

**ILLINOIS COMMERCE COMMISSION**

**Docket 09-0319**

**IAWC EXHIBIT 10.00SR**

**SURREBUTTAL TESTIMONY OF  
BERNARD L. UFFELMAN**

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**ILLINOIS-AMERICAN WATER COMPANY**

**November 25, 2009**

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**I. WITNESS INTRODUCTION**

**Q1. Please state your name and business address.**

**A.** My name is Bernard L. Uffelman. My business address is 32 Autumn Oaks Drive, Austin, Texas 78738.

**Q2. Are you the same Bernard L. Uffelman who previously filed direct and rebuttal testimony in this proceeding?**

**A.** Yes I am.

**II. PURPOSE OF TESTIMONY**

**Q3. What is the purpose of your testimony?**

**A.** The purpose of my surrebuttal testimony is to address rate comparison issues raised in the rebuttal testimony of Aaron E. Fundich on behalf of the Village of Homer Glen. My surrebuttal testimony also comments on the responses provided by the Villages of Homer Glen and Mount Prospect, the City of Des Plaines, and the AG to IAWC’s data requests that were provided by the municipalities and AG subsequent to the preparation and filing of my rebuttal testimony.

**III. REBUTTAL TESTIMONY OF AARON E. FUNDICH**

**Q4. Mr. Fundich states on page 8 of his rebuttal testimony that he believes that “revisiting a comparison to municipal rates is appropriate”. Do you agree?**

**A.** No. As mentioned in my rebuttal testimony in this proceeding, the Commission found that the record in Docket 07-0507 (Order at 45), including the Municipal Rate Report (“Report.” Docket 07-0507, IAWC Exhibit 10.20), “demonstrates that there are significant differences between IAWC’s cost structure and those of

24 municipally owned utilities (“MOUs”) which supports the conclusion that  
25 comparisons of IAWC’s rates to those of MOUs are not practical for ratemaking  
26 purposes.” The Commission found that the Report outlines numerous  
27 differences between MOUs and investor-owned utilities (“IOUs”), such as IAWC,  
28 and that the results of the Report do not support a conclusion that IAWC’s rates  
29 and costs in the Chicago-Metro Division are unreasonable. Also, as Staff pointed  
30 out in that case (Order at 43), the Commission establishes water and sewer rates  
31 based upon the cost of service, not upon a comparison of adjacent or regional  
32 utility rates. There has been no change of circumstances that would remove or  
33 change any of the differences addressed in the Report, or support a change in  
34 the Commission’s conclusion that comparisons of the rates and cost structures of  
35 an IOU and MOUs do not support a conclusion that the rates of the IOU, such as  
36 IAWC, are unreasonable. Further, Mr. Fundich does not claim otherwise.  
37 Accordingly, there is no basis to revisit the findings made in Docket 07-0507.

38 **Q5. Is Mr. Fundich familiar with the specific testimony, exhibits or analyses that**  
39 **resulted in the Commission’s decision in Docket 07-0507?**

40 **A.** No. As stated on page 8 of his rebuttal testimony, Mr. Fundich is unfamiliar with  
41 the evidence presented in Docket 07-0507.

42 **Q6. On what basis does Mr. Fundich believe that revisiting a comparison to**  
43 **municipal rates is appropriate?**

44 **A.** Mr. Fundich acknowledges that there are differences between the cost structures  
45 of IAWC and MOUs. He asserts, however, that it is appropriate to compare  
46 IAWC’s rates to those of MOUs due to purported higher levels of rate increases

47 at IAWC. Mr. Fundich's testimony is based solely on his comparison of the water  
48 and sewer rates of the Villages of Mokena and New Lenox to the water and  
49 sewer rates of IAWC applicable to providing service to customers in Homer Glen.

50 **Q7. Has Mr. Fundich provided any analysis as to the comparability of the**  
51 **MOUs' systems, facilities, service areas, operating practices, accounting**  
52 **and ratemaking practices, plant funding mechanisms, tax or resource**  
53 **subsidies, or applicable regulatory and service standards to those of**  
54 **IAWC?**

55 **A.** No. Mr. Fundich provided no information such as cost of service studies or any  
56 other analysis related to the comparability of the Mokena and New Lenox  
57 systems to IAWC other than the rate comparisons presented in his testimony.

