

ILLINOIS COMMERCE COMMISSION

DOCKET 09-0319

IAWC EXHIBIT 2.00SR

**SURREBUTTAL TESTIMONY OF
CHERYL NORTON**

ILLINOIS-AMERICAN WATER COMPANY

November 25, 2009

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27 is, on a cost per 1000 gallons of water produced basis, consistent with 2007-
28 2009 levels (and is slightly below 2009). As I indicated in my rebuttal (and
29 discuss further below), the decrease in the electric supply charges that resulted
30 from IAWC's negotiation of new power contracts for 2010 is partially offset by
31 increased usage requirements and a projected increase in delivery charges. As
32 shown on IAWC Exhibit 2.01SR, however, the Company's fuel and power cost
33 per 1000 gallons of system delivery increased from \$0.17 per 1000 gallons in
34 2007 to \$0.20 per 1000 gallons in 2009, and is projected to decline to \$0.19 per
35 1000 gallons in 2010. As IAWC Exhibit 2.01SR also shows, the Company's
36 overall total amount of fuel and power expense increased from approximately
37 \$8.1 million in both 2008 and 2009 to a projected amount of approximately \$8.8
38 million in the test year. This increase is explained, however, by the fact that 2008
39 and 2009 were both abnormally wet years (as discussed below) and so system
40 delivery was unusually low. The Company's test year projection of system
41 delivery reflects more normal weather conditions, with resulting higher fuel and
42 power expense. As indicated on IAWC Exhibit 2.01SR, however, despite the
43 higher level of expense in 2010, the per unit cost is lower than 2009. This
44 demonstrates that the test year projection is reasonable.

45 **Q5. Mr. Collins states on page 10 that he is not convinced that increased power**
46 **requirements and higher delivery charges will cause an increase in the**
47 **Company's purchased power and fuel expense on a per CCF basis despite**
48 **a decrease in the cost of electric supply. Please explain the increase in**
49 **fuel and power cost due to these factors.**

50 A. As I indicated in my rebuttal testimony, there are several IAWC facilities that
51 have recently come on line. The new Champaign plant went online in late
52 December 2008. As IAWC Exhibit 2.02SR shows, the electric power costs per
53 million gallons for the Champaign district before and after the new plant went on-
54 line were \$191.88 and \$224.82, respectively. This exhibit also shows the
55 increased cost per KWH that is related to increases in power company delivery
56 charges (from \$0.0880 to \$0.0946 per KWH). The expansion of the Oak Valley
57 treatment plant was put into service in December 2008. IAWC Exhibit 2.03SR
58 shows the increase in power costs that occurred as a result (\$5,522 average per
59 month increase). In addition, there were two new tank and booster stations that
60 went online in Streator and Sterling in June 2008 and August 2008, respectively.
61 IAWC Exhibit 2.03SR also shows the additional new power consumption at each
62 of these stations (\$11,033 and \$6,810, respectively) in 2008 and 2009.

63 **Q6. Mr. Collins states on page 10 that “Delivery services are a small portion of**
64 **the Company’s overall purchased power and fuel expense and would not**
65 **completely offset the savings in electric supply expense. Ms. Norton has**
66 **not demonstrated the impact of increased delivery service costs on the**
67 **Company’s overall purchased power and fuel expense.” How do you**
68 **respond?**

69 A. Based on a weighted calculation for a sample of large power bills, the distribution
70 or delivery service portion of the bills received from the electric suppliers is
71 approximately 20.1%. The following is an estimate of IAWC’s power costs
72 associated with delivery service charges based on this percentage:

73	2007	\$1,738,347
74	2008	\$1,691,790
75	2009	\$1,226,517 (September YTD)
76	2009	\$1,635,356 (Annual)
77	Test Year	\$1,776,804
78		

79 Although the percentage of electric power costs that result from the delivery
80 charges is less than the supply cost, the amount, at 20%, is not insignificant.

