

**ILLINOIS COMMERCE COMMISSION**

**DOCKET NO. 10-0386**

**EXHIBIT NO. 2.0**

**DIRECT TESTIMONY OF  
RICH KERCKHOVE**

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**ILLINOIS-AMERICAN WATER COMPANY**



23 (“ICC” or “Commission”) where I attained the position of Senior Analyst during my  
24 eight years at the Commission. After obtaining my MBA, I served as a Senior  
25 Financial Analyst for defense contractors United Defense LLP (now BAE  
26 Systems Inc.) and Alliant Techsystems, Inc. Prior to joining American Water, I  
27 was employed as a Financial Consultant for Xcel Energy Inc., responsible for the  
28 compilation of the annual budget and monthly forecasts for the \$3.8 billion Public  
29 Service Company of Colorado subsidiary. My present duties with American  
30 Water consist primarily of preparing rate-related filings for Illinois-American.

31 **Q. Please summarize your responsibilities as Manager, Rates & Regulations.**

32 **A.** My responsibilities as Manager, Rates & Regulations, involve providing the  
33 following services to American’s water utility subsidiaries in the Western Division,  
34 including Illinois-American:

- 35 1) Preparing and presenting all rate change applications and supporting  
36 documents and exhibits as prescribed by management policies, guidelines  
37 and regulatory commission requirements;
- 38 2) Preparing rate analyses and studies to evaluate the effect of proposed  
39 rates on the revenues, rate of return and tariff structures;
- 40 3) Executing the implementation of rate orders, including development of the  
41 revised tariff pricing necessary to produce the proposed revenue level;
- 42 4) Overseeing the preparation of revenue and capital requirements analyses;
- 43 5) Providing support for financial analysis of proposed acquisitions and  
44 expansion of service territory, including preparation of applicable  
45 regulatory commission filings.

46 **Q. Have you testified before any regulatory agencies with respect to**  
47 **regulatory matters?**

48 **A.** Yes. I have testified several times before the Illinois Commerce Commission  
49 (“Commission”).

50 **II. PURPOSE OF TESTIMONY**

51 **Q. What is the purpose of your testimony in this case?**

52 **A.** The purpose of my testimony is to explain the accounting entries that IAWC  
53 proposes to make to record the net original cost of facilities that will be used to  
54 provide service in the “Expanded Area” described by Mr. Jeffrey G. Lampe,  
55 applicable depreciation rates, proposed rates, and IAWC’s Financing Capacity  
56 for water service in the Expanded Area.

57 **III. ACCOUNTING FOR TRANSACTION**

58 **Q. Please discuss the accounting entries proposed by IAWC.**

59 **A.** In accordance with Commission policy and the Uniform System of Accounts for  
60 Water Utilities, 83 Illinois Administrative Code Part 605, and the Uniform System  
61 of Accounts for Sewer Utilities, 83 Illinois Administrative Code Part 650, IAWC  
62 proposes to record the original cost of all water facilities for the Expanded Area in  
63 Account 101. The original cost of the water facilities for the Expanded Area will  
64 be the gross cost of the facilities. Where a developer will make a contribution or  
65 deposit for water facilities, and IAWC will make refunds as customers attach,  
66 pursuant to IAWC's Standard Main Extension rules for Interurban water  
67 customers (ILL. C.C. No. 23, Sheet Nos. 16 - 19), IAWC proposes to record the  
68 anticipated amount of the refunds for water facilities in Account 252 – Advances  
69 for Construction. The difference between the actual construction costs for water

70 facilities and the amount recorded in Account 252 – Advances for Construction  
71 will be recorded in Account 271 – Contributions in Aid of Construction. As  
72 refunds are paid, the amount of the refunds would be entered as a debit to  
73 Account 252 – Advances for Construction. Where a deposit is non-refundable, it  
74 would be recorded in Account 271 – Contributions in Aid of Construction. The  
75 proposed entries are shown on IAWC Exhibit RK-2.1.

#### 76 **IV. DEPRECIATION**

77 **Q. What depreciation rates does IAWC propose to use?**

78 **A.** For the Expanded Area, IAWC proposes to use the depreciation rates for the  
79 Interurban District, as now in effect or subsequently revised. The Commission  
80 last evaluated these depreciation rates in an IAWC rate case, Docket No. 07-  
81 0507.

#### 82 **V. WATER RATES**

83 **Q. What rates, rules, and regulations will be applicable to customers within**  
84 **the area requested to be certificated in this proceeding?**

85 **A.** The new customers will be subject to the tariff rates, rules, and regulations on file  
86 from time to time and applicable to the Interurban District of IAWC.

87 **Q. What is the basis for using the Interurban District rates for the customers?**

88 **A.** The customers will be attached directly to the existing Interurban District. As  
89 such, the customers will utilize the existing infrastructure and cost base that is  
90 currently used to serve the existing Interurban District customers. Therefore, the  
91 rates charged to the existing Interurban District customers are just and  
92 reasonable as they apply to the customers in the Expanded Area.

93 **Q. Have you performed an analysis of the revenue needed to support the**  
94 **additional investment necessary to serve the area sought to be certificated**  
95 **in this proceeding?**

96 **A.** No. The number of industrial and commercial customers that will be obtaining  
97 water from the Company has not yet been determined.

98 **VI. FINANCING CAPABILITIES**

99 **Q. Is IAWC capable of financing the projected investment in the Expanded**  
100 **Area without significant adverse financial consequences for the utility or**  
101 **its customers?**

102 **A.** Yes. Although IAWC has access to all of the necessary funds to support the  
103 projected investment in the Expanded Area, it is expected that all of the  
104 necessary infrastructure investment will be contributed by the developer.

105 **Q. How does IAWC propose to finance the projected investment in the**  
106 **Expanded Area?**

107 **A.** Payment of such funds in the form of developer refunds will be initially financed  
108 with internally generated funds and/or short-term debt. When appropriate, the  
109 Company's overall balance of short-term debt will be funded with permanent  
110 common equity and long-term debt financing, subject to the necessary approval  
111 of the Commission.

112 **Q. Will the investment in the Expanded Area impair IAWC's ability to raise**  
113 **necessary capital on reasonable terms and maintain a reasonable capital**  
114 **structure?**

115 **A.** No. As of June 2010, IAWC's capital structure included over \$750,000,000 of  
116 common equity, long-term debt and short-term debt. In comparison, IAWC's

117 projected net investment in the Expanded Area will be limited to refunds to the  
118 developer as new customers are added. Given the relatively diminutive size of  
119 this projected investment in comparison to IAWC's total capital structure, the  
120 Company does not believe that the projected investment in the Expanded Area  
121 will impair IAWC's ability to raise necessary capital on reasonable terms and  
122 maintain a reasonable capital structure.

123 **Q. Is there a positive benefit to the existing customers of IAWC?**

124 **A.** Yes, the additional customers provide a positive financial benefit to IAWC's  
125 existing customers. The integration of the new customers associated with the  
126 Expanded Area into the Interurban District will provide benefits to IAWC  
127 customers through economies of scale by spreading the fixed costs over a larger  
128 customer base.

129 **Q. Does this conclude your testimony?**

130 **A.** Yes.