58 **Q8. Did IAWC seek to obtain such information through discovery of Mr.**  
59 **Fundich?**

60 **A.** Yes. In response to IAWC-HG 4.26 Mr. Fundich states that Homer Glen does  
61 not possess knowledge of whether or not the MOUs utilize property or other tax  
62 collections to offset water and sewer services. Mr. Fundich also stated  
63 (response to IAWC-HG 4.27) that he performed no analysis of the comparability  
64 of the systems, facilities, and operating practices of the MOUs and that no  
65 documents were relied upon in providing testimony related to comparing IAWC  
66 rates with Mokena and New Lenox rates. Further, Mr. Fundich admits (response  
67 to IAWC-HG 4.36) that he did not study the service area, operations, accounting,  
68 or financing of the MOUs or IAWC, nor does he contend that these factors are  
69 nearly identical for the MOUs and IAWC. Mr. Fundich does state on page 8 of

70 his testimony that he agrees “that the cost structure of MOU rates is different  
71 from private water company rates”.

72 **Q9. Has Mr. Fundich provided any analysis evaluating the reasonableness of**  
73 **costs incurred by IAWC in providing water and or sewer service to the**  
74 **Village of Homer Glen?**

75 **A.** No. Other than his brief testimony regarding restoration and pavement costs and  
76 the proposed treatment plant expansion, Mr. Fundich provided no analysis  
77 evaluating the reasonableness of any specific cost incurred by IAWC in providing  
78 water and or sewer service. Therefore, Mr. Fundich has no basis to conclude  
79 that any such cost is excessive or unreasonable.

80 **Q10. Has Mr. Fundich provided any analysis as to the comparability of the MOUs**  
81 **and IAWC?**

82 **A.** No. Other than his testimony, Mr. Fundich did not conduct any studies relating to  
83 water and sewer costs or services, operational and supply costs, and any other  
84 aspects of the water and wastewater services in Mokena, New Lenox, and  
85 Homer Glen. Mr. Fundich also provided no cost of service studies or any other  
86 information related to the comparability of the Mokena and New Lenox systems  
87 to IAWC (other than the rate comparisons presented in his testimony) (IAWC-HG  
88 4.24).

89 **Q11. Mr. Fundich refers to the differences between the water and sewer rates**  
90 **charged by Mokena and New Lenox and the water and sewer rates charged**  
91 **by IAWC for customers living in Homer Glen as a “cost difference**  
92 **premium”. Please comment.**

93 **A.** I take exception with the use of the term cost difference premium used by Mr.  
94 Fundich. First, Mr. Fundich recognizes that there are cost structure differences  
95 between MOUs and IOUs. For example, he mentions on page 8 of his testimony  
96 that municipalities do have the advantage of collecting development impact (tap-  
97 on) and capacity expansion fees from developers to defray the costs of  
98 infrastructure expansion. Second, the fact that MOUs have to raise less capital  
99 to fund plant investment than do regulated IOUs is only one example of the many  
100 differences between MOU and IOU cost structures, as discussed in Docket 07-  
101 0507 and in my rebuttal testimony in this proceeding, and why a comparison of  
102 IAWC's rates to those of the MOUs is meaningless. For IAWC customers, a  
103 greater proportion of infrastructure costs are recovered in rates. The Report and  
104 my rebuttal testimony in this proceeding provide a more detailed discussion of  
105 how IOUs have to finance a larger portion of their plant investment resulting in  
106 additional revenue requirements due to higher levels of depreciation expense  
107 and the additional return requirement, both debt and equity, resulting from a  
108 larger capital structure required to finance non-contributed plant. The additional  
109 equity return also results in a higher income tax expense component required to  
110 be included in the IOU's rates. Without these alternative sources of capital  
111 funding, and other subsidies as discussed in my rebuttal testimony, MOU rates  
112 would be higher.

113 **Q12. In response to IAWC-HG 4.29, Mr. Fundich acknowledges that**  
114 **municipalities do have the advantage of collecting development impact**  
115 **(tap-on) and capacity expansion fees from developers to defray the costs**  
116 **of infrastructure expansion, but that he does not possess information or**  
117 **documents regarding how developers may recover their costs. Please**  
118 **comment.**

119 **A.** Mr. Fundich's response that he does not possess information regarding how  
120 developers recover their costs is important because, at first glance, it would  
121 appear that MOUs may have an advantage due to lower revenue requirements  
122 resulting from a larger amount of contributed plant the MOU does not have to  
123 fund with long term debt. When consideration is given to how the developer  
124 typically recovers the cost of plant contributed to the MOU, however, this may not  
125 be the case. Typically, a developer includes the contributions to the MOU in the  
126 price of a lot or a home and the purchaser of the lot or home ends up financing  
127 the plant contributed by the developer to the MOU as part of their mortgage. The  
128 capitalized cost of the contributed property, although reflected on the MOU's  
129 balance sheet as plant in service, may actually be funded by the homeowner  
130 through principal and interest payments over the life of the mortgage. Also, since  
131 the price of the lot or home is marked up to recover the developer's contribution  
132 to the MOU, the lot or home typically would have a higher property tax valuation,  
133 resulting in higher annual property taxes for the homeowner. For all practical  
134 purposes the debt service requirements, both principal and interest payments,

135 associated with much of the plant serving MOU customers is shifted from the  
136 MOU to the customer.