81 **Q7. Mr. Collins states on page 10 that “With respect to power usage, the**
82 **Company’s sales volumes have decreased since the last rate case and thus**
83 **power and energy requirements to pump and treat water should be lower.”**
84 **Is it correct that sales volumes have decreased since last case?**

85 **A.** Yes, but the decrease was due to unusually wet weather in 2008 and 2009 (with
86 correspondingly reduced water sales). In 2008, Illinois experienced its second
87 wettest year on record with precipitation levels of 50.7 inches (11.4 inches above
88 normal). Only 1993 was wetter with 51.2 inches. At the end of October, 2009,
89 the average state rainfall for the year was over 46 inches, compared to an
90 average expected amount of just over 33 inches. Additionally, the average
91 temperature through October was two degrees cooler than normal (53.5 degrees
92 vs. 55.5 degrees). IAWC is projecting that 2010 will be a normal year and system
93 delivery will increase to normal levels.

94 **Q8. With respect to chemical expense, Mr. Collins stated he was waiting to**
95 **review additional data. Do you have additional information supporting the**
96 **Company’s projected test year chemical expense?**

97 **A.** Yes. As indicated in my rebuttal testimony, projected chemical expense is higher
 98 in the test year in this case when compared to the amount allowed in rates in the
 99 last case in part due to the fact that, after the prior case, chemical expense
 100 increased dramatically. While prices have declined, and IAWC has been able to
 101 obtain lower prices on chemicals for the test year as described in my rebuttal
 102 testimony, chemical prices have not returned to prior low levels such as those
 103 seen in 2007. The following table illustrates IAWC’s chemical expense on a cost
 104 per 1000 gallons system delivery basis, and shows how chemical expenses have
 105 increased and are projected to decline, but not all the way back to prior levels.

**Illinois
 Chemicals and System Delivery 2007 to 2010**

	2007	2008	2009 (YTD) Oct	2010 Test Year
System Delivery	47,235,180	44,068,399	34,762,120	46,244,272
* Chemical Costs	5,646,754	6,219,290	6,320,294	7,692,185
Cost Per '000 gal	0.120	0.141	0.182	0.166
% Increase Year over Year		17.50%	29.08%	-8.79%

*Chemical Costs for test year do not include unaccounted for water ratemaking adjustment (-\$134,774)

117 As also shown on Exhibit 2.04SR, the per unit costs of individual chemicals
 118 increased, in some cases substantially, between 2008 and 2009. For example, in
 119 Interurban, the per unit cost of “PolyAlum SulfClarionA410P Bulk” (coagulant)
 120 increased from \$0.13 to \$0.22. As I discussed in my rebuttal, IAWC was able to
 121 obtain favorable pricing for treatment chemicals in August 2009. This
 122 demonstrates that IAWC has sought to obtain chemicals in a least cost manner
 123 and that IAWC’s test year projection of chemical expense is reasonable.

124 IV. RESPONSE TO HOMER GLEN WITNESSES

125 **Q9. Please summarize your testimony responding to the Homer Glen**
126 **witnesses.**

127 **A.** In direct testimony, Homer Glen witnesses Daley and Schofield made certain
128 allegations regarding IAWC's operations and services, including leak repairs,
129 meter installation, permitting and restoration. As I indicated in my rebuttal, IAWC
130 issued data requests to Homer Glen seeking further information regarding Homer
131 Glen's alleged concerns. Those responses were not received in sufficient time to
132 allow review before IAWC's rebuttal filing. Although Homer Glen witnesses
133 Daley and Schofield did not file rebuttal testimony, Homer Glen did provide some
134 additional information in data responses regarding Mr. Daley's and Mr.
135 Schofield's concerns, which I respond to below. I also respond to testimony from
136 Homer Glen witness Mr. Fundich regarding paving and restoration costs.

137 **Q10. With respect to the allegation of Homer Glen Mayor Daley that IAWC has**
138 **been slow to repair leaks, did Homer Glen identify any specific instances in**
139 **his testimony where IAWC was slow to repair a leak?**

140 **A.** No. In response to data request IAWC-HG 1.08, Homer Glen identified only two
141 specific cases where it alleged IAWC was slow to repair leaks.

142 **Q11. Were the instances identified in the response cases where IAWC was slow**
143 **to repair leaks?**

144 **A.** With respect to 13155 Hidden Valley Dr., the Village notified IAWC regarding a
145 small leak on a fire hydrant on January 27, 2009, at which time they also
146 reported that a fire hydrant that had been knocked over on 159th St. Due to the
147 critical nature of the fire hydrant damage on 159th St. (out of service hydrant),

148 IAWC prioritized the repair and completed that work prior to the small leak at the
149 hydrant located at 13155 Hidden Valley Dr. Once IAWC checked the fire
150 hydrant on Hidden Valley Dr. to verify that it needed to be excavated and not just
151 shut down to stop the leak, IAWC called the JULIE system which takes up to 48
152 hours to get all utilities marked on a non emergency basis. Because this was a
153 small leak and the hydrant remained operable, it was not considered an
154 emergency situation. IAWC excavated and replaced the fire hydrant on February
155 2, 2009. No permit was needed for this work given the fact that the repairs were
156 made of utility piping in place before the ordinance was passed according to our
157 attorneys.

158 With respect to 14551 Abbott Rd., leak repair took approximately five
159 weeks due to an internal communication failure, however, there were actually two
160 separate leaks at this site, which is not addressed in Mr. Daley's comments. The
161 first leak was a broken flange on a fire hydrant and IAWC was notified of this
162 possible leak on 9/9/2008. A sample was collected to verify the source of the
163 leak, however, the maintenance department did not receive the results of this
164 sample. Changes to the testing and reporting processes have been made to
165 ensure that similar delays are avoided. IAWC replaced the fire hydrant on Friday
166 10/17/2008. On Saturday 10/18/2008, we were notified that the leak had started
167 again. IAWC estimated that the leak was running approximately 2-4 gallons per
168 minute and it was determined to be more cost effective to wait and repair the leak
169 during normal work hours. An operator investigated and determined that this
170 was a separate leak. Upon excavation, a small crack in the water main was

171 located and repaired with no outage to the customers. We notified the Village
172 that we were doing this work on both days before the work proceeded.

173 As I discussed in my rebuttal testimony, IAWC seeks to identify and repair
174 leaks in an efficient and timely manner, once those leaks have been identified.
175 IAWC representatives have been working closely with Village employees, as well
176 as the Homer Glen Sewer and Water Task Force representatives, to ensure that
177 all issues related to leaks and service concerns are addressed in a timely
178 manner.

179 **Q12. With respect to the allegation of Homer Glen Mayor Daley that IAWC has**
180 **been slow to install water meters, did Homer Glen identify any specific**
181 **instances in his testimony where IAWC was slow to install water meters?**

182 **A.** No. In response to data request IAWC-HG 1.09, Homer Glen provided two one-
183 page documents that listed six addresses with no meters.

184 **Q13. Did Homer Glen provide any other information?**

185 **A.** No.

186 **Q14. Were the addresses identified in the response cases where IAWC was slow**
187 **to install a water meter?**

188 **A.** No. The addresses in question were locations where new construction had
189 started prior to implementation of the new tariffs allowing metering of construction
190 water. These locations were identified during the new construction audit
191 conducted by IAWC in early 2009 and prior to notification by the Village. In all
192 cases, meters were either installed or water service was terminated until an
193 account was established.

194 **Q15. With respect to the allegation of Homer Glen Mayor Daley that IAWC has**
195 **done work in Homer Glen without necessary permits, did Homer Glen**
196 **identify any specific instances in his testimony where IAWC has done work**
197 **in Homer Glen without necessary permit?**

198 **A.** No. In response to data request IAWC-HG 1.12, Homer Glen cited three
199 examples where Homer Glen alleged work was performed without permits.

200 **Q16. Did Homer Glen provide any other information?**

201 **A.** No.

202 **Q17. Were the examples identified in the response cases where IAWC has done**
203 **work in Homer Glen without necessary permit?**

204 **A.** No. Permits were not needed for any of this work given the fact that the repairs
205 were made of utility piping in place before the ordinance was passed. As I
206 discussed in my rebuttal, IAWC has determined that the operation and
207 maintenance of facilities existing prior to the right of way ordinance were exempt
208 from the permit and the associated fee. IAWC has not performed any work that
209 has required this permit, but will submit the permit application and pay the fee
210 whenever new facilities are constructed, in accord with the ordinance.

211 **Q18. With respect to the allegation of Homer Glen Mayor Daley that IAWC has**
212 **not properly restored rights of way in Homer Glen, did Homer Glen identify**
213 **any specific instances in his testimony where IAWC has not properly**
214 **restored rights of way in Homer Glen?**

215 A. No. In response to data request IAWC-HG 1.14, Homer Glen cited the same
216 three examples referenced above where Homer Glen alleged work was
217 performed without permits.

218 **Q19. Did Homer Glen provide any other information?**

219 A. No.

220 **Q20. Were the examples identified in the response cases where IAWC has not**
221 **properly restored rights of way in Homer Glen?**

222 A. There was one situation where a restoration was delayed due to misfiling of the
223 work order. The location was at 13964 Grenelefe and the restoration was
224 completed as soon as we were made aware of the error. The Village issued a
225 citation to IAWC for the lack of restoration at this location, which IAWC
226 subsequently paid. As for the additional locations, residents were dissatisfied
227 with the type of restoration completed (seeding). Once IAWC was notified of the
228 residents dissatisfaction, our landscapers were instructed to return and replace
229 the seeded areas with sod.

230 **Q21. Homer Glen witness Mr. Fundich states on page 3 that you do not “provide**
231 **specific examples or documentation demonstrating that increased**
232 **restoration costs can be attributed to the 10-day restoration ordinance, and**
233 **not other market forces.” How do you respond?**

234 A. The increased cost is related to the premium charged by landscape contractors
235 to expedite a restoration, in order to meet the 10-day requirement. Examples of
236 the premium (“priority”) charge can be seen on the invoices provided at IAWC
237 Exhibit 2.05SR. The chart below summarizes several examples of restoration

238 costs in Homer Glen prior to and following implementation of the 10-day
 239 restoration process, as well as Mt. Prospect restorations below:

240 **Homer Glen – Before 10 day restoration process requirement [**

241

Area Linear Feet	Landscape Restoration	Invoice #	Invoice Date
15 x 20	\$228.09	8206	05/28/09
10 x 8	\$150.85	8238	06/11/09
15 x 15	\$514.01	8292	07/07/09

242 **Homer Glen – After 10 day restoration process requirement**

Area Linear Feet	Landscape Restoration	Invoice #	Invoice Date
5 x 5	\$420.85	8405	09/03/09
15 x 15	\$848.07	8405	09/03/09

243

244 **Mt. Prospect**

245

246

247

248

249

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251

Area Linear Feet	Landscape Restoration	Invoice #	Invoice Date
20 x 12	\$320.97	19682	11/05/09
40 x 22	\$831.62	19684	11/05/09
3 x 3	\$204.42	19685	11/05/09

252 As the analysis above shows, the cost of restoration has increased in Homer
 253 Glen since the ordinance was passed.

254 **Q22. Mr. Fundich also states on page 2 that “The date that work is completed**
255 **does not change the amount of asphalt, concrete or grass restoration**
256 **required to be performed at a particular site, whether such work is**
257 **performed 10 days, 30 days or 100 days after an initial water main repair is**
258 **made.” Do you agree?**

259 **A.** No. Restoration completed within a short period of time after the excavation
260 requires additional work to ensure that the ground is properly compacted to avoid
261 future settling which results in rework. More naturally settling occurs after 30
262 days, requiring less labor for tamping, thereby reducing the labor costs required
263 for restoration.

