

**ILLINOIS COMMERCE COMMISSION**

**IAWC EXHIBIT NO. 4.00 (Revised)**

**DIRECT TESTIMONY OF**

**EDWARD J. GRUBB**

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**ILLINOIS-AMERICAN WATER COMPANY**

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**DIRECT TESTIMONY IAWC EX. NO. 4.00 (Revised)**  
**OF**  
**EDWARD J. GRUBB**

**I. WITNESS INTRODUCTION**

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**Q1. Please state your name.**

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

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

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

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

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

**Q4. Please summarize your higher education, background, employment experience, and your responsibilities as the Central Region Manager Rates and Regulation.**

**A.** My background and qualifications are summarized in IAWC Exhibit 4.01 of this testimony.

**II. PURPOSE OF TESTIMONY**

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

**A.** The purpose of my Direct Testimony is to discuss the Company's future test year projection of its revenue, expenses, and capital expenditure. I will also address the rate increase and certain Section G Schedules, Rate Base Elements, Revenues, Management Fees, Section C Schedules, and Rate Design in the respective sections below.

22 **Q6. Are you also generally familiar with the books and records of the**  
23 **Company?**

24 **A.** Yes.

25 **Q7. How did the Company forecast revenues and expenses for the future test**  
26 **year ending June 30, 2009?**

27 **A.** The source of all the basic accounting information contained in the schedules for  
28 the years ended June 30, 2006, and June 30, 2007, is the Company's books and  
29 records that contain the actual operating results for those periods. The data  
30 provided for the year ending June 30, 2008, and for the future test year ending  
31 June 30, 2009, were projected in accordance with the methodology I describe  
32 below.

33 **Q8. Will the increase to general water service customers under the proposed**  
34 **rates be an across-the-board increase?**

35 **A.** Generally yes. I will describe later in my testimony in more detail the Company's  
36 proposed rate design.

37 **Q9. Are plant additions planned for the years 2007, 2008, and 2009?**

38 **A.** Yes. As Mr. DeBoy states in his testimony, the Company plans substantial new  
39 construction that will be placed in service on or before June 30, 2009. The  
40 forecasted gross capital additions for the test year ending June 30, 2009 exceed  
41 \$109 million.

42 **III. FUTURE TEST YEAR PROJECTIONS**

43 **Q10. What test year has the Company proposed in this proceeding?**

44 **A.** The Company is proposing, and has presented its schedules using, a future test  
45 year comprising the twelve months ending June 30, 2009. The Company also is  
46 presenting, where appropriate, information for the historic years comprising the  
47 twelve months ending June 30, 2006 and June 30, 2007 and the current year  
48 comprising the twelve months ending June 30, 2008.

49 **Q11. Why did the Company select this test year?**

50 **A.** With the use of a future test year, the Company is better able to match revenues  
51 and expenses and to earn its authorized rate of return.

52 **Q12. Has the Company previously presented requests for rate relief based upon**  
53 **a future test year, and has the Commission accepted such future test**  
54 **years?**

55 **A.** Yes. The Commission approved the Company's use of a future test year in the  
56 Company's last rate case, Docket 02-0690, and certain prior rate cases.

57 **Q13. How were the future test year projections in the Company's current**  
58 **presentation developed?**

59 **A.** The projections initially were developed by personnel at each IAWC district office  
60 and IAWC's state corporate office (each of which is individually referred to as a  
61 "business unit"). The responsibility for each department's projection within the  
62 business unit rests with the department head. Recent historical run rate  
63 experience is used, usually from one to five years, with appropriate adjustments  
64 for known or projected changes. Where necessary, contacts are made by local  
65 and corporate management personnel with the procurement function group for  
66 prices goods and services to confirm estimates. The projections developed by

67 the separate departments are consolidated and reviewed by each business unit's  
68 management staff prior to submission to the Company's Senior Management  
69 Team.

70 Comprehensive planning studies provide the foundation for the capital  
71 investment projections. Operating and engineering staff work together in using the  
72 planning study information and other current information to develop a five-year capital  
73 investment program. This five-year capital program is updated annually as more  
74 current information becomes available and priorities change. The Company's Regional  
75 and State Corporate Office staff assists with and coordinates the development of the  
76 projections. The Regional Staff also prepares the projections of corporate items such  
77 as state and federal income tax, interest expense, and preferred and common  
78 dividends. The projections are then presented to senior management for review, and  
79 changes are made as appropriate. The Company's projections are then presented to  
80 the Company President for review and approval.

81 **Q14. Has the Company submitted the "G" schedules required in Subpart J of the**  
82 **Standard Filing Requirements applicable to this case?**

83 **A.** Yes. These schedules are contained in IAWC Exhibit No. 20.00. Schedules G-  
84 1, G-7 through G-9, and G-13 are described in my testimony below. Schedules  
85 G-6, G-10 through G-12, G-15, G-17, and G-18 are described in the testimony of  
86 Mr. Rungren. Schedules G-2 through G-5 and G-16 are described in the  
87 testimony of Mr. Kerckhove.

88 **Q15. Did you prepare, or caused to be prepared under your direction and**  
89 **supervision, the "G" schedules you are sponsoring?**

90 A. Yes.

91 **Q16. Please generally describe these schedules.**

92 A. These schedules provide information in support of the selection of a future test  
93 year.

94 **Q17. Were any adjustments made to the forecasted test year projections**  
95 **described above in developing the Company's exhibits?**

96 A. Yes, in developing the test year operating income statement and rate base at  
97 present rates, adjustments to the projections were made to reflect appropriate  
98 ratemaking treatment of certain items and to reflect corrections to the forecast.  
99 These adjustments are detailed in Schedules B-2.1, B-2.2, B-2.3 and C-2.1  
100 through C-2.10, and described in my testimony (Schedules B-2.2 and B-2.3) and  
101 in the testimonies of Mr. Kerckhove (Schedules B-2.1 and C-2.1) and Mr.  
102 Rungren (Schedules C-2.2 through C-2.10).

103 **Q18. How does the Company assure that costs are maintained within approved**  
104 **projections?**

105 A. All capital expenditures and certain expenditures for operations and maintenance  
106 projects are supported by work orders approved by management. The scope of  
107 the work and the cost estimate described in the work order must conform to the  
108 description contained in the approved projections. Purchase orders are issued  
109 for stock materials, supplies and equipment described in the work order and  
110 authority for approval is conditioned upon their conformity with the work order.  
111 With respect to construction projects, detailed cost analyses are prepared prior to  
112 project approval. The project status is reviewed periodically with respect to

113 schedule, cost, and quality. Post-completion reviews are prepared to compare  
114 actual costs and benefits with the original plans. A similar process is followed for  
115 routine expenditures and other expenditures of minor magnitude except that the  
116 control point is the detailed schedule that supports the projection rather than a  
117 specific work order. A monthly capital expenditures report is developed that  
118 identifies completed work and compares projections to actual results. The  
119 Company's officers and managers meet monthly to review progress. Physical  
120 inventories, internal audits and construction inspections reports are key elements  
121 of the control process.

122 For operating expenses, various reports and analyses are prepared to  
123 measure actual vs. plan. The Company uses both pre-close and post close  
124 process meetings to review operating results. These results are presented to  
125 senior management who meet monthly to review the results before reporting to  
126 the Board of Directors on a quarterly basis.

127 **Q19. In your opinion, are the test year projections reasonable and reliable?**

128 **A.** Yes.

129 **Q20. What is the basis of your opinion?**

130 **A.** The projections were developed in accordance with the "Guide for Prospective  
131 Financial Information" (2006) issued by the American Institute of Certified Public  
132 Accountants. In Schedule G-2 (see IAWC Exhibit 20.00); the Company has  
133 submitted the opinion of Kerber, Eck & Braeckel LLP, certified public  
134 accountants, that the preparation and presentation of the projections comply with

135 the Guide. Furthermore, the projections are reasonable, reliable, and were made  
136 in good faith. All of the basic assumptions used in preparing the projections are  
137 reasonable, evaluated and justified in the exhibits, testimony and workpapers  
138 supporting this filing to allow the Commission Staff and any intervenors to test  
139 the appropriateness of the projections. As shown in Schedule G-3, the  
140 assumptions and methodologies used in developing the projections are the same  
141 as those reflected in the test year projections prepared for the Company's  
142 management, as adjusted to reflect the rate increase proposed in this  
143 proceeding. Except as described in schedule G-4, the accounting treatment  
144 which has been applied to anticipated events and transactions in the projections  
145 is the same as the accounting treatment to be applied in recording the events  
146 once they have occurred.

147 **Q21. Does the forecast for the test year use the same assumptions and**  
148 **methodologies as the forecast prepared for management?**

149 **A.** Yes, except that the rate increase proposed in this proceeding is reflected.

150 **IV. RATE INCREASE**

151 **Q22. What is the amount of the rate increase and what does it represent?**

152 **A.** As shown on C-1, page 1 of IAWC Exhibit 17.00, the amount of the rate increase  
153 of \$35,416,186 represents the required increase in the Company's base rates.

154 **Q23. Do the revenues at present rates for the test year reflect Qualifying**  
155 **Infrastructure Plant ("QIP") revenues?**

156 **A.** No. The Company currently has in effect information sheets for the Alton, Cairo,  
157 Interurban, Peoria, Streator, and Pontiac service districts for the QIP surcharge.

158 The revenues from these surcharges have been eliminated from the forecast so  
159 as to state revenues at present rates which only reflect the Company's base  
160 rates.

161 **Q24. When the Commission issues an Order authorizing a change in base rates,**  
162 **will the Company file new QIP Information Sheets?**

163 **A.** Yes. When the Commission authorizes a change in base rates in this  
164 proceeding, the Company will file new tariffs to reflect the changes. The  
165 Company will also file new QIP Information Sheets that will reset the QIP  
166 surcharge back to 0.00% for each service district.

167 **V. "G" SCHEDULES**

168 **Q25. Have you made a comparison of prior years projected data with actual data**  
169 **for those years to verify the reliability and accuracy of the Company's**  
170 **projections?**

171 **A.** Yes. Schedule G-1 presents a comparison of projections of revenues, operating  
172 expenses and utility operating income to actual revenues, operating expenses,  
173 and utility operating income for each of the years ending June 2006 through June  
174 2008. Schedule G-1 also presents a comparison of projected to actual capital  
175 investments for the same years. The testimony of Mr. DeBoy explains the  
176 difference between actual and planned capital expenditures for the period ending  
177 June, 2008. The overall difference between projected and actual data shown on  
178 Schedule G-1 is small. Actual revenues for the years ended June 2006 and June  
179 2007, in total, are within 1% of plan. Total expenses for these two years show a  
180 variance from plan of 3.84%. For capital expenditures, if the delay in the

181 Champaign plant discussed by Mr. DeBoy is excluded from the calculation, the  
182 Company's actual capital expenditures for the years June 2006 and June 2007  
183 are within plan by 2.5%. Therefore, Schedule G-1 demonstrates the accuracy  
184 and reliability of the Company's projections.

185 **Q26. Please describe the G Schedules that you are supporting.**

186 **A.** Schedule G-7 is a schedule showing Proration of Accumulated Deferred Income  
187 Taxes; Schedule G-8 shows Actual Gross Additions and Retirements Compared  
188 to Original Budget; Schedule G-9 shows a Comparison of Budgeted Non-Payroll  
189 Expense to Actual; and Schedule G-13 shows a Comparison of Actual Financial  
190 Results to the Original Approved Forecast for each of the Past Twelve Months.  
191 All remaining Section G Schedules will be addressed in the Direct Testimony of  
192 Mr. Kerckhove and Mr. Rungren.

193 **VI. RATE BASE ELEMENTS**

194 **Q27. Please discuss Schedule B-2.2 and B-2.3.**

195 **A.** Schedule B-2.2 reflects a rate base reduction associated with Pension Liability.  
196 The reduction results from the difference between the level of pension expense  
197 collected in rates per SFAS 87, and the pension funding requirements under  
198 ERISA. To the extent the amount collected under SFAS 87 exceeds pension  
199 funding requirements under ERISA, a rate base reduction in that amount is  
200 appropriate.

201 **Q28. Please discuss the inclusion of the FAS 109 Regulatory Asset Net of**  
202 **Regulatory Liability as shown on Schedule B-2.3.**

203 **A.** The Company adopted the Statement of Financial Accounting Standards No. 109  
204 in 1993. In general, SFAS 109 requires utilities to reflect on its balance sheet,  
205 regulatory assets for recognition of the future increase in revenue requirements,  
206 primarily from the reversal of tax benefits previously flowed through to customers.  
207 Also, regulatory liabilities are reflected for recognition of the future reduction in  
208 revenue requirements, primarily from deferred income taxes previously provided  
209 for at tax rates greater than statutory levels and from the reversal of investment  
210 tax credits, through amortization. The Company's treatment of these balances is  
211 consistent with the treatment granted in the Company's previous rate cases,  
212 Docket Nos. 95-0076, 97-0102, 00-0340, and 02-0960.

213 **Q29. Please discuss the development of the accumulated reserve for deferred**  
214 **federal and state income taxes.**

215 **A.** The development of the reserve reflects the adjustment to deferred taxes for  
216 difference in book and tax timing differences related to Utility Plant in Service.  
217 The reserve reflects an average calculated in accordance with the proration  
218 methodology as established by Internal Revenue Service regulation Reg.  
219 §1.167(l)-1(h)(6).

220 **Q30. Please discuss the development of the test year balance of pre-1971 federal**  
221 **investment tax credits.**

222 **A.** The amount of this item, which is deducted from rate base, represents the 13-  
223 month average of the beginning and year-end balances of pre-1971 federal  
224 investment tax credits. Those balances reflect the annual amortization of pre-  
225 1971 federal investment tax credits referenced later in my testimony.

226 **Q31. Please discuss Schedule B-9 and B-9.1.**

227 **A.** Schedules B-9 and B-9.1 provide information on accumulated deferred income  
228 taxes.

229 **VII. REVENUES**

230 **Q32. Has the Company submitted the "E" schedules required in Subpart H of the**  
231 **proposed revised Standard Filing Requirements applicable to this case?**

232 **A.** Yes. These schedules are contained in IAWC Exhibit No. 19.00.