137 **Q13. You indicated that Mr. Fundich claims that the comparative rate increases**  
138 **of New Lenox, Mokena and IAWC should be examined. What does Mr.**  
139 **Fundich assert regarding these comparative rate increases?**

140 **A.** On page 10 of his testimony beginning at line 210, Mr. Fundich explains that the  
141 cost increases from 2005-2009 (as shown in his testimony) are very similar  
142 between IAWC, Mokena and New Lenox and that upon hypothetical acceptance  
143 of the baseline cost structure difference between IAWC and MOUs upon service  
144 initialization, today's rate difference would appear reasonable. Mr. Fundich goes  
145 on to question the additional rate increases that IAWC proposes as part of this  
146 case and why the cost difference between similar entities providing similar  
147 services could have changed so dramatically over such a short period of time for  
148 one entity but not the others, as suggested by the IAWC rate filing.

149 **Q14. Please comment on these assertions.**

150 **A.** Mr. Fundich assumes for purposes of his rate comparisons that IAWC, Mokena  
151 and New Lenox are similar entities and provide similar services. Again, Mr.  
152 Fundich has not performed any analysis of IAWC's operations or cost structures  
153 or those of Mokena and New Lenox. For example, without the cost of service  
154 studies it is impossible to determine what costs are used to develop the MOU  
155 rates or whether or not the MOUs' rates are even cost based. Moreover, his  
156 assertion that it is appropriate to compare the level of increase of IAWC's rates to  
157 the level of increase in MOU's rates should be disregarded because, just as

158 there is no basis for comparison of MOU rates to IAWC's, there is no basis to  
159 compare the "increases".

160 **Q15. On pages 9 and 10 of his testimony, Mr. Fundich compares the increase of**  
161 **the "2-town average MOU" (i.e., average Mokena and New Lenox) water and**  
162 **sewer rates from 2005 to 2009 to the water and sewer rate increase of IAWC**  
163 **for the same time period. Have you calculated the percentage increase for**  
164 **IAWC?**

165 **A.** Yes. I calculated the percentage increase in IAWC's rates for the four year time  
166 period based on the rate information provided in Mr. Fundich's testimony. The  
167 increase of \$19.39 in IAWC's water and sewer rates from 2005 to 2009 as  
168 provided by Mr. Fundich (see page 9, line 190, and page 10, line 208 of Mr.  
169 Fundich's testimony ( $\$136.48 - \$117.09 = \$19.39$ )) represents an increase of  
170 16.56% compared to the MOU average rate increase of 32.45% for the same  
171 time period as calculated by Mr. Fundich and shown on page 11, line 225 of his  
172 testimony. Based on my review of his "increase" data, I conclude that the MOU  
173 water and sewer rates increased at a faster rate than IAWC's during the period  
174 2005 through 2009. Since Mr. Fundich provided only two data points (i.e., 2005  
175 and 2009) in his analysis, it is difficult to determine the pace at which the MOU  
176 rates are increasing from Mr. Fundich's example.

177 **Q16. You mentioned that Mr. Fundich questions the additional rate increases**  
178 **that IAWC proposes in this case based on his concerns regarding the**  
179 **perceived acceleration of such cost increases compared to the cost**  
180 **increases of the two MOUs. Would you please address Mr. Fundich's**  
181 **analysis.**

182 **A.** Using the limited information provided by Mr. Fundich for Mokena and New  
183 Lenox in his testimony, and not having access to other financial and cost  
184 information (e.g., CAFRs, budgets and forecasts, cost of service studies, cost  
185 allocation and depreciation studies, water and sewer rate projections, city council  
186 rate presentations) for these MOUs, it is difficult to make rate comparison  
187 projections for Mokena and New Lenox. Homer Glen witness Ms. Niemiec,  
188 however, on page 4 of her direct testimony, provides rate information that was  
189 gathered from a survey of rates in communities surrounding Homer Glen. Her  
190 testimony shows that the water rates for Mokena and New Lenox as \$4.41 and  
191 \$4.30 respectively per 1,000 gallons. According to Ms. Niemiec's response to  
192 IAWC-HG 2.02, the survey of neighboring communities was initially taken in early  
193 2009 and was updated in October 2009. The increases that some of the  
194 neighboring communities made in their rates since the January 2009 survey  
195 required Ms. Niemiec to revise her testimony to reflect current rates of \$4.96 for  
196 Mokena and \$5.00 for New Lenox. The update provided by Ms. Niemiec  
197 represents rate increases of 12.47% for Mokena and 16.48% for New Lenox in  
198 just the last nine months. As stated in my rebuttal testimony on page 17, one of  
199 the rate examples that Ms. Niemiec included in her testimony related to the City

200 of Joliet. Joliet, however, as explained in its 2009 Business Plan referred to in  
201 my rebuttal testimony, is proposing to eliminate daily rebates and sewer  
202 separation rebates effective October 1, 2009; increase water and sewer rates by  
203 35% also on October 1, 2009; increase fees and penalties to cover costs; and  
204 implement 5% annual water and sewer rate increases on October 1, 2010 and  
205 October 1, 2011. As stated in my rebuttal testimony, the Mount Prospect and  
206 Des Plaines MOUs have raised rates recently and Des Plaines is projecting that  
207 the Chicago purchased water pass-through rate will increase 14% over the 2009  
208 rate. Des Plaines has also recently implemented a new sanitary service charge  
209 and, as shown in Mr. Fundich's testimony, New Lenox has just implemented a  
210 \$7.00 monthly sewer debt and capital improvement charge. Thus, it is clear that  
211 rates and charges are increasing for municipal systems.

212 **Q17. What conclusion do you draw from these MOU rate increases, rebate**  
213 **eliminations, new service charges, and fee and penalty increases?**

214 **A.** First, it shows that the MOUs, even with their alternative plant funding  
215 mechanisms, tax subsidies, and cost deferrals (e.g., OPEBs, capital recovery)  
216 are not immune to cost increases. Second, it shows a trend that even the MOUs  
217 that the Municipal Witnesses in this case use as examples for comparison to  
218 IAWC's rates are experiencing double digit rate increases. Third, it shows that  
219 the MOUs as self-regulated entities can implement rate increases or other  
220 revenue collection charges as frequently as required without the regulatory lag  
221 experienced by IOUs. As a result, Mr. Fundich has not established any basis for

222 his “theory” that differing levels of rate increases over time provide a basis for  
223 comparison between IAWC’s rates and those of MOUs.

224 **Q18. In your rebuttal testimony, you indicated that you had sought additional**  
225 **information from various municipalities regarding the basis for their**  
226 **municipal rates and/or attempts to compare their rates to IAWC’s. Has**  
227 **IAWC received such additional information?**

228 **A.** Yes. In my rebuttal testimony I responded to the testimony of the Municipal  
229 Witnesses regarding rate comparisons. In my rebuttal, I stated that IAWC has  
230 requested additional information from the Municipal Witnesses regarding their  
231 comparisons of IAWC’s rates, and has requested that two municipalities, Des  
232 Plaines and Mount Prospect, provide information regarding their municipal utility  
233 rates, financing and operations. I therefore reserved the opportunity to comment  
234 further once I receive the requested information. Following the preparation of my  
235 rebuttal, IAWC received discovery responses from the Illinois Attorney General,  
236 Homer Glen, Des Plaines and Mount Prospect. In the following Sections I  
237 address this information as it relates to my testimony regarding the lack of  
238 comparability between IAWC’s rates and those of MOU’s.

239 **IV. FURTHER RESPONSE TO HOMER GLEN REGARDING MUNICIPAL RATES**

240 **Q19. Do you have any comments on Homer Glen’s witnesses’ comparison of**  
241 **MOU rates to those of IAWC?**

242 **A.** Yes. My comments are related to Ms. Niemiec’s testimony and subsequent data  
243 responses to IAWC-HG 2.04, 2.05, 2.06, 2.09 and 2.07. Ms. Niemiec states in  
244 these data requests that, “[t]he purpose of providing the rates was to compare

245 the rates to those proposed by Illinois American Water as would be done by a  
246 prospective home owner. This is no different than when a buyer of a new car  
247 goes from dealer to dealer looking for the best price for the same make and  
248 model car. To the purchaser, it is irrelevant what the cost to the dealer might be  
249 or what the dealer might pay. The customer is looking only to the bottom line  
250 price". Her assertions overlook one of the key reasons that IAWC's rates cannot  
251 be compared to MOUs. IAWC's rates reflect the fully allocated cost of IAWC's  
252 service. The rates shown on a municipal water bill may not reflect the full cost of  
253 water service, for the reasons explained in the Report and my rebuttal (for  
254 example, due to tax subsidies or shared resources). Thus, the "bottom line price"  
255 for MOU utility service may include other costs that are not reflected on the bill  
256 but are still incurred by homeowners from other sources. In fact, Homer Glen  
257 witness Fundich admits that there are differences between MOU and IOU cost  
258 structures, which confirms that Ms. Niemiec's "bottom line price" assertion has no  
259 basis.

260 Ms. Niemiec also states in response to IAWC-HG 2.06: "...since the total  
261 bill is based on gallons consumed, it is irrelevant whether communities bill for  
262 utility service monthly-bi-monthly or otherwise." The frequency of such activities,  
263 however, has a direct effect on the costs incurred by a utility, for example with  
264 respect to the frequency of meter reading or the issuance of bills, and is reflected  
265 in the cost of service calculation and in rates. As the Commission found in  
266 Docket 07-0507, there are significant differences between IAWC's cost structure

267 and those of MOUs which supports the conclusion that comparisons of IAWC's  
268 rates to those of MOUs are not practical for ratemaking purposes.

269 **V. FURTHER RESPONSES TO DES PLAINES REGARDING MUNICIPAL RATES**

270 **Q20. Did the City of Des Plaines provide information relevant to their**  
271 **comparison of MOU rates to those of IAWC?**

272 **A.** Yes. Two of the Municipal Witnesses, Mr. Bajor and Mr. Duddles, testified  
273 regarding the comparison of IAWC's rates to those of Des Plaines. As indicated  
274 in my rebuttal, IAWC sought information from Des Plaines that was not received  
275 in time to incorporate into my rebuttal. Des Plaines has now provided additional  
276 information. In response to IAWC-DES 1.02, Des Plaines provided the City's  
277 Capital Improvement Program ("CIP") Reports. CIP Program 2009 Project Detail  
278 (Project ID 1: 1092 –Water Main Project ID 2: 14 –Street Rehabilitation) related  
279 to an 8" Water Main and Street Rehabilitation, shows that the source of funding  
280 for this project was \$47,505.60 from the Water Fund and \$43,546.50 from the  
281 Motor Fuel Tax. Another CIP Program 2009 Detail (Project ID: 1065-Sewer  
282 Separation) related to Sewer Separation as justified by the 2003 Stormwater  
283 Master Plan, also shows that the source of funding for this project was  
284 \$114,818.40 from the Motor Fuel Tax. The use of motor fuel taxes to fund street  
285 repairs associated with MOU water and sewer services represent subsidies that  
286 are not available to IOUs such as IAWC. This represents a difference in Des  
287 Plaines' MOU cost structure from that of IAWC. IAWC, unlike Des Plaines, does  
288 not benefit from the Motor Fuel Tax and must fund the entire cost of street  
289 repairs related to IAWC's operations. Further, Des Plaines residents, are subject

290 to the Motor Fuel Tax and, as a result incur a tax cost that subsidizes the service  
291 of the Des Plaines MOU. This represents another example of why comparisons  
292 of IAWC's rates to those of MOUs are not practical for ratemaking purposes.

293 **Q21. Did Des Plaines provide information related to the allocation of shared**  
294 **resources and administrative and general costs to the water and sewer**  
295 **fund by the City?**

296 **A.** Yes. The City responded that it does not allocate costs to its water/sewer  
297 operations and that it has not prepared or updated any cost allocation studies  
298 during the past five years for allocating shared services resources and costs  
299 between and among the City's various municipal funds. As stated in my rebuttal  
300 testimony beginning at line 190 on page 8, unless municipalities prepare and  
301 regularly update indirect cost allocation studies or plans for allocating shared  
302 costs for personnel, equipment and facilities incurred by the General Fund to the  
303 Enterprise Fund, costs incurred by the water and sewer systems may be  
304 understated. As stated in the Report, understatement of shared resource  
305 utilization and costs by as much as 20% may result in lower MOU rates that do  
306 not reflect the true, or fully allocated, cost of providing MOU services, thus  
307 providing a cross subsidy to the municipal utility customers.

308 **Q22. Did the City of Des Plaines provide cost of service studies and depreciation**  
309 **studies applicable to its system?**

310 **A.** Any cost of service prepared by the City or a consultant was requested in IAWC  
311 DES 1.08. However, no such study was provided. Failure to provide such  
312 information is relevant because the City is requesting that any rate increase

313 granted to IAWC should remain comparable to the City's water rates. Without  
314 cost of service study and depreciation study information it is not possible to  
315 determine if the City's rates are set at levels to recover the costs of providing  
316 water and sewer service to its customers.

317 **Q23. Did Des Plaines witness Mr. Bajor also provide additional information to**  
318 **you after the preparation of your rebuttal?**

319 **A.** Yes. In response to IAWC-DES 2.01, Mr. Bajor states that he prepared no  
320 independent document, study or analysis that compares the water and sewer  
321 rates of MOU systems to those of IAWC, or of another IOU system. Instead, in  
322 response to IAWC-DES 2.03, Mr. Bajor replied that he "...compared the  
323 similarities in the basic objectives of both the City and IAWC; the delivery of  
324 potable Lake Michigan water to its water customers."

