

ILLINOIS COMMERCE COMMISSION

IAWC EXHIBIT NO. 4.00 SUPP

SUPPLEMENTAL DIRECT TESTIMONY OF

EDWARD J. GRUBB

ILLINOIS-AMERICAN WATER COMPANY

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**SUPPLEMENTAL DIRECT TESTIMONY IAWC EX. NO. 4.00 SUPP
OF
EDWARD J. GRUBB**

1 **I. WITNESS INTRODUCTION**

2 **Q1. Please state your name.**

3 **A.** My name is Edward J. Grubb.

4 **Q2. Please state your business address.**

5 **A.** My business address is 727 Craig Road, St. Louis, Missouri 63141.

6 **Q3. By whom are you employed and in what capacity?**

7 **A.** I am employed by American Water as the Manager Rates and Regulations for
8 the Central Region and I am also the Assistant Treasurer for Illinois-American
9 Water Company ("Company" or "IAWC").

10 **Q4. Are you the same Edward J. Grubb who previously filed Direct Testimony**
11 **in this proceeding?**

12 **A.** Yes, I am.

13 **II. PURPOSE OF TESTIMONY**

14 **Q5. What is the purpose of your Updated Direct Testimony?**

15 **A.** The purpose of my Supplemental Direct Testimony is to discuss the changes to
16 the Company's 2008 forecast and its impact on the forecasted test year in the
17 Company's rate case, as well as certain corrections to Company's Direct
18 Testimony and Exhibits filed in this proceeding.

19 **III. UPDATE OF TEST YEAR PROJECTIONS**

20 **Q6. Has the Company reviewed the forecast submitted in this proceeding to**
21 **determine whether there are material changes?**

22 **A.** Yes.

23 **Q7. Please discuss the results of that review.**

24 **A.** As a result of additional review and analysis, the Company has determined that,
25 for the calendar year 2008, certain changes to its business plan are warranted.
26 First, costs associated with the inspection and maintenance of valves and
27 hydrants are expected to be approximately \$400,000 higher than the amount
28 reflected in the calendar year 2008 projection, and costs associated with the Lisle
29 class action lawsuit in the amount of \$600,000 are also projected to occur in
30 2008. However, these additional costs are projected to be incurred by the end of
31 June 2008. Thus, for these changes, the forecasted test year in the rate case is
32 not impacted.

33 Second, for calendar year 2008, the expense for employee overtime is
34 expected to decrease by approximately \$500,000 below the amount originally
35 forecasted. A portion of this reduction would impact the forecasted test year
36 ending June 2009. The net impact to the forecasted test year for the reduction in
37 overtime expense is \$250,000. This impact will occur in the second half of 2008.

38 Third, the Company expects for 2008 to realize additional operating
39 revenues of \$456,000 for business development opportunities, whose impact
40 would also affect the test year forecast by the full \$ 456,000. The opportunities
41 are related to the acquisition of Pesotum, billing and collecting deals with the
42 Cities of Alton and Fairmont, a bulk water sales agreement and an acquisition of
43 a small system near Peoria.

44 Finally, the Company is projecting an increase in its recurring capital
45 expenditure program for 2007 in the amount of \$4,597,000. These additional

46 capital expenditures are primarily for main and hydrant replacements. The
47 revenue requirement associated with the additional capital expenditures is
48 \$609,065, based on a pretax return of 11.48% and depreciation expense of
49 \$81,459 using a composite depreciation rate of 1.772% for mains and hydrants.

50 The net financial impact of the lower level of 2008 operating expense for
51 overtime, the higher level of operating income from business development and
52 the increase in the capital expenditure program would change the level of the
53 total company revenue requirement for the test year by less than 0.05% of the
54 total revenue requirement originally filed in the rate case. For this reason, the
55 Company does not believe that these changes should be deemed material to the
56 forecast, and has not proposed to adjust the forecast to reflect the changes. The
57 Company is not aware of other changes that would affect the forecast submitted
58 in this proceeding.

59 IV. CORRECTIONS

60 **Q8. Has the Company identified certain corrections which should be made to**
61 **the Direct Testimony and Exhibits filed in this proceeding?**

62 **A.** Yes. In the course of further review and the preparation of data responses, the
63 Company has identified certain corrections that should be made to its originally
64 filed Direct Testimony and Exhibits. Along with my Supplemental Direct
65 Testimony, revised versions of my Direct Testimony, and that of Mr. Alan DeBoy
66 and Ms. Pauline Ahern are being submitted. Supplemental Direct Testimony of
67 Mr. Earl Robinson is also being submitted. Changes to my Direct Testimony are
68 discussed below. With respect to Ms. Ahern's Direct Testimony, the revision

69 corrects a minor error on page 27, line 602, where the reference should be to
70 398 basis points. With respect to Mr. DeBoy's Direct Testimony, the revisions
71 correct the listings of major projects, correct the estimated cost of certain major
72 projects, and clarify that all property rights have been acquired for the
73 Champaign Plant site. With respect to the Supplemental Direct Testimony of Mr.
74 Robinson, this testimony reflects minor corrections to IAWC Exhibit 9.01 (Water
75 Depreciation Study).

76 **Q9. Please discuss changes to your Direct Testimony.**

77 **A.** On page 7, references to Schedules G-3 and G-4 are corrected. On pages 33-
78 36, changes have been made to reflect the Company's correction of the
79 Employment Cost Index factor applied from 14.8% to 10.4%. On page 40,
80 underline formatting that was inadvertently included was removed.

81 **Q10. Has the Company made corrections to the schedules contained in IAWC**
82 **Exhibits 15.00 through 20.00?**

83 **A.** Yes. The Company has made 25 corrections to the schedules, which I discuss
84 below. For each of the corrections listed below, the attached IAWC Exhibit 4.05
85 SUPP¹ identifies the schedules impacted by each correction (for each correction
86 listed, the schedule shows an "X" where a schedule has been changed as a
87 result of that correction). Where a data response explaining a change is
88 referenced, a copy that response has been provided in IAWC Exhibit 4.06 SUPP.

¹ IAWC Exhibits 4.01 through 4.04 are attachments to Mr. Grubb's Direct Testimony, IAWC Exhibit 4.00.

89 The corrected schedules are being filed concurrently with this testimony. The
90 Company is not presently aware of any additional corrections required to its filed
91 schedules.

92 **Q11. Do certain of these corrections affect the revenue requirement originally**
93 **proposed in this proceeding?**

94 **A.** Yes. The revised revenue requirement for each rate area is shown in the revised
95 schedules (Schedules A-2, A-4, C-1) and referred to on those schedules as the
96 "Required revenue increase". Also, for each rate area, the level of revenue
97 produced by the originally filed rates is shown for comparison. Note that for each
98 rate area showing a rate increase, the revised revenue requirement is somewhat
99 below the level of revenue produced by the originally filed rates. Also, note that
100 for the Interurban District area, the level of revenue produced by the filed rates
101 has been reduced as a result of correction (7), Competitive Tariff Customers,
102 shown below.

103 **Q12. Please summarize the corrections you discussed above.**

104 **A.** The Company has made the following corrections to the schedules.

105 (1) Schedule G-2. The last sentence under Note 3, "Post-retirement benefits
106 other than pensions", is changed to read, "The Company's present policy
107 is to fund other post retirement benefits costs in accordance with its SFAS
108 106 determined costs."

109 (2) Group Insurance. Schedule 11.3, Page 4, Group Insurance, is
110 \$5,057,057, not \$5,105,694. The change does not affect the revenue
111 requirement. See response to data request BAP-3.02.

112 (3) Champaign Facility Capacity. The plant being constructed is a 15 MGD
113 plant, not 20 MGD as reported on the original Schedule B-7.