233 **Q33. Were the schedules contained in the E Schedules in IAWC Exhibit No. 19.00**  
234 **prepared by you or under your direction and supervision?**

235 **A.** Yes.

236 **Q34. Was the information contained in the E Schedules obtained or derived from**  
237 **the books and records of the Company?**

238 **A.** Yes.

239 **Q35. Please describe Schedule E-1.**

240 **A.** Schedule E-1 contains the proposed tariffs filed in this proceeding.

241 **Q36. Please describe Schedule E-2.**

242 **A.** Schedule E-2 contains the proposed tariffs, in strikeout form, showing proposed  
243 changes from current tariffs.

244 **Q37. Please describe Schedule E-3.**

245 **A.** This schedule contains the Narrative of Changes which was filed with the  
246 proposed tariffs and summarizes the rationale underlying the proposed changes.

247 **Q38. Please describe Schedule E-4.**

248 **A.** Schedule E-4 shows the billing units by rate class for the historic year, current  
249 year and test year.

250 **Q39. Please describe Schedule E-5.**

251 **A.** Schedule E-5 provides detailed information as to revenue by rate class at current  
252 rates compared with proposed rates.

253 **Q40. Has the Company submitted an embedded cost of service study?**

254 **A.** No. As provided in Section 285.5305 of the Standard Filing Requirements, the  
255 requirement for filing an embedded cost of service study is waived where the  
256 utility provides the necessary data referenced in subsections (b), (c) and (d) to  
257 enable Staff to perform a cost of service study. The Company will make such  
258 data available to Staff. Please refer to Schedule E-6 of IAWC Exhibit No. 19.00.

259 **Q41. Please describe Schedule E-7.**

260 **A.** Schedule E-7 provides bill comparisons for the different rate classes.

261 **Q42. How were the changes in the Charges for Municipal Franchise Fees  
262 determined?**

263 **A.** The Charges for Municipal Franchise Fees are based upon water revenues and  
264 the number of customers within the franchise boundaries. Therefore, as the  
265 franchise revenues increase or decrease, the fees to recover those revenues will  
266 correspondingly increase or decrease. Similarly, as the customer base  
267 increases, the fees become less, since the revenues being recovered are shared  
268 by a greater number of customers.

269 **Q43. Is the Company proposing changes to miscellaneous tariff charges?**

270 **A.** Yes. For uniformity, the Company is proposing to make applicable to the South  
271 Beloit District its tariff provisions for a non-sufficient funds (NSF) charge, service  
272 reconnection charges and a late payment charge. The Company's current  
273 charges for these items were approved in Docket No. 02-0690. The late  
274 payment charge is authorized by 83 Ill. Adm. Code § 280.90. The costs incurred  
275 by the Company for NSF and service reconnections during normal business  
276 hours are not materially different for the South Beloit District than for the other  
277 districts. The NSF charge is \$15 and the reconnect charge is \$32. The late  
278 payment charge is 1½ % of the outstanding balance.

279 **Q44. Is the Company proposing any other miscellaneous charges?**

280 **A.** Yes. Currently, the Champaign District has a customer activation charge of \$10.  
281 The Company is proposing to institute the \$10 activation fee in all Districts of the  
282 Company.

283 **Q45. Is the Company proposing any changes to the Sewage Treatment Plant**  
284 **Connection Fee?**

285 **A.** Yes. The current average project unit cost of \$831.76 per population equivalent  
286 (PE), found in the Chicago Metro Sewer District's Rule, Regulation and Condition  
287 of Service 16 (ILL. C.C. No. 5, Sheet No. 53), is based on 2002 construction  
288 costs. Since 2002, when the unit cost was last adjusted, the company has  
289 experienced an increase in the construction unit prices. This increase can be  
290 attributed to two factors. First, new environmental regulations require sewage  
291 treatment plants to treat to a higher standard. For example, Illinois Environmental  
292 Protection Agency has been requiring upgraded or new plants to remove

293 phosphorous from the wastewater. Dissolved oxygen requirements have also  
294 been included in the new discharge permits. Additional equipment has to be  
295 added to the plant to meet these new requirements, causing the unit cost to  
296 increase. The second factor contributing to the increase is inflation. Two  
297 nationally recognized construction cost indices show approximately 24 %  
298 increase in construction cost since 2002. The ENR construction cost index has  
299 increased from 6498 in 2002 to 8008 in August 2007. The Handy-Whittman  
300 Index for water and sewer has increased from 383 in 2002 to 474 January 2007.  
301 IAWC's recently bid project for the Oak Valley Water Reclamation Facility  
302 expansion is projected to cost \$8,697,930. This expansion will add treatment  
303 capacity for 7,500 P.E at a unit cost of \$1,159/P.E. This cost reflects the higher  
304 treatment standards and inflation. Therefore, IAWC is proposing that the  
305 Average Project Unit Cost be revised to \$1,159/P.E. Mr. Ruckman discusses  
306 additional changes to Sewer Rule 16 related to developer refund provisions.

#### 307 **VIII. MANAGEMENT FEES**

308 **Q46. Please discuss the support services provided to the Company by the**  
309 **American Water Works Service Company, Inc. ("Service Company")?**

310 **A.** IAWC receives services from the Service Company related to providing utility  
311 service to the customers of the Company. These services are provided under  
312 the terms of a Service Company Agreement ("Agreement") dated January 1,  
313 1989. A copy of the Agreement is attached as IAWC Exhibit 4.02. The Service  
314 Company maintains an organization whose officers and employees are familiar  
315 with all facets of the water utility business and are knowledgeable and

316 experienced in the efficient management, financing, accounting and operation of  
317 water utility assets and the business. The officers and employees of the Service  
318 Company are qualified to aid, assist and advise IAWC in its business operations  
319 through the services provided under.

320 **Q47. Please now discuss how the Service Company bills the Company for the**  
321 **services that it renders.**

322 **A.** Articles II, II and IV of the Agreement contain provisions governing the payment,  
323 allowance for overheads and the billing procedures for services provided under  
324 the Agreement. The Company also has an internal document that sets forth the  
325 billing process that the Service Company uses to bill IAWC for the services that it  
326 renders, a copy of which is attached to my testimony as IAWC Exhibit 4.03. This  
327 document is consistent with the Agreement and provides a detailed description of  
328 how the Service Company bills its costs for the services that it provides to not  
329 only IAWC, but to all other companies in the American System.

330 **Q48. What categories of services are provided by the Service Company?**

331 **A.** As indicated in paragraph 1.1 of Article 1 of the Agreement, the Service  
332 Company provides to the Company the following services: Accounting,  
333 Administration, Communication, Corporate Secretarial (Legal), Engineering,  
334 Financial, Human Resources, Information Systems (IT), Operations (Network,  
335 Maintenance, Production, Leak Detection), Rates and Revenue (Rate  
336 Regulation), Risk Management, Water Quality and other such services as IAWC  
337 and the Service Company may agree upon. The support services provided to  
338 IAWC are essential to providing safe and adequate services to the customers.

339 **Q49. Please describe the Administrative function.**

340 **A.** The Regional Administrative function located in St. Louis includes services  
341 related to corporate governance. This Regional function includes the President,  
342 Chief Financial Officer, Vice President Operations and the Corporate Counsel  
343 along with their administrative staff (Executive Management Team or "EMT").  
344 Corporate governance reflects the setting of the goals and objectives of the  
345 Company. Company strategy, policy and procedures are developed to attain the  
346 goals and objectives.

347 The EMT provides support and guidance to the management teams across the  
348 Region, including those at IAWC. The EMT reports to the Company's Board of  
349 Directors on such matters as operations, financial, environmental, political and  
350 regulatory. The EMT makes recommendations to the Board for its consideration, in  
351 areas such as business planning, financing, construction requirements, water quality  
352 issues, regulatory proceedings and legal matters. Based on the actions of the Board,  
353 the EMT then directs and assures the implementation of such actions.'

354 The Corporate Administrative function located in Voorhees, New Jersey, includes  
355 services related to system-wide corporate governance, property management,  
356 operational performance, innovation and technology, regulatory strategy, SSC (Shared  
357 Service Center) Administration, Communications, and business change. All of these  
358 services are critical in that they align the resources of the Company to assist in  
359 achieving its goals and objectives.

360 **Q50. Please describe the Finance Function.**

361 **A.** The Finance function includes not only the Central Region group located in St.  
362 Louis but also the Shared Services Center group located in New Jersey. The  
363 Central Regional Finance team provides services to IAWC related to rates and  
364 regulation, financial performance review and planning, and accounting and  
365 regulatory compliance.

366 The Shared Services Center in New Jersey supports the financial function of  
367 IAWC by performing essential services for accounting, payroll processing and reporting,  
368 accounts payable and purchase card services, invoice payments, task order and fixed  
369 asset processing, cash management, tax related services including, but not limited to,  
370 income and property taxes and additional rates and regulation support in rate cases.

371 **Q51. Please describe the Supply Chain function.**

372 **A.** The Supply Chain department utilizes strategic sourcing methods to procure  
373 products and services for IAWC. The department is made up of a national team  
374 and regional representatives. The national team is located in Voorhees, New  
375 Jersey, which provides services to the entire American Water system in  
376 commonly purchased volume items such as chemicals, pipe and meters. There  
377 is also a two person regional staff which procures items that cannot be bid  
378 nationally such as residuals and paving.

379 The strategic sourcing methodology utilizes competitive bidding and auctions to  
380 obtain the most competitive prices for products and services. Whenever possible, the  
381 Supply Chain group attempts to obtain fixed pricing and a multi-year contract to lock in  
382 costs and minimize fluctuating costs.

383           The Supply Chain also works with select suppliers in a supplier management  
384 program which evaluates performance, quality and cost with the objective of continuous  
385 improvement to the Company and its ratepayers. Problems and issues with other  
386 suppliers not deemed strategic are managed by the Supply Chain group.

387 **Q52. Please describe the Maintenance Function.**

388 **A.** The Central Region Maintenance Services department provides technical  
389 expertise for the Company in the areas of maintenance, Supervisory Control and  
390 Data Acquisition (SCADA) and non-revenue water ("NRW"). In the area of  
391 maintenance, the department's role is to help resolve maintenance problems and  
392 to provide guidance in what maintenance to perform and when to perform it. This  
393 department also tracks maintenance. In the SCADA area, the department  
394 supports the local operations in maintenance of field instrumentation and controls  
395 and manages maintenance of SCADA computer hardware and software. For  
396 NRW, the department helps analyze the system and water accounting and  
397 provides guidance on solutions to reduce NRW.

398 **Q53. Please describe the Business Development function.**

399 **A.** The Business Development function supports the regulatory business and  
400 benefits the customers by seeking regulated acquisition and other related growth  
401 opportunities which will increase the size of the customer base and its revenue  
402 stream, allowing fixed costs to be allocated to a greater number of customers.

403 **Q54. Please describe the Production function.**

404 **A.** The role of the Service Company is to provide direction for the management of  
405 Illinois's production facilities. The Production Team reviews and recommends

406 capital, operational and maintenance needs for each district and, with assistance  
407 from other functions, prioritizes work as required. The Production Team strives to  
408 efficiently and effectively provide the highest quality drinking water to its  
409 customers and provide treatment of wastewater which protects the environment.

410 **Q55. Please describe the Environmental Management & Compliance function.**

411 **A.** Technical support is routinely provided to IAWC water and wastewater treatment  
412 facilities by Central Region Service Company staff in the Environmental  
413 Management & Compliance Department. Support functions cover areas such as  
414 water quality, environmental compliance, environmental auditing and  
415 environmental stewardship.

416 Compliance with the Safe Drinking Water Act is overseen by the Water Quality  
417 Manager. Example of services provided include development of compliance monitoring  
418 schedules; review and submittal of drinking water compliance data to the Illinois  
419 Department of Environmental Management ("IDEM"); administration of EPA's  
420 Partnership for Safe Water program; meetings with district staff to address current water  
421 quality and treatment issues; compliance tracking; development of performance reports;  
422 training on environmental requirements; development of Consumer Confidence  
423 Reports; participation in development of wellhead protection plans and brochures; and  
424 development of lead and copper monitoring and corrosion control plans.

425 The Service Company's Environmental Manager oversees compliance with  
426 regulatory requirements of the Clean Water Act, Clean Air Act, and other environmental  
427 regulations, as well as management of the Company's environmental stewardship  
428 program. Activities include assistance with NPDES permit renewals for water and

429 wastewater treatment plants; implementation of a cross connection control program;  
430 including development of a written program, providing training to employees; surveying  
431 nonresidential customers; and tracking backflow prevention device test reports;  
432 residuals management and identification of beneficial use options; and identification and  
433 assistance with biodiversity projects.

434           These environmental management and compliance services are provided to  
435 IAWC to ensure continued compliance with relevant federal, state and local  
436 environmental regulatory requirements. Our environmental program and the support  
437 services offered by staff with extensive technical and regulatory knowledge and  
438 expertise allow the Company to effectively manage our environmental responsibilities  
439 while identifying ways to improve our environmental performance.

440 **Q56. Please describe the Customer Relations function.**

441 **A.** The Customer Relations function includes both a Central Regional team and the  
442 American Customer Service Center ("CSC") in Alton, Illinois and Pensacola,  
443 Florida.

444           Central Region Team

445           The Central Region customer relations team coordinates between IAWC's local  
446 operations and Shared Business Services Teams (National Customer Service Center  
447 and Shared Services Centers). It provides day-to-day customer related support to the  
448 local operations including the coordination of field-related service orders (scheduled and  
449 emergency related) to ensure that day to day customer needs are met. The regional  
450 customer relations team coordinates customer related activities throughout the region.  
451 The team provides support related needs to all levels of management, including

452 analysis of Meter Reading, Business Performance, Billing/Collections/Payments and  
453 Contract Billing Services. The following is a summary of The Central Region customer  
454 relations responsibilities:

- 455 • Coordination of monthly reporting
- 456 • Coordination and resolution of CSC/SSC/IT Customer Related Issues
- 457 • Coordination of customer related enterprise wide projects
- 458 • Meter Management Functions
- 459 • Billing/Collections/Payment Functions
- 460 • Business Performance Functions impacting Service Delivery Teams
- 461 • Field Resource Coordination Center (FRCC) – manages daily scheduled  
462 and emergency related service orders – formed as a result of use of the  
463 new Service First Mobile Technology
- 464 • Regional Support Staff – to process back office related functions
- 465 • Coordination of ICC Complaints involving CSC and SSC
- 466 • Coordination and resolution of existing and new Billing Services and O&M  
467 Contracts issues (including coordination of customer related processes for  
468 acquisitions)

469 Call Center Team

470 The CSC is a group within the Service Company that provides customer contact  
471 and billing services in support of all of American Water's regulated subsidiaries,  
472 including IAWC and its customers. Operating out of service centers in Alton, Illinois,  
473 and in Pensacola, Florida, the CSC responds to virtually all customer inquiries

474 nationwide from American Water's regulated operations in 19 states, including  
475 customers located in Illinois who are served by IAWC. Customer Service  
476 Representatives are available to customers 24 hours per day, seven days per week,  
477 365 days per year. The CSC and IAWC work together to provide services to all of  
478 IAWC's customers, including the following:

- 479 • The CSC is responsible for greeting customers making inbound calls and  
480 handling their requests. It also processes service orders and  
481 correspondence, bills accounts, and collects on accounts.
- 482 • "Field Service" is responsible for reading meters and providing other field  
483 services to customers.
- 484 • "CSC Call Handling" operates 24/7/365. It handles both general calls,  
485 such as service inquiries and account inquiries, and emergency calls. In  
486 terms of volume, the CSC handled approximately 4.2 million calls in 2005.
- 487 • "Billing" processes meter readings for billing.
- 488 • "Collections" is responsible for collecting unpaid bills and other collections-  
489 related activities, such as bankruptcy.

490 One example of the CSC's services for Illinois is the Chicago Metro District  
491 "specialty desk." In response to increased customer inquiries in Chicago Metro in 2005,  
492 a Chicago-area "specialty desk" was established at the CSC. Beginning June 4, 2006,  
493 calls coming from the Chicago area have been routed to specially trained Customer  
494 Service Representatives. These representatives have received additional in-depth

495 training about Chicago systems, processes and billing, and are available to Chicago  
496 Metro customers 24/7.

497 To manage these functions, the CSC utilizes a number of systems and  
498 technologies that distributes customer calls into the call center and enables the calls to  
499 be routed to agents with the skills to handle the specific type of call. The CSC also has  
500 technology that allows integration of voice and data within the center. For example, this  
501 integration is used is to populate the agents' screens with certain data simultaneously  
502 with the arrival of the calls.

503 **Q57. Please describe the Human Resources function.**

504 **A.** The Regional Human Resources function is responsible for overseeing  
505 employees from the beginning of their employment to the end of their  
506 employment. This includes the hiring process, labor and employee relations,  
507 compensation and benefits, training, and organizational development, as well as  
508 involvement in contract negotiations, discipline monitoring for consistency,  
509 investigations of any claims including those of discrimination or other violations of  
510 various laws. It also includes development of policies and practices.

511 The Regional Human Resource function provides service that includes hiring  
512 employees in Illinois to ensure we select the best possible candidates and are thorough  
513 in our approach. This function also helps supervisors to address employee concerns.  
514 The Organizational and Development staff conducts various training sessions and has a  
515 training catalogue which they produce and offer to the employees in order to meet the  
516 employees' training needs in Illinois. The various training classes were developed

517 based on needs identified through the appraisal process and also through identification  
518 of specific needs of an area.

519 In the recruiting process, the Company is committed to hiring the most qualified  
520 candidates for the job. Human Resources administers the relocation process when the  
521 candidate that is being pursued comes from outside of the employment area. The  
522 Company also has a tuition reimbursement plan which helps to develop the employees  
523 and gives them the opportunity for advancement in the Company.

524 The Corporate Human Resource function provides guidance and direction to the  
525 Regional Human Resource Team so as to align the function across American Water.  
526 Some of the areas of guidance are employee benefits, discrimination issues, bargaining  
527 unit negotiation strategies, employee issues, hiring practices, employee development,  
528 training and relocations. A new function introduced in the Corporate Human Resource  
529 function is the benefits call center that was implemented in late 2003, which is currently  
530 staffed with specialized employees who have the knowledge and skill set to address  
531 employee benefits questions and concerns.

532 **Q58. Please describe the Legal function.**

533 **A.** The Regional Legal Department provides legal support for all aspects of IAWC's  
534 business. The Regional Legal Department consists of specialized attorneys and  
535 associated support staff located in the Central Region. The Central Region Legal  
536 Department is responsible for all corporate governance matters, including  
537 compiling information for the Board of Directors meetings. The Central Region  
538 Legal Department also provides legal support for regulatory, real estate and  
539 property matters, litigation, bankruptcy, labor and employment, environmental,

540 business development, contracts, financings and general corporate governance.  
541 In addition, the American Water Corporate Legal Team, located in Voorhees,  
542 New Jersey, provides support to the Central Region Department regarding labor  
543 and employment, litigation, regulatory oversight and corporate governance.

544 The Central Region Legal Department oversees all regulatory matters on behalf  
545 of IAWC, including customer complaints in certain circumstances. In addition to  
546 regulatory matters, the Legal Department handles civil lawsuits and managed claims  
547 made against IAWC.

548 In addition, any real estate matters or disputes are handled by the legal  
549 department. The department negotiates for and reviews easements, leases,  
550 acquisitions and dispositions of real estate. This includes discussions with developers  
551 regarding installation of main extensions and corresponding agreements.

552 IAWC also receives legal support for all labor and employment matters from the  
553 Legal Department. In 2005 and 2006, nine union bargaining agreements were  
554 successfully renegotiated. IAWC management is represented by the Legal Department  
555 during grievances, arbitrations and other labor disputes and issues.

556 While the Environmental Management & Compliance Department provides the  
557 technical support to IAWC for environmental issues, the Legal Department advises the  
558 Environmental Department regarding environmental laws and represents IAWC during  
559 any civil or regulatory matters.

560 **Q59. Please describe the Operations Risk function.**

561 **A.** The Operational Risk function manages worker's compensation claims and  
562 accident investigations, prepares and updates district contingency plans

563 (emergency response plans), conducts safety compliance audits, oversees the  
564 compliance of the districts with Risk Management Plans/Process Safety  
565 Management programs, conducts OSHA required training (examples being  
566 Hazard Communication Standard, Respiratory fit testing, Personal Protective  
567 Equipment, Confined Space, Trenching and Shoring), conducts industrial  
568 hygiene surveys as requested, coordinates and oversees the maintenance of the  
569 district's security system, prepares and submits Tier II reports, manages and  
570 oversees district Spill Prevention Countermeasure and Control Plans, oversees  
571 and submits Annual Reports associated with hazardous and non-hazardous  
572 waste shipments, trains and coordinates Event Management practices for  
573 emergency situations, and oversees Department of Transportation compliance.

574 **Q60. Please describe the Water Quality function.**

575 **A.** The Water Quality function provides support to the Company in the area of water  
576 quality testing and analysis (through the Belleville, Illinois lab) and performing  
577 research and development in the area of water quality.

578 The American Water Centralized Laboratory is responsible for various types of  
579 testing for American Water subsidiaries, resulting in annual analysis of water samples  
580 for more than 200 contaminants. Testing includes samples for chemical compliance,  
581 process evaluation and *Giardia/Cryptosporidium*. The Central Laboratory is certified by  
582 25 states and the National Environmental Laboratory Accrediting Program (NELAP).

583 Samples received from field operations are analyzed for regulated and non-  
584 regulated chemical and microbial parameters according to state and federal  
585 requirements. Following analysis, an extensive data review is conducted and

586 Laboratory Analysis reports are generated and issued to American Water Regional  
587 points of contact, as well as state and federal regulatory agencies. In addition to  
588 sample analysis, the laboratory provides support for the implementation of upcoming  
589 regulations.

590 **Q61. Please describe the External Affairs function.**

591 **A.** The functional role of the External Affairs Department is to proactively educate  
592 the public, customers and community leaders about IAWC and the services  
593 provided. Support functions include internal and external communications,  
594 corporate social responsibility and government relations.

595 External Affairs team members implement regional communication programs,  
596 covering media relations, the IAWC website and related communication activity such as  
597 Community Connection newsletters, bill inserts, and public education materials.

598 The External Affairs team also provides updates for the IAWC website to ensure  
599 customers have access to the latest information as well as educational materials about  
600 water conservation, water quality, customer service press releases, billing and rates and  
601 the Community Connection newsletters.

602 The External Affairs team members work with local and state elected officials.  
603 The team works in partnership to inform community and state leadership about  
604 Company news, capital improvement programs and activities in their communities.  
605 Public meeting presentations, and updates to community leaders are all part of this  
606 effort.

607           The External Affairs team members work with local operations to support  
608           communications media training and their efforts in serving as a good neighbor and  
609           responsible steward in their communities.

610   **Q62. Please describe the Information Technology Service ("ITS") function.**

611   **A.**   ITS provides information technology support to IAWC. ITS Client Relations  
612           consists of the American Water Service Desk, which provides telephone support  
613           to the computer users of IAWC. If the Service Desk is unable to support the  
614           caller, a Work Order is generated for one of the three ITS support groups to  
615           assist. ITS Client Relations also provides Capital Program Management and has  
616           the responsibilities for placing orders, receipt, installation and configuration of all  
617           IT related equipment. End user training is also provided by the Client Relations  
618           staff on four planned occasions throughout the year and as requested.

619           The ITS group offers an average of a 48 - 72 hour turn around time on most ITS  
620           related issues. Some problems require additional time and may require that resources  
621           are set aside by the ITS Project Management Office. Resources would be assigned  
622           based on project priority. This quick turnaround time in addressing IT issues allows  
623           employees to remain productive with minimal computer downtime.

624   **Q63. Please describe the Network function.**

625   **A.**   Field services technical support, managerial oversight and leadership are  
626           provided to IAWC by the Central Region Director, Network. The Director,  
627           Network has oversight responsibility for compliance with the field services  
628           aspects of the Illinois Administrative Code and IAWC's tariffs, rules and  
629           regulations. This oversight includes the direction of analysis of the effectiveness,

630 efficiency and adequacy of IAWC's Network workforce and other resources for  
631 the execution of these operational requirements, as well as other performance  
632 and productivity objectives. Leadership is provided in part by the Director,  
633 Network in the form of developing annual performance targets for the Illinois  
634 Network General Manager and Network employees.

635 The Director, Network also has responsibility to work in tandem with the Region's  
636 Customer Relationship Services function to identify and direct operational processes  
637 occurring at the interface between IAWC Network and the American CSC. An example  
638 of this occurred with the implementation of IAWC's mobile computing customer service  
639 order system (Service First) in 2005.

640 In collaboration with IAWC's General Manager, Network, the Director, Network  
641 develops expectations for external relations activity for the IAWC Network staff. An  
642 example of this occurs in the defining of key relationships between Illinois Network  
643 function leadership and external stakeholders.

644 Direction in the processing of labor agreement negotiations and other negotiable  
645 matters and review of the annual budgeting of operational line items of expenditure  
646 within the IAWC Network function is provided by the Director, Network. Associated with  
647 this is the review of the IAWC Network's monthly and annual actual operations related  
648 expense levels compared to their budgeted levels. This includes evaluation of the work  
649 performed in association with those actual expense levels. Based on the results of this  
650 review, direction is provided by the Director, Network with respect to making  
651 adjustments in the budget, workload and/or means and methods by which to complete

652 the workload in order to maintain financial and service quality performance in  
653 accordance with established targets.

654 The Director, Network provides guidance in the development of business case  
655 models designed for analysis and evaluation of new technology, reengineered  
656 processes or workload requirements for use in processing IAWC Network's functional  
657 responsibilities

658 On behalf of IAWC's Network function, the Director, Network works with other  
659 functions within the Central Region and the American Water Service Company in  
660 representing IAWC Network's operational interests, finding ways to address those  
661 interests within the broader contexts of the Central Region and/or the American Water  
662 enterprise.

663 **Q64. What is the cost level of the support services from the Service Company**  
664 **that the Company is requesting to recover in rates in the current rate case?**

665 **A.** As shown on Schedule C-2, page 1 of 19, and labeled as Management Fees, the  
666 Company is requesting \$18,523,751 of management fee expense. These  
667 management fees reflect provision of all the services I have just described.

668 **Q65. Has the cost for support services from the Service Company increased**  
669 **since the last rate case test year?**

670 **A.** Yes.

671 **Q66. Please discuss the level of management fee expense.**

672 **A.** The proposed cost of support services from the Service Company is  
673 \$18,523,751. This is an increase of \$8,956,737 from the 2003 rate case test  
674 year. I will discuss this increase in terms of the increase from 2003 to 2006 and

675 then from 2006 through the projected test year. First, the total increased cost for  
676 support services from 2003 through 2006 is \$8,404,663. Included in the 2006  
677 expense are one-time costs related to the reorganization discussed by Ms.  
678 Teasley, in the amount of \$1,235,879. If the actual 2006 management fee of  
679 \$17,971,677 is reduced by the one-time costs, this results in an adjusted  
680 normalized 2006 level of management fees in the amount of \$16,735,798.  
681 Second, forecasted level of management fees for the test year is \$18,523,751 or  
682 an annual increase of 4.1% greater than the adjusted 2006 level of \$16,735,798.  
683 Thus, the majority of the increased costs in management fees occurred between  
684 2003 and 2006. While this increased cost for this time period exceeds inflation,  
685 consideration must be given to additional services provided to IAWC, several  
686 organizational changes and other issues that have occurred in the American  
687 System that have impacted IAWC's level of management fees since 2003. Given  
688 these considerations, the proposed level of management expense represents a  
689 reasonable cost level for these services.

690 **Q67. What was the level of management fees proposed by the Company in the**  
691 **last case and how does that compare to the actual cost incurred?**

692 **A.** In the last case as shown on Schedule C-2, page 1, the proposed amount of  
693 management fees was \$6,843,171. However, the Company reflected costs  
694 associated with the Service Company employees who resided in Illinois as "in-  
695 state" employees and thus included those costs within the labor, pensions, group  
696 insurance, payroll taxes, and miscellaneous expense categories. Had these

697 costs been reflected in the management fee category, the total management fee  
698 cost proposed by the Company would have been \$9,824,737.

699 **Q68. Why did the Company not reflect the "in-state" Service Company employee**  
700 **cost as management fees in the last rate case?**

701 **A.** The approach taken in the last case was to reflect the costs for the "in-state"  
702 Service Company employees as IAWC employees. Prior to the last case, these  
703 employees were actual Company employees, and this approach was designed to  
704 be consistent with how the employees' expenses were categorized in prior cases.

705 **Q69. In the last case, how many employees were "in-state" Service Company**  
706 **employees and which functions were they?**

707 **A.** The number of employees and their functions are shown below:

<b>FTE's</b>	<b>Function</b>
3.20	A&G
3.20	Rates
2.40	Legal
.80	Water Quality
.80	Human Resources
.80	Community Relations
6.00	IT
<u>4.00</u>	Business Development
<u>21.20</u>	

708 **Q70. Why is the Company changing its approach to categorizing its costs for**  
709 **Service Company employees?**

710 **A.** The Company initiated a organizational restructuring in late 2003 which was  
711 completed in 2004. As a result, the Central Region office of the Service  
712 Company was formed and was located in St. Louis. Because of this, costs

713 related to all Service Company employees associated with the Central Region  
714 are now reflected in management fees.

715 **Q71. Please discuss the increase in costs for support services since the**  
716 **Company's last rate case test year through 2006.**

717 **A.** There are five basic factors that have caused the increase in the cost of support  
718 services for IAWC. They are as follows:

- 719 • General increase in inflation since the last rate case.
- 720 • New functions being performed that resulted in new services being  
721 provided to IAWC by the Service Company.
- 722 • Increased cost for the Call Center.
- 723 • Increased cost of Pension Expense
- 724 • The Company initiated a restructuring in 2003 that resulted in the  
725 elimination of thirty-one positions at IAWC. However, a number of those  
726 positions were transferred to the Regional Service Company

727 **Q72. Please discuss the general increase in inflation.**

728 **A.** Since 2003, inflation has continued to impact the Company's costs. The majority  
729 of Service Company costs are labor and labor related. Since 2003, the  
730 employment cost index published by the Department of Labor for wages and  
731 benefits has increased 10.40%. The general consumer price index has  
732 increased from the end of 2003 through December 2006 by 8.3%. Therefore,  
733 using a weighted estimated increase of 9.94% accounts for an increase of  
734 approximately \$950,961.

735 **Q73. Please discuss the new functions being performed.**

736 **A.** The Service Company has initiated the Supply Chain, Environmental  
737 Compliance, Network, Maintenance and Production functions at the Service  
738 Company level since the last rate case. These new functions provide IAWC with  
739 the benefits and services that I describe for each of these functions above. The  
740 proposed cost associated with the Maintenance function is \$307,273. The  
741 proposed cost associated with the Environmental Compliance function is  
742 \$280,739. The proposed cost associated with the Network function is \$89,209.  
743 The proposed cost associated with the Production function is approximately  
744 \$150,039. The proposed cost of the Supply Chain function is \$350,927. The  
745 Company has identified, however, operating expense savings of \$836,853 and  
746 capital savings of \$59,657 associated with the Supply Chain function, which are  
747 reflected in the test year data. The total cost associated with these five functions  
748 is \$1,178,187. The new functions at the Central Region level were formed as a  
749 result of the 2003/2004 restructuring that will be discussed later.

750 **Q74. Please discuss the increased cost for the CSC.**

751 **A.** The CSC costs allocated to Illinois have increased by \$632,523 since 2003  
752 through 2006. This represents a 21.6% increase over the three years. Inflation  
753 since 2003 accounts for approximately \$290,658 of these costs. The remaining  
754 increase in cost, of approximately \$341,865, can be attributed to additional  
755 resources required by increased call volume since 2003, which has required the  
756 increase in staffing at the CSC.

757 **Q75. Please discuss the increased cost of pension expense.**

758 **A.** In 2003, the total pension cost for the Service Company as a whole was  
759 \$968,480. In 2006, the total cost for pension expense for the Service Company  
760 was \$8,346,597. Thus, the increase in pension cost for the Service Company  
761 was \$7,378,117. The Company's portion of the cost increase, based on a  
762 customer allocation factor of 9%, is \$664,031. A part of this increase is a result  
763 of the impact of inflation as I discussed above. Removing the estimated impact  
764 of inflation from the \$664,031 increase in pension cost, the resulting net increase  
765 is approximately \$655,367.

766 **Q76. Please discuss the changes resulting from the Company's restructuring.**

767 **A.** In late 2003, in a continuation of the process within American Water to improve  
768 efficiency to the greatest extent possible, American Water initiated an  
769 organizational restructuring that ultimately eliminated a number of positions from  
770 the payroll of IAWC. At the same time, the Central Region of American Water  
771 was created. Some of the positions were transferred from the payroll of IAWC to  
772 the Service Company while others were eliminated. For example, IAWC's  
773 Customer Service Superintendent position was transferred to the Service  
774 Company's payroll. The effect of this was to increase support services cost  
775 charged to IAWC from the Service Company but reduce IAWC's labor and other  
776 related costs. Prior to the restructuring, IAWC was part of the West Central  
777 Region which included Illinois and Iowa. Service Company Management  
778 functions and services were provided by the West Central Regional Team  
779 located in Belleville, Illinois. After the restructuring, additional and expanded  
780 services were provided to the Company. These were discussed under Point 2

781 above. IAWC is now a part of the Central Region which includes Illinois, Ohio,  
782 Missouri, Iowa, Indiana, and Michigan.

783 **Q77. Describe the extent of the cost reductions at IAWC that resulted from the**  
784 **restructuring.**

785 **A.** The restructuring eliminated thirty-one positions from the Company. As shown in  
786 attached IAWC Exhibit 4.04, the elimination of these positions resulted a  
787 reduction of costs of \$4,355,373 to IAWC. As Exhibit 4.04 shows, total labor and  
788 incentive pay savings to IAWC are \$2,162,011, benefit cost savings associated  
789 with the positions eliminated amount to \$1,100,007 based on the proforma  
790 expense level included in the current rate case for pensions, group insurance,  
791 post-retirement benefits, payroll taxes, worker's compensation and 401K costs,  
792 and ESOP savings resulting from eliminating this benefit are \$122,921.  
793 Transportation costs have also been reduced by \$73,924 resulting from the  
794 reduction of 15 vehicles. The reduction of costs to IAWC as a result of this  
795 restructuring exceeds the amount of service costs shifted to the Service  
796 Company and charged back to IAWC after the restructuring by at least \$312,969.  
797 This amount represents a net savings to ratepayers, which is reflected in test  
798 year expenses.

799 **Q78. Are there any other cost decreases that you did not consider?**

800 **A.** Yes. Certain other expenses would normally be impacted and eliminated as  
801 staffing levels are reduced. For example, the cost of office furniture, office  
802 equipment, utilities, cell phones, travel expenses, vehicle maintenance,  
803 employee turnover related costs, office materials and supplies, and tuition aid

804 would be impacted. Assuming a 5% savings factor for these costs as a  
805 percentage of payroll, the estimated additional level of savings would be  
806 \$96,627.