325 **Q24. Please comment on his responses.**

326 **A.** Mr. Bajor, like the other Municipal Witnesses, contended in testimony that since  
327 IAWC and the MOUs provide similar services (i.e., water is taken out of Lake  
328 Michigan, is pumped through a pipe, and then flows from the customer's tap) that  
329 their utility rates should somehow be the same. This analysis, however, is overly  
330 simplistic. Although IAWC and Des Plaines may provide similar services, as I  
331 have explained in my rebuttal, and as the Report also explains, there are  
332 numerous differences between IAWC's cost structure and the cost structures of  
333 MOUs. As a result, IAWC's rates may be different from those of MOUs, because  
334 the MOUs' rates do not reflect the fully allocated cost of utility service. As I  
335 discuss above and in my rebuttal, and as the Commission found in Docket 07-

336 0507, the significant differences between IAWC's cost structure and those of  
337 MOUs which supports the conclusion that comparisons of IAWC's rates to those  
338 of MOUs are not practical for ratemaking purposes.

339 **Q25. How frequently does the City of Des Plaines MOU read meters and bill**  
340 **customers?**

341 **A.** According to the response to IAWC-DES2.04, the City reads meters every two  
342 months and bills on a bi-monthly basis. Some industrial and commercial meters  
343 are read on a monthly basis. This is in contrast to IAWC's test year monthly  
344 meter readings and customer billings as discussed in my rebuttal testimony.  
345 Thus, this difference in service standards is one reason for the lack of  
346 comparability between these systems.

347 **Q26. In response to IAWC-DES 2.07 Mr. Bajor states that "...the City of Des**  
348 **Plaines' municipal utility follows the Generally Accepted Accounting**  
349 **Principles (GAAP) for its standards and guidelines..." and that "the City of**  
350 **Des Plaines uses independent auditors to report results of the financial**  
351 **operations and prepare annual report that adheres to the auditing and**  
352 **accounting standards under the GAAP". Please comment.**

353 **A.** I agree that both the City and IAWC produce audited financial statements  
354 prepared in accordance with GAAP. However, as stated in the Report, and on  
355 the record in Docket 05-0507, there are differences in the accounting  
356 requirements of MOUs and IOUs that can have a significant impact on the  
357 reported expenses and the revenue requirement of each type of utility. As stated  
358 in the Report, the Governmental Accounting Standards Board ("GASB") sets

359 standards for governments and the Financial Accounting Standards Board  
360 (“FASB”) sets standards for business enterprises. As stated in the report (pages  
361 25-29), some of these differences can result in a material impact in the cost of  
362 service or expenses for an IOU following the FASB standards and an MOU  
363 following the GASB standards. For instance, the Report showed that for the  
364 MOUs studied, the expenses reported for pensions and OBEPs would be higher  
365 under the FASB standards than under the GASB standards and that if the MOUs  
366 reported in accordance with the FASB standards, as does IAWC, their costs and  
367 revenue requirements (and associated rates) would increase.

368 **VI. FURTHER RESPONSE TO MOUNT PROSPECT**  
369 **REGARDING MUNICIPAL RATES**

370 **Q27. Mr. Uffelman, did Mount Prospect provide further information to you after**  
371 **the preparation of your rebuttal?**

372 **A.** Yes. As indicated above, Mount Prospect witness Ms. Wilks, one of the  
373 Municipal Witnesses, testified regarding the comparison of IAWC’s rates to those  
374 of Mount Prospect. As indicated in my rebuttal, IAWC sought information from  
375 Mount Prospect that was not received in time to incorporate into my rebuttal.  
376 Mount Prospect has now provided additional information.

377 **Q28. Do you wish to comment on this information?**

378 **A.** Yes. The Village stated that cost of service studies were prepared for 2005 and  
379 2008. The Village provided its August 5, 2005 Water & Sewer Rate Study and  
380 Combined Project Funding Solution, consisting of 4 pages of background and  
381 discussion and 8 pages of attachments. The Village also provided its April 25,  
382 2008 Water & Sewer Rate Study consisting of a little over 2 pages of background

383 and discussion and 8 pages of attachments. Mount Prospect also indicated that  
384 no studies have been prepared to account for depreciation. I would like to  
385 comment on these studies.

386 **Q29. Please comment on the 2005 Water & Sewer Rate Study.**

387 **A.** The background section of the 2005 Study stated that extensive repairs were  
388 needed to the system - estimated at \$15M over a 10-year period - and that, in  
389 addition, the Water and Sewer Fund had been operating at a deficit for the past  
390 several years as operating and capital expenditures exceeded revenues  
391 generated by user charges. The discussion section of the 2005 Study states that  
392 although fund balance in the Water and Sewer Fund was strong (above 25%),  
393 this spending pattern cannot continue without an adjustment to the water and  
394 sewer rate structure (even though Mount Prospect had enacted water and sewer  
395 rate increases of 4.0% in each of the prior 8 years, per the Interoffice  
396 Memorandum dated March 18, 2004 regarding the subject of Water and Sewer  
397 Rate Increase (response to IAWC-MP 1.07)). In addition, the Study found that a  
398 new funding source is needed to support the current and future capital needs of  
399 the water system. Specifically, in the Five-Year CIP, the combined sewer project  
400 anticipated expenditures of \$2M in each of the first two years and then \$1.5 M for  
401 the remaining three years. In Attachment A, the amount budgeted each year for  
402 the project was reduced to \$1M and this lower spending level would take  
403 approximately fifteen years to complete versus ten years in the original plan. The  
404 Study shows that a first year increase to Mount Prospect's water and sewer rates  
405 of 20.5% was needed in 2006 and in order to fund the projected \$1M annual