- 114 (4) Pension Expense. Pension expense is being corrected so that it reflects
115 the most recent Towers Perrin actuarial information that was used to
116 determine the pension expense rate base deduction. See response to
117 data request BAP-4.04.
- 118 (5) Schedule C-13. Incorrect docket numbers were included on the original
119 Schedule C-13. This correction provides the correct docket numbers.
- 120 (6) Income Tax. The Other Income Tax Effects column on Schedule C-2 did
121 not include the current income taxes for the two preceding columns for all
122 districts except Champaign. See response to data request AG 2.53.
- 123 (7) Competitive Service Tariff Customers. For Competitive Service Tariff
124 Customers of the Interurban District, no rate change will occur under the
125 terms of the applicable tariffs. Accordingly, the revenue increase originally
126 assigned to these customers has been eliminated in calculating the level
127 of revenue which the proposed rates would produce.
- 128 (8) Lead/Lag Study. The Lead/Lag study is being updated to reflect
129 corrections to other schedules.
- 130 (9) OPEB Rate Base Deduction. Rate base is being reduced by the amount
131 of the difference between FAS 106 OPEB expense and the amount
132 funded into IAWC's OPEB plans. In addition, OPEB expense is being
133 corrected so that it reflects the most recent Towers Perrin actuarial
134 information used to determine the OPEB rate base deduction. See
135 response to data request BAP-3.04.
- 136 (10) Schedule E-7. The percent change calculations on Schedule E-7, pages
137 55, 58, and 59 did not include the surcharge in the current rate. The
138 corrected schedules include the surcharge. See response to data request
139 CLH-2.02.
- 140 (11) Schedule C-2.9. Schedule C-2.9 omitted the South Beloit purchased
141 water surcharge cost. This is being corrected.
- 142 (12) South Beloit Depreciation. Schedule C-12 for the Southern/ Peoria/
143 Streator/ Pontiac /South Beloit district omitted the South Beloit
144 depreciation expense for the test year for non-A&G assets. The total
145 company amount, Schedule B-6, and Schedule C-1 reflect the correct
146 amount of South Beloit depreciation and require no updates.
- 147 (13) Defined Contribution Plan ("DCP") Calculation. Schedule C-11.3 included
148 an error in the calculation of DCP expense. This revision corrects the
149 error. See response to data request BAP-5.03.

- 150 (14) Carbon Lease. Carbon lease expense was included twice in the forecast
151 of calendar year 2009 chemicals expense. This correction removes the
152 extra carbon lease amount from the first half of 2009.
- 153 (15) Schedule D-7. On Schedule D-7, for each year 2003-2009 inclusive, Total
154 Capital incorrectly excluded short-term debt. The Schedule has been
155 revised and short-term debt is now included in Total Capital, which
156 impacts the capitalization ratios on lines 4, 9, and 15.
- 157 (16) Schedule D-3. Schedule D-3 is being corrected to reflect the recent \$94M
158 long-term debt issuance and the removal of two issuances not expected to
159 occur in the forecast period. In addition, \$28.5M of the \$55M issuance
160 expected in December 2008 is being moved to July 2008. Debt issuance
161 costs are being corrected as well. See response to data request SK-1.08.
- 162 (17) Schedule D-2. Negative monthly balances are being removed from the
163 calculation of short-term debt in Schedule D-2.
- 164 (18) Schedule D-1. This schedule is being revised as a result of the
165 corrections to Schedules D-2 and D-3.
- 166 (19) Rate Case Expense. The percentage increase in rate case expense in
167 Schedule C-10.1 used the current estimate in the denominator. This is
168 being corrected at this time.
- 169 (20) Average Customers for Schedule A-3. The average number of customers
170 was inadvertently omitted from the original Schedule A-3 for waste water.
171 In addition, Other Public Authority revenues were presented on the
172 Industrial line. The number of customers are being added at this time and
173 the revenues are reflected on the proper line. See response to data
174 request CLH-2.01.
- 175 (21) AG& Payroll. The amount of A&G payroll is being corrected for the
176 current year as a result of overstated overtime in the current year
177 projection.
- 178 (22) Plant in Service Adjustments. As shown on IAWC Exhibit 4.07 SUPP,
179 corrections were identified for certain capital project costs and in-service
180 dates. The schedules have been adjusted to reflect changes to utility
181 plant in service, reserve for depreciation, and depreciation expense as a
182 result of these corrections.
- 183 (23) Lobbying Expense. Lobbying expense was inadvertently included in the
184 original projection above the line. Costs for lobbying expense are being
185 removed from the revenue requirement calculation.

186 (24) 2007 Depreciation. The 2007 depreciation expense for Champaign on
187 Schedule C-12 included the accumulated depreciation related to the
188 Pesotum acquisition. Schedule C-12 is being corrected to show the
189 removal of the Pesotum accumulated depreciation.

190 (25) Abandoned Wells. This correction removes four wells from utility plant in
191 service. See response to data request TQS 1.3.

192 **Q13. Does this conclude your Supplemental Direct testimony?**

193 **A.** Yes.