807 **IX. "C" SCHEDULES**

808 **Q79. Has the Company submitted the "C" schedules required in Subpart F of the**  
809 **Standard Filing Requirements applicable to this case?**

810 **A.** Yes. These schedules are contained in IAWC Exhibit No. 17.00. Schedules C-5  
811 and C-5a, C-5.1 through C-5.3, and C-5.5 are described below. Schedules C-  
812 2.1, C-3, C-4, C-6 through C-10, C-10.1, C-11.1 through C-11.3, C-13, C-17  
813 through C-21, C-23, and C-25 are described in the testimony of Mr. Rungren.  
814 Schedules C-1, C-2, C-2.2 through C-2.10, C-5.4, C-12, C-14 through C-16, and  
815 C-26 are described in the testimony of Mr. Kerckhove.

816 **Q80. Did you prepare, or cause to be prepared under your direction and**  
817 **supervision, the "C" schedules referred to above?**

818 **A.** Yes.

819 **Q81. Was the information contained in the schedules obtained or derived from**  
820 **the books and records of the Company?**

821 **A.** The source of all the basic accounting information contained in the schedules for  
822 the years ended June 30, 2006, and June 30, 2007, is the Company's books and  
823 records and reflects the actual operating results for those periods. The data  
824 provided for the year ending June 30, 2008, and for the future test year ending  
825 June 30, 2009, were projected in accordance with the methodology described  
826 above.

827 **Q82. Please describe Schedule C-5 and C-5a.**

828 **A.** These schedules provide the calculation of current federal and state income tax  
829 at present and proposed rates, respectively.

830 **Q83. Please briefly describe the calculation of current federal and state income**  
831 **tax expense.**

832 **A.** In Schedule C-5, various additions and deductions are made to utility operating  
833 income, and the Company's budgeted tax rates are applied to the resulting  
834 taxable income. The Company's federal tax rate is 35% and the Company's  
835 effective state tax rate is 4.269%. For state income tax, taxable income is  
836 multiplied by the tax rate and the result is offset by the current year investment  
837 tax credit. Interest cost is deducted since it is deductible for tax purposes but not  
838 included in utility operating income. Other adjustments to utility operating income  
839 reflect differences between book and taxable income. For example, book  
840 depreciation is not used to calculate current income tax. Rather, a separate  
841 calculation is made for tax depreciation. An adjustment is then made to utility  
842 operating income to add back book depreciation expense and to subtract tax  
843 depreciation to arrive at taxable income.

844 **Q84. Please explain Schedule C-5.1.**

845 **A.** This schedule provides information regarding the consolidated federal income tax  
846 return.

847 **Q85. Please describe Schedules C-5.2 and C-5.3.**

848 **A.** These schedules include the calculation of deferred income tax expense.

849 **Q86. Please describe Schedule C-5.5.**

850 **A.** This schedule shows investment tax and job development credits.

851 **Q87. Please describe Schedule C-10.**

852 **A.** This schedule provides the components of the Company's proposed level of rate  
853 case expense. It includes costs for legal, revenue requirements (case  
854 preparation and litigation), CPA review, rate of return, demand study, municipal  
855 rate study, depreciation study, and other costs related to customer  
856 communications. The Company is proposing to amortize all these costs over a  
857 three-year period, with the exception of the depreciation study. The depreciation  
858 study is being amortized over five years.

859 **Q88. Please describe Schedule C-10.1.**

860 **A.** This schedule compares the estimated cost of the current filing with the actual  
861 cost from the prior rate case (Docket 02-690) and provides explanations for  
862 variances of 20% or more.

863 **X. RATE DESIGN**

864 **Q89. How were the proposed rates designed?**

865 **A.** Generally, the proposed rates are based upon across-the-board revisions to all  
866 rates for all Districts for which a rate increase or decrease is proposed in  
867 accordance with revenue requirements applicable to each District. The  
868 Company's present rate design was established based on a cost of service  
869 analysis in Docket 02-0690 and there is no change in circumstances since that  
870 time that would warrant a change in the design of the Company's rates, except  
871 as I discuss below.

872 **Q90. Please discuss the two exceptions.**

873 **A.** First, the Company is proposing to change the rate structure in the Chicago  
874 Metro Sewer District for residential customers who fall under the tariff for sewer  
875 collection and treatment. The Company is proposing to move to a combination  
876 fixed and volumetric rate structure for these customers. The current rate  
877 structure is a fixed rate structure of \$45.52 per month. The Company's proposal  
878 is to move to a fixed charge of \$26.07, a usage allowance of 1,000 gallons per  
879 month, a volumetric rate of 3.7891 for the next 7,000 gallons and \$1.9311 for all  
880 usage over 8,000 gallons. The Company believes the proposed combination  
881 structure is a more reasonable rate design. The proposed rate structure applies  
882 the volumetric rates to winter usage levels. In other words, a winter average  
883 usage level will be determined based on the months of November through April,  
884 with this usage level being used to calculate the sewer bills for the months of  
885 May through October. The use of a winter average is appropriate in light of the  
886 impact during other months of outdoor water use, which does not affect the  
887 sanitary wastewater flow.

888 **Q91. Does this proposed rate structure incorporate the proposed rate decrease**  
889 **for the Chicago Metro Sewer District?**

890 **A.** Yes, it does.

891 **Q92. What is the second exception to the proposed across-the-board increase**  
892 **that you noted?**

893 **A.** The Company is proposing to combine the revenue requirement for the Southern  
894 (Alton, Interurban, and Cairo), Peoria, Streator, Pontiac, and South Beloit service  
895 districts and develop an across-the-board increase for these districts.

896 **Q93. Why is the Company proposing combining the districts?**

897 **A.** The Company believes that combining service districts will mitigate possible  
898 substantial rate impacts on South Beloit customers. Due to the relatively small  
899 size of South Beloit, the average Southern, Peoria, Streator and Pontiac  
900 residential customer's bill is impacted by less than \$0.15 per month.

901 **Q94. Are there any other rate design issues that you would like to note?**

902 **A.** Yes. In the Docket 02-0690, the Company was ordered to move the Pontiac rate  
903 blocks to match the Southern, Peoria, and Streator block structure. This has  
904 been proposed in this case. The Company has information available for the  
905 Pontiac District usage based on the then current Pontiac usage block structure  
906 as well as the STP usage block structure. We can provide that information to the  
907 Staff upon request. Also, the Company has completed the transition of Peoria's  
908 third and fourth rate block rates to match the Southern and Streator rates at the  
909 proposed rates.

910 **Q95. Has the Company submitted a cost of service study as referenced in**  
911 **Schedule E-6 of the Standard Filing Requirements applicable to this case?**

912 **A.** No. The requirement is waived under 83 Ill. Adm. Code Section 285.5305.

913 **Q96. In this rate case, is the Company proposing any changes to the design of**  
914 **its standby service tariffs?**

915 **A.** No.

916 **Q97. Does this conclude your testimony?**

917 **A.** Yes.

918