264 **Q23. Mr. Fundich states on pages 2-3 that “The costs for labor, materials and**
265 **equipment do not vary based on when such repairs are made, unless**
266 **macro-environmental circumstances such as labor strikes or material**
267 **shortages occur.” Do you agree?**

268 **A.** No, I do not. Mr. Fundich ignores the economies of scale and the additional
269 costs related to priority work. The unit cost of most construction work typically
270 reduces substantially as the number of units increase. When restoration work
271 such as paving or landscaping at multiple small sites can be grouped into larger
272 projects, IAWC experience indicates the unit cost is reduced dramatically. This
273 reduction in cost is due to the fixed cost that a contractor has to cover regardless
274 of the size of the project (such as a surcharge that is typically paid for the
275 delivery of less than a full truckload of concrete). This surcharge covers the cost
276 of the truck and driver, and is typically not charged when a full load or multiple

277 loads of concrete or other paving materials are delivered. With the City's 10 day
278 restoration requirement, the ability to package multiple small items of work into
279 larger projects and thus fully take advantage of economies of scale are lost,
280 resulting in higher costs for this work. In addition to economies of scale,
281 construction work which must be expedited is typically more costly than work for
282 which a contractor can plan a few weeks in advance (see IAWC Exhibit 2.05SR)
283 To meet the 10 day requirement, contractors are often not able to complete the
284 work without the use of overtime which typically carries a 50 percent premium on
285 labor. With this shortened work period, rain and other poor weather issues also
286 have a greater impact on the cost of work as the contractors' window of
287 opportunity to complete this work may be further reduced.

288 **Q24. With respect to the allegation of Homer Glen witness Schofield that IAWC's**
289 **maintenance of hydrants is not what it should be, did Mr. Schofield identify**
290 **any specific instances in his testimony where IAWC has not properly**
291 **maintained hydrants?**

292 **A.** No. In response to data request IAWC-HG 1.27, Homer Glen identified certain
293 hydrants where it claimed maintenance was inadequate. Homer Glen, however,
294 provided no explanation as to why the hydrant maintenance was considered
295 inadequate at the referenced locations.

296 **Q25. Were the hydrants identified in the response cases where IAWC has not**
297 **properly maintained hydrants?**

298 **A.** No. IAWC’s records indicate that routine annual inspections were conducted and
 299 appropriate maintenance was performed on each hydrant. The following table
 300 summarizes the inspection records for the hydrants in question:

Hydrant Number	Address	Date Inspected	Maintenance Performed
657	16237 Oak Valley Trail	8/18/2009	Operation nut loose/replaced operating nut 8/19/09
656	16163 Oak Valley Trail	8/18/2009	None
643	16011 Oak Valley Trail	8/18/2009	None
655	12924 Red Oak Court	8/18/2009	None
668	12506 Mackinac Road	8/3/2009	None
671	Mackinac Road & Gunner Court	8/3/2009	None
693	16543 Catawba Lane	8/3/2009	None
685	16458 Mackinac Court	8/3/2009	None
876	Martingale Lane & Bell Road	8/26/2009	None
1024	Hiller Drive, dead end	8/7/2009	None
973	Iz Brook Drive , dead end	8/5/2009	None
978/979	Kildare Street	8/5/2009	None
575	13405 West 159th Street	8/14/2009	None
1245	13100 west 151st Street	9/3/2009	None

301
 302 IAWC is not aware of, and Homer Glen has not provided any, information
 303 regarding maintenance concerns with these hydrants.

304 **Q26. Does this conclude your surrebuttal testimony?**

305 **A.** Yes, it does.

306
 307 CHI-1730549
 308