406 combined sewer project expense, a monthly customer sewer fee was required. I  
407 mention these points because it shows that Mount Prospect's rates were not  
408 covering its cost of providing water and sewer services, and that even though  
409 capital project completion dates and budgets were being adjusted, the Village still  
410 needed to implement double digit rate increases and institute a new monthly  
411 customer sewer fee.

412 **Q30. Please comment on the 2008 Water & Sewer Rate Study.**

413 **A.** The 2008 Study states that in November 2007, the City of Chicago notified the  
414 Village that it would be increasing water rates by 15% in each of the next three  
415 years beginning January 1, 2008. According to the Study, JAWA was able to  
416 make adjustments to their long-term financing needs, which reduced the impact  
417 of the City of Chicago water rate increase to member communities. Through the  
418 refinancing of existing debt, JAWA member communities will see a more  
419 moderate annual increase for water. Instead of a 15% increase in each of the  
420 next three years, the annual increase was smoothed to 6.1% through 2015. This  
421 is an example, as discussed in my rebuttal testimony, of the cost and tax  
422 subsidies available to Mount Prospect through operations of the City of Chicago  
423 and JAWA that are unavailable to IAWC.

424 **Q31. Mr. Uffelman, on page 16 of your rebuttal testimony beginning at line 372**  
425 **you provide a discussion of the special service area taxes used by Mount**  
426 **Prospect to offset its cost of providing water and sewer service. Are the**  
427 **benefits of the special service area taxes mentioned in your rebuttal**  
428 **testimony reflected in the 2008 Study provided by Mount Prospect in**  
429 **response to IAWC-MP 1.08?**

430 **A.** Yes. For example, Attachment C-2 (Water and Sewer Rate Calculation for  
431 2010 Budget Year) to the 2008 Study provides the formulas used to calculate the  
432 Village's water and sewer rates. As shown on Attachment C-2, the Special  
433 Service Area #5 Tax Revenue (SSA5) of \$1,508,500 and the Other Revenue of  
434 \$228,633, consisting of tap-on fees, late fees and interest income, offset the  
435 water Operations Expenditures of \$8,093,350 and Capital Expenditures of  
436 \$633,500, thus reducing the Village's water revenue requirements or cost of  
437 service and rates. Without the SSA5 tax subsidy and Other Revenue from tap-  
438 on fees and other income, the Village's water rates would need to be increased  
439 by approximately 20%. As shown on Attachments C-3 through C-5 the annual tax  
440 subsidy of \$1,508,500 is projected to reduce the Village's water revenue  
441 requirements through 2013, the last Budget Year for which Mount Prospect  
442 provided water and sewer rate information. Once again, this shows the tax  
443 subsidies and alternative plant funding mechanisms available to MOUs that are  
444 not available to IOUs, such as IAWC, and why a comparison of IAWC's rates to  
445 those of the MOUs is meaningless.

446 **Q32. Besides the Operations Expenditures, Capital Expenditures, and offsetting**  
447 **SSA5, Other Revenue and Sewer Fees shown in the water and sewer rate**  
448 **formulas, is there another component of the rate formula that appears on**  
449 **Attachment C-2?**

450 **A.** Yes. There is a Debt Service Expenditures (DS) item listed for both the water and  
451 sewer rate formula.

452 **Q33. What amounts are shown in the water and sewer rate formulas for DS?**

453 **A.** No amounts are shown for DS. This raises the question of how the Village is  
454 collecting its DS requirement (both principal and interest) through the rate making  
455 formulas used to develop its water and sewer rates. The fact that no amount is  
456 shown for DS may mean that the MOU has no debt service requirement, possibly  
457 due to large amounts of contributed property and/or grant funding. Another  
458 reason that Mount Prospect may have no DS is that it is funding its Capital  
459 Expenditures on a pay-as-you-go basis, thus limiting the amount of long term  
460 financing required. Another reason that the MOU has no debt service  
461 requirement may be that costs are not being fully allocated to the MOU so that  
462 other Village operations are subsidizing the water and sewer operations.

463 **Q34. What do you conclude from your review of Mount Prospect's information ?**

464 **A.** First, that there are differences between the ratemaking methodology and  
465 formulas used by MOUs and those of IOUs, such as IAWC, as stated in the  
466 Report, for developing water and sewer rates. Second, the information provided  
467 by Mount Prospect in support of its water and sewer rate calculations is very  
468 limited (i.e., consisting of only 4 amounts used in the water and sewer formulas).

469 This confirms that rate comparison between the MOU and IAWC would not be  
470 practical.

471 **Q35. Did the Village provide cost allocation studies?**

472 **A.** The Village indicated (IAWC-MP 1.09) that “No formal cost allocation studies or  
473 plans have been prepared during the last 5 years to determine the allocation of  
474 shared services, resources and costs between funds. Each year during the  
475 budget process, the Village determines the appropriate allocation for internal  
476 service funds such as the Vehicle Replacement, Vehicle Maintenance, Computer  
477 Replacement, and Risk Management funds according to the pro-rata share of the  
478 total costs.” While it appears from the Village’s response that allocations for  
479 certain specific costs incurred in special funds are allocated to the proprietary  
480 funds, no formal cost allocation studies or plans have been prepared during the  
481 last 5 years to determine the allocation of shared services, resources and costs  
482 between funds. Absent formal studies, other shared resources costs for such  
483 items as office space, equipment and parking facilities, management employees,  
484 may not be allocated to the water and sewer operations, which may result in an  
485 under recognition of the costs associated with providing water and sewer service.

486 **VII. FURTHER RESPONSES TO AG WITNESSES GIBONS AND BOROS**  
487 **REGARDING MUNICIPAL RATES**

488 **Q36. Did the AG witnesses Ms. Gibons and Mr. Boros testify regarding**  
489 **comparisons of IAWC’s rates to those of a MOU?**

490 **A.** Yes. Ms. Gibons and Mr. Boros testified regarding the comparison of IAWC’s  
491 rates to those of Mount Prospect, and were two of the Municipal Witnesses I  
492 responded to in my rebuttal. As indicated in my rebuttal, IAWC sought

493 information from these witnesses and Mount Prospect that was not received in  
494 time to incorporate into my rebuttal. These witnesses have now provided  
495 additional information.

496 **Q37. Please address the additional information from AG witnesses, Ms. Gibbons**  
497 **and Mr. Boros.**

498 **A.** Both Mr. Boros and Ms. Gibbons responded that they only compared whether  
499 the other systems provide water and sewer service to residential customers and  
500 concluded that the services received by customers of IAWC and of the municipal  
501 utilities are the same. As discussed above, however, IAWC's bills reflect the fully  
502 allocated cost of service, while MOUs' bills may not. Both Ms. Gibbons and Mr.  
503 Boros acknowledge that they have not investigated the cost structures and rate-  
504 setting approaches other than to determine that the services provided by both  
505 MOUs and IOUs are the same from the customer's point of view, and that they  
506 are not familiar with accounting methodologies and assumptions. As a result, I  
507 conclude that Mr. Boros' and Ms. Gibbons' rate comparisons should be  
508 disregarded. While I understand that these witnesses are not testifying as utility  
509 industry experts, the fact that MOUs and IOUs provide similar services does not  
510 mean that the costs incurred in the provision of such services are similar, or that  
511 a comparison of MOU rates to IOUs rates should be used for regulatory or  
512 ratemaking purposes. Nor does it mean that IAWC's rates are unreasonable as  
513 found by the Commission in Docket 05-0507 for the reasons stated in the Report  
514 and on the record in that proceeding.

515 **VIII. SUMMARY OF SURREBUTTAL TESTIMONY**

516 **Q38. Mr. Uffelman, please summarize your testimony.**

517 **A.** The Municipal and AG Witnesses in this proceeding improperly equate provision  
518 of similar service to similar rates for those services. As stated in the Report, and  
519 on the record in Docket 05-0507, there are many differences between IAWC's  
520 cost structure and the cost structures of municipal utilities. As Staff points out in  
521 IAWC's last rate case, the Commission establishes water and sewer rates based  
522 upon the cost of service, not upon a comparison of adjacent or regional utility  
523 rates. Although a comparison of MOUs' rates to those of IOUs is meaningless,  
524 the rate information provided by the Municipal Witnesses as discussed in my  
525 rebuttal testimony, shows that the MOUs are not immune to cost increases and  
526 are experiencing double digit rate increases. Nothing presented in the testimony  
527 of the Municipal and AG Witnesses or contained in their responses to IAWC's  
528 data requests, supports a conclusion that comparisons of IAWC's rates to those  
529 of MOUs are practical for ratemaking purposes.

530 **Q39. Does this conclude your surrebuttal testimony?**

531 **A.** Yes, it does.

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