

**ILLINOIS COMMERCE COMMISSION**

**DOCKET NO. 11-0767**

**IAWC EXHIBIT 7.00SUPP**

**SUPPLEMENTAL DIRECT TESTIMONY OF  
TYLER T. BERNSEN**

---

**ILLINOIS-AMERICAN WATER COMPANY**

**MARCH 9, 2012**

## TABLE OF CONTENTS

	<b>Page</b>
I. WITNESS INTRODUCTION.....	1
II. PURPOSE OF SUPPLEMENTAL DIRECT TESTIMONY .....	1
III. REVISED SCHEDULES.....	3
IV. NEW SCHEDULES .....	7
V. TEST YEAR OPERATING INCOME .....	9
VI. ADOPTION OF DIRECT TESTIMONY OF EDWARD J. GRUBB .....	10

**SUPPLEMENTAL DIRECT TESTIMONY  
OF  
TYLER T. BERNSEN**

1                                   **I.     WITNESS INTRODUCTION**

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

3   **A.**   My name is Tyler T. Bernsen. My business address is 727 Craig Road,  
4       St. Louis, Missouri 63141.

5   **Q2.   Are you the same Tyler T. Bernsen who previously filed direct**  
6       **testimony in this proceeding?**

7   **A.**   Yes.

8                                   **II.   PURPOSE OF SUPPLEMENTAL DIRECT TESTIMONY**

9   **Q3.   What is the purpose of your Supplemental Direct Testimony in this**  
10       **case?**

11   **A.**   As explained in the supplemental direct testimony of Rich Kerckhove  
12       (IAWC Exhibit 5.00SUPP), the Company has performed a forecast re-  
13       evaluation, which has resulted in the identification of certain material  
14       changes, or updates, to the forecast, as well as certain corrections to the  
15       Company's testimony, exhibits and schedules. The purpose of my  
16       supplemental direct testimony is to discuss the updates made to the  
17       Company's projected test year level of Fuel and Purchased Power  
18       Expense and Rate Case Expense. In addition, I address the ratemaking  
19       impact of the organizational restructuring discussed by Karla Teasley  
20       (IAWC Exhibit 1.00SUPP). I also discuss certain corrections being made

21 to the Company's test year projections. I will address the overall impact  
22 on the Company's projected operating revenue and expenses resulting  
23 from the updates, corrections and changes presented in IAWC's collective  
24 supplemental direct testimony, and the effect of the Company's update on  
25 its proposed revenue increase. Finally, I adopt a portion of the Direct  
26 Testimony of Edward J. Grubb (IAWC Exhibit 4.00) included with the  
27 Company's October 27, 2011 Part 285 filing.

28 **Q4. Are you sponsoring any revised schedules with your supplemental**  
29 **direct testimony?**

30 **A.** Yes. I am sponsoring the following revised schedules:

- 31 • Schedule C-1 First Revised (attached as IAWC Exhibit 7.01SUPP);
- 32 • Schedule C-2 First Revised (attached as IAWC Exhibit 7.02SUPP);
- 33 • Schedule C-2.1 First Revised;
- 34 • Schedule C-2.8 First Revised;
- 35 • Schedule C-2.9 First Revised;
- 36 • Schedule C-10 First Revised; and
- 37 • Schedule C-10.1 First Revised.

38 **Q5. Are you sponsoring any new schedules with your supplemental**  
39 **direct testimony?**

40 **A.** Yes. I am sponsoring the following new schedules:

- 41 • Schedule C-2.14;
- 42 • Schedule C-2.15;
- 43 • Schedule C-2.16; and
- 44 • Schedule C-22.

45

III. REVISED SCHEDULES

46 **Q6. Has the Company made any corrections to rate case expense**  
47 **amounts on Schedules C-10 and C-10.1?**

48 **A.** Yes. The Company is correcting its projected level of rate case expense.  
49 In its initial filing, the Company projected a level of rate case expense for  
50 the current proceeding of \$2,746,421. As explained in IAWC's responses  
51 to ICC Staff data request JMO-4.04 Revised and Office of the Attorney  
52 General ("AG") data request AG-2.21, the corrected initial projection is  
53 \$2,708,921. The difference represents an inadvertent overstatement of  
54 \$37,500 for "Other" current rate case expense related to the estimated  
55 customer direct mail costs associated with the Company's notification to  
56 customers regarding the rate increase filing.

57 The Company also is correcting the actual level of rate case  
58 expense incurred in its last rate case, Docket 09-0319, as stated in my  
59 direct testimony in this proceeding, from \$2,584,177 to \$2,636,717. The  
60 difference of \$52,000 represents "Other" rate case costs associated with  
61 customer communications which were incurred by IAWC but not properly  
62 recorded to rate case expense. These corrections are reflected on  
63 Schedules C-10 First Revised and C-10.1 First Revised.

64 **Q7. Has the Company made any updates to its projection of rate case**  
65 **expense?**

66 **A.** Yes. The Company is updating the projected Demand Study, Consultants  
67 and Cost of Service components of rate case expense shown on  
68 Schedule C-10.

69 **Q8. What is the update to Demand Study cost?**

70 **A.** The Company has updated the projected Demand Study cost to be in line  
71 with the actual level of cost incurred as of February 2012. The updated  
72 amount for the Demand Study cost is \$763,159.

73 **Q9. What updates has the Company made to its "Consultants"**  
74 **component of rate case expense?**

75 **A.** The Company has reduced this amount by \$100,000, to \$280,000. The  
76 reduction reflects the Company's current expectations of the cost to retain  
77 outside consultants to assist it with preparation of its rebuttal case and  
78 potentially provide rebuttal and surrebuttal testimony. The Company's  
79 original projection represented its expectations at the start of the case; as  
80 the case has progressed and issues have been identified, the Company  
81 has been able to refine its projection. The Company will provide further  
82 details of this cost component in rebuttal as necessary.

83 **Q10. Has the Company made any updates to its projection of Cost of**  
84 **Service related rate case expense on Schedule C-10?**

85 **A.** Yes. As a result of work undertaken to respond to ICC Staff data requests  
86 CB-1.01 through CB-1.09, the Company has increased its estimate for  
87 Cost of Service ("COS") consultant by \$8,000. Those data requests  
88 required the COS consultant to run a custom rate design scenario as

89 requested by Staff. Staff was notified of the additional cost that would be  
90 incurred to respond to the data request, and instructed the Company to  
91 proceed with the response. The new COS cost is \$145,000.

92 **Q11. Did the Company reflect the changes made to Schedule C-10 in the**  
93 **Schedule C-2.1 adjustment?**

94 **A.** Yes. Schedule C-2.1 First Revised, which adjusts for the projected  
95 amount of rate case expense to be reflected in the test year, has been  
96 updated with the costs contained in Schedule C-10 First Revised. The net  
97 change to the proposed amortization of rate case expense in the test year  
98 resulting from the corrections and updates listed above is a reduction of  
99 \$33,400.

100 **Q12. Is the Company's projected level of rate case expense as corrected**  
101 **and updated reasonable?**

102 **A.** Yes. Taking into account the corrections and updates I discuss above, the  
103 Company's projected level of current rate case expense reflects a 3%  
104 increase over the prior actual expense. This minimal level of increase,  
105 coupled with the considerations and explanations of the components of  
106 IAWC's projected current level of rate case expense discussed in my  
107 direct testimony (IAWC Exhibit 7.00, pp. 11-18), demonstrate the  
108 reasonableness of the expense level.

109 **Q13. Did the Company make any corrections to Schedule C-2.8 for the**  
110 **removal of Incentive Compensation?**

111 **A.** Yes. The Company has removed all of the incentive compensation from  
112 the test year. As explained in its responses to ICC Staff data request  
113 DLH-1.22 and AG data request AG-5.6, the Company inadvertently left a  
114 portion of incentive compensation out of its adjustment. The intent of  
115 Schedule C-2.9 was to remove all incentive compensation from the test  
116 year. The additional incentive compensation removed from the  
117 Company's test year in Schedule C-2.9 First Revised is \$133,934.

118 **Q14. Did the Company make any corrections to Schedule C-16 for the**  
119 **projected balance of the Uncollectible Revenue Provision for bad**  
120 **debt?**

121 **A.** Yes. The Company has corrected Schedule C-16, pages 2–3 for the  
122 projected balance for the Uncollectible Revenue Provision for bad debt.  
123 As explained in the Company's response to ICC Staff data request JMO-  
124 5.05, there was a formula error in the file as originally submitted. The  
125 error had no effect on the revenue requirement.

126 **Q15. Was there any change to Schedule C-16, page 1 for the projected**  
127 **amount of uncollectibles associated with the requested rate**  
128 **increase?**

129 **A.** Yes. Schedule C-16 First Revised reflects the updated requested rate  
130 increase as a result of the updated assumptions and corrections described  
131 in Mr. Kerckhove's testimony (IAWC Exhibit 5.00SUPP).

132 **Q16. Is the Company updating its projected test year level of Fuel and**  
133 **Purchased Power Expense?**

134 **A.** Yes. The Company is reducing its projected test year level of this  
135 expense by \$1.768 million. As explained by Ms. Teasley (IAWC Exhibit  
136 1.00SUPP), the reduction in the test year level of Fuel and Purchased  
137 Power Expense is the result of new contract terms negotiated by the  
138 Service Company's Supply Chain on behalf of IAWC. The update to the  
139 test year level of Fuel and Purchased Power Expense is reflected on  
140 Schedules C-1 First Revised and C-2 First Revised.

141 **Q17. Are you sponsoring any other schedules that changed as a result of**  
142 **the updated assumptions or corrections?**

143 **A.** Yes. Schedule C-2.8 First Revised reflects the change in fuel and  
144 purchased power prices noted above in calculating unaccounted for water.  
145 The reduction in price per thousand gallons reduced the adjustment to  
146 Fuel and Purchased Power Expense for the amount of unaccounted for  
147 water in excess of the Company's tariff.

148 **IV. NEW SCHEDULES**

149 **Q18. Has the Company made any additional adjustment for the Marina**  
150 **Water Reclamation Facility (Valley Marina)?**

151 **A.** Yes. As discussed in Mr. Kerckhove's testimony (IAWC Ex. 5.00SUPP),  
152 IAWC is decommissioning the Valley Marina facility and offloading  
153 treatment responsibility. Schedule C-2.15 adjusts the test year operations  
154 and maintenance expense to reflect offloading the treatment of sewage.

155 **Q19. What is the purpose of Schedule C-2.16?**

156 **A.** Schedule C-2.16 reflects the adjustment made to account for the third  
157 party vendor billing service that is projected to be provided for the Village  
158 of Bolingbrook and Dana, following the end of IAWC's billing services  
159 arrangements to certain municipalities. The adjustment accounts for both  
160 the revenue from the Village of Bolingbrook and Dana and the charges to  
161 provide the billing service from the third party vendor. Mr. Kerckhove's  
162 testimony (IAWC Exhibit 5.00SUPP) provides further discussion on third  
163 party billing updated assumptions.

164 **Q20. Has the Company made any adjustments to reflect the organizational**  
165 **restructuring discussed by Ms. Teasley?**

166 **A.** Yes. The Company has made adjustments for labor, group insurance,  
167 401k, DCP, FICA tax, FUTA tax, SUTA tax, and severance expense  
168 associated with the organizational restructuring discussed in Ms.  
169 Teasley's supplemental direct testimony (IAWC Exhibit 1.00SUPP). The  
170 net reduction is \$418,764. The adjustments to the test year are made in  
171 Schedule C-2.14. In addition, the Company is amortizing the severance  
172 over three years consistent with the Commission's treatment of severance  
173 costs in prior Dockets. Schedule C-22 outlines the cost impacts of the  
174 organizational restructuring. There are no initial startup costs to the  
175 organizational restructuring. The annual costs incurred are composed of  
176 the yearly amortization of the severance expense. Finally, the annual  
177 savings are composed of the reduced labor and related expense.

178 **Q21. Has the Company made any updates to Charitable Contributions,**  
179 **Community Relations, and Advertising expenses?**

180 **A.** Yes. As explained in its response to ICC Staff data request JMO-3.02, the  
181 Company has revised its assumptions for these expenses to align with  
182 updated communication strategies. The updated amounts for Charitable  
183 Contributions, Community Relations and Advertising expenses are  
184 reflected in Schedules C-1 First Revised and Schedule C-2 First Revised.

185 **V. TEST YEAR OPERATING INCOME**

186 **Q22. Please describe Schedule C-1 First Revised (attached as IAWC**  
187 **Exhibit 7.01SUPP).**

188 **A.** Schedule C-1 First Revised provides a summary income statement for the  
189 total Company and for each rate area. Schedule C-1 First Revised  
190 provides operating revenue under present and proposed rates, and  
191 projected operating expenses and revenue deductions as proposed in the  
192 Company's revised filing. The corrections and updated assumptions  
193 referenced in my supplemental direct testimony and the supplemental  
194 direct testimonies of Ms. Teasley (IAWC Ex. 1.00SUPP), Mr. Kerckhove  
195 (IAWC Ex. 5.00SUPP) and Mr. Rungren (IAWC Ex. 6.00SUPP) are  
196 reflected in Schedule C-1 First Revised. For the test year, present rates  
197 would yield an opportunity to earn a rate of return within the range of  
198 2.16% to 6.63%, as shown on the schedule for each of the rate areas, and  
199 the proposed rates would yield an opportunity to earn a rate of return of  
200 8.76% for each rate area. The Company's estimated cost of capital for the

201 test year is 8.76%, as show on Schedule D-1 First Revised. Refer to  
202 IAWC Exhibits 5.01SