transmission & Distribution Mains		(72,394)
16	(a)	108	Accum. Depr. - Services		(32,202)
17	(a)	108	Accum. Depr. - Meters		(10,048)
18	(a)	108	Accum. Depr. - Meter Installations		(4,887)
19	(a)	108	Accum. Depr. - Hydrants		(19,998)
20	(c)	271	Contributions in Aid of Construction - Tap-on fees		(21,922)
21	(c)	272	Accumulated Amortization of CIAC - Tap-on fees	17,079	
22	(e)	620	Materials and Supplies	4,762	
23	(d)	114	Utility Plant Acquisition Adjustment	9,011	
			TOTAL	$342,720	($342,720)
24			**Journal Entry #3 Annual entry to record the one-time amortization of acquisition adjustment.**		
25	(b)	115	Accum. Amort. Of Utility Plant Acquisition Adjustment		($9,011)
26	(b)	426	Miscellaneous Non-utility Expenses	$9,011	
				$9,011	($9,011)

Source:
(a) Illinois-American Exhibit MJH 1.7 (Revised)
(b) To eliminate the balance of Account 114, shown in Journal Entry # 2.
(c) ICC Staff Exhibit 2.0, Schedule 2.2.
(d) Calculated by difference between purchase price, $161,549 and original cost of plant, net of depreciation and CIAC (See Note1).
(e) Response to Staff Data Request WD 1.18, Schedule 3.5 of the Asset Purchase Agreement, Spare Parts on Hand.

Note 1:

Calculation of Account 114, Acquisition Adjustment:	Debit/(Credit)
Purchase price	($161,549)
Debit:	
Utility plant in service	311,868
Materials and supplies	4,762
Accumulated Amortization of CIAC	17,079
Credit:	
Accumulated depreciation	(159,249)
CIAC	(21,922)
Balance of Account 114, Acquisition Adjustment	$9,011

Illinois-American Water Company
Village of Pesotum
Estimated Total Contributions In Aid of Construction Received

Line No. (a)	Description (b)	Amount (c)	Source (d)
1	ICC Staff Estimated Additional Tap-On Fees	$21,921.73	ICC Staff Exhibit 2.0, Schedule 2.2, Page 2.
2	ICC Staff Estimated Accumulated Amortization on CIAC	(17,079.22)	Line 1, col. (c) times 77.91% (see Note 1 below).
3	ICC Staff Estimated Total CIAC, net of Accumulated Amortization	$4,842.51	Line 1, col. (c) minus line 2, col. (c).

Note 1 Estimated Accumulated Amortization on CIAC estimated as 77.91% of CIAC balance is based on relative accumulated depreciation to underlying plant, as calculated below:

1	Account 333, Services	$42,028	Exhibit MJH 1.7 (Revised)
2	Account 334, Meters & Meter Installations	18,477	Exhibit MJH 1.7 (Revised)
3	Plant related to Services, Meters & Meter Installations	$60,505	Subtotal of lines 4 and 5.
4	Account 108, Reserve for Depreciation related to:		
5	Services	$32,202	Exhibit MJH 1.7 (Revised)
6	Meters	10,048	Exhibit MJH 1.7 (Revised)
7	Meter Installations	4,887	Exhibit MJH 1.7 (Revised)
8	Accumulated Depreciation related to Meters & Services	$47,137	Subtotal of lines 8 through 10.
9	Estimated Accumulated Amortization on CIAC	77.91%	Line 11, col. (c) divided by line 6, col. (c)

Illinois-American Water Company
Village of Pesotum
Estimated Total Tap-On Fees

Line No.	Description		Amount	Source
(a)	(b)	(c)	(d)	(e)
1	Homes in Pesotum without records of tap-on fees	213		Response to WD 1.20 2nd (Revised), b.(ii.) - (iii).
2	Estimated tap-on fee (minimum)	$65		Response to WD 1.20 2nd (Revised), b.(i.) lowest fee
3	ICC Staff Estimated Additional Tap-On Fees		$13,845.00	Col. (c) line 1 times Col. (c) line 2.
4	Recorded and Discoverable Tap-On Fees		8,076.73	Response to WD 1.20 2nd (Revised), b.(ii.) - (iii).
5	ICC Staff Estimated Total Tap-On Fees		$21,921.73	Col. (d) line 3 plus Col. (d) line 4.