

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 07-0195

IAWC EXHIBIT NO. 2.0

**REBUTTAL TESTIMONY OF
RICH KERCKHOVE**

ILLINOIS-AMERICAN WATER COMPANY

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1 **Q. Please state your name.**

2 A. Rich Kerckhove.

3 **Q. Are you the same Rich Kerckhove who previously filed Direct Testimony in this**
4 **case?**

5 A. Yes, I am.

6 **Q. What is the purpose of your testimony?**

7 A. The purpose of my Rebuttal Testimony is to respond to testimony submitted in this
8 proceeding by Staff Witness Daniel G. Kahle and Attorney General Witness Scott C.
9 Rubin.

10 **Q. Are you sponsoring any schedules with your testimony?**

11 A. Yes, I am sponsoring IAWC Schedule 2.1, Purchased Water Surcharge Reconciliation by
12 Service Area, for Waycinden and DuPage County Variable Costs, identified as IAWC
13 Schedule 2.1 (WA) and IAWC Schedule 2.1(DC), respectively.

14 **Q. Are you sponsoring any Attachments as part of IAWC Exhibit No. 2.0?**

15 A. Yes, I am sponsoring the following attachments:

16 Attachment A – Letter from the Manager of Accounting, Illinois Commerce
17 Commission

18 Attachment B – Company response to Attorney General Data Request 1.4

19 Attachment C – January 2006 through June 2006 water usage printouts from the City of
20 Chicago

21 **Rebuttal to Staff Witness Kahle**

22 **Q. Do you agree with all of Mr. Kahle's proposed adjustments and O Factors?**

23 A. Yes, I do. In addition, I am proposing another adjustment to the Waycinden District 2006
24 Recoverable Purchased Water Cost to reflect actual purchased water costs invoiced after
25 the completion of the schedules submitted with the annual reconciliation. The adjustment
26 is offset by a corresponding adjustment for unaccounted for water and does not affect the
27 Staff-proposed O Factor for Waycinden. The actual costs were provided to Staff in
28 response to data request DGK-2.10, a copy of which was attached to Mr. Kahle's direct
29 testimony as Attachment E – Company's response to Staff data request DGK-2.

30 **Q. Do you agree with the Schedule 1.2 prepared by Mr. Kahle?**

31 A. Yes, except for Schedule 1.2(WA) and Schedule 1.2(DC). Schedule 1.2(WA) reflects a
32 2006 R Factor in the amount of \$67,948 to be recovered in 2007 rates when that amount
33 should have been reduced by the cost of water exceeding the unaccounted for water level
34 of 12.43% for the year, \$65,227. The correct 2006 R Factor used to determine the 2007
35 purchased variable water charge is \$2,721 and is reflected in the current purchased
36 variable water charge (filed April 1, 2007). Schedule 1.2(DC) reflects a 2006 R Factor in
37 the amount of \$52,016 to be refunded through 2007 rates when that amount should have
38 been increased by the cost of water exceeding the unaccounted for water level of 12.43%
39 for the year, \$2,453. The correct 2006 R Factor used to determine the 2007 purchased
40 variable water charge is \$(54,469) and is reflected in the current purchased variable water
41 charge (filed April 1, 2007).

42 **Q. Please explain IAWC Schedule 2.1, Purchased Water Surcharge Reconciliation by**
43 **Service Area.**

44 A. IAWC Schedule 2.1 is a modified version of Staff Schedule 1.2. IAWC Schedule 2.1
45 reflects unaccounted for water and provides the correct 2006 R Factor to be

46 collected/(refunded) in 2007 rates. As I indicated previously, the changes I am proposing
47 to Staff Schedule 1.2 do not affect the Staff-proposed O Factors.

48 **Rebuttal to Attorney General Witness Rubin**

49 **Q. Have you reviewed Mr. Rubin’s proposal to amortize the one-time refund from the**
50 **DuPage Water Commission over two years?**

51 **A.** Yes, I have. Mr. Rubin’s proposal to amortize the one-time refund over two years would
52 reduce the variable purchased water rate by \$0.71 as I have calculated (Mr. Rubin’s
53 calculation on AG Exhibit 1.01 ignores the interest accrual during the first year). But one
54 needs to look at the DuPage Water Commission refund in isolation. The amortization of
55 the refund over two years results in a \$0.71 reduction per thousand gallons of water while
56 the Illinois-American Water Company-proposed (“IAWC” or “Company”) amortization
57 of the refund over three years results in a \$0.49 reduction per thousand gallons of water.
58 A customer using 6,000 gallons of water monthly would notice a \$4.26 reduction
59 resulting strictly from the two-year amortization proposed by Mr. Rubin. At the end of
60 the two years, that same customer would notice a \$4.32 increase in the monthly water
61 bill.

62
63 A customer using 6,000 gallons of water monthly would notice a \$2.94 reduction
64 resulting strictly from the three-year amortization proposed by the Company. At the end
65 of the three years, that same customer would notice a \$2.94 increase in the monthly water
66 bill. The Company proposed a three-year amortization in order to smooth out the peaks
67 and troughs. Mr. Rubin’s proposal accentuates them. A sharp increase in purchased
68 water rates at the end of Mr. Rubin’s proposed two-year amortization period will likely

69 result in a significant number of customer complaints regarding the large increase in
70 water rates.

71 **Q. Do you have any additional support for the three-year amortization?**

72 **A.** Yes. Attached as Attachment A is a letter from the Manager of Accounting of the Illinois
73 Commerce Commission indicating that the three-year amortization period is reasonable.

74 **Q. In his testimony at lines 114 to 123, Mr. Rubin raises concerns regarding negative**
75 **unaccounted for water in Alpine Heights. Can you respond to those concerns?**

76 **A.** Mr. Rubin notes that the Company's schedules reflect negative unaccounted for water
77 and concludes that the likely cause is some combination of significant Company errors in
78 billing, meter reading, or record keeping. However, Mr. Rubin acknowledges that this
79 issue was raised and addressed in the Company's 2005 reconciliation case, Docket No.
80 06-0196. In response to a data request from the Attorney General's office, the Company
81 communicated to Mr. Rubin that the Company had reviewed its meter reading and billing
82 records and verified that the information was accurate. Mr. Rubin acknowledges in his
83 testimony that the Company's explanation that the oversized meters under-registers usage
84 at low flows is possible. The Village of Orland Park, however-the municipality served
85 in this district-is aware of the under-registration issue and has asked the Company to
86 leave the existing meter in place to provide adequate fire flows for the area.

87 **Q. Mr. Rubin claims that the highest amounts of negative unaccounted for water occur**
88 **during the months of August and September. Can you please comment on Mr.**
89 **Rubin's claims?**

90 **A.** Yes. One must keep in mind that metered usage is measured during the month while the
91 purchased amount is measured roughly at the beginning of the month (the provider meter

92 readings are performed anywhere from the first to the sixth of the month, and the billing
93 periods range from 23 to 36 days). Therefore, August metered usage includes usage from
94 July and August while the September metered usage includes usage from August and
95 September. Focusing strictly on one month will not provide a true apples-to-apples
96 comparison. Expanding the comparison of metered usage to purchased amount for the
97 three high-usage months June, July, and August yields a positive unaccounted for water
98 percentage of 1.99.

99 **Q. Do you have any additional comments regarding the negative unaccounted for**
100 **water at Alpine Heights?**

101 **A.** Yes. Mr. Rubin asserts that Company is selling more water than it purchases. While the
102 data shows that the quantity of water billed to customers during the reconciliation year
103 exceeds the quantity of water purchased during the reconciliation year, customers are not
104 being charged any more than the cost of water purchased. Replacing the supply meters
105 with smaller meters that more accurately measure the amount of water provided at lower
106 flows to the Alpine Heights district will result in higher bills to residents of the Alpine
107 Heights District. Residents are currently benefiting from supply meters that under record
108 the amount of water delivered to Alpine Heights.

109 **Q. Mr. Rubin recommends that the Company should be ordered to conduct an audit of**
110 **its bills and meter reads in Alpine Heights and be prohibited in future**
111 **reconciliations from increasing the purchased water rate associated with billing and**
112 **meter reading errors. Do you agree?**

113 **A.** No. As I indicated previously, the Company reviewed the meter reading records and
114 billing records for its Alpine Heights service area. No discrepancies or errors were

115 identified. Any future events affecting purchased water rates should be reviewed on their
116 merits by the Commission in any future proceedings to determine their appropriateness
117 for inclusion in purchased water rates.

118 **Q. On page 11 of his testimony, Mr. Rubin asserts that the Company does not maintain**
119 **accurate records for the Moreland District on water purchases during the first six**
120 **months of the reconciliation year. Please respond to Mr. Rubin's assertions.**

121 **A.** Purchased water data originates from invoices received from the City of Chicago.
122 Because the Company had a credit balance on the December 2005 invoice, the City of
123 Chicago stopped invoicing the Company until the credit balance was used up. Mr. Rubin
124 attributes the failure of the City of Chicago to provide accurate invoices to IAWC and
125 assigns the responsibility to bill sales from the City of Chicago to IAWC. Mr. Rubin
126 claims that IAWC did not address the billing problem yet he chooses to ignore the
127 Company's response to his own data request 1.4 that explains that the Company was not
128 billed by the City of Chicago and describes the Company's attempts to have the City of
129 Chicago test or replace its supply meters to the Moreland District. A copy of the
130 Company's response to Mr. Rubin's data request 1.4 is attached as Attachment B.

131
132 Since the City of Chicago did not invoice the Company for the first six months of 2006,
133 IAWC personnel requested printouts of the Company's usage from the City of Chicago
134 for this time period. Copies of the printouts are attached as Attachment C. Incorporating
135 the data from the printouts into Schedules C and D previously filed with the Commission
136 results in identical annual unaccounted for water and no change in the Company-
137 proposed R factor.

138 **Q. Mr. Rubin proposes to impute a 4.8% unaccounted for water factor and asserts that**
139 **the Company's rates should be reduced as a result. Do you accept Mr. Rubin's**
140 **proposal?**

141 **A.** Yes, I do for this proceeding. The Company will file a new information sheet to be
142 effective January 1, 2008, to reflect the use of a 4.8% unaccounted for water factor. The
143 use of a 4.8% unaccounted for water factor results in a purchased variable water charge in
144 the amount of \$1.30, not \$1.29 as suggested by Mr. Rubin in his testimony. Any over or
145 under recoveries resulting from the use of the new rate will be recovered through the R
146 factor in 2009.

147 **Q. Does this conclude your Rebuttal Testimony?**

148 **A.** Yes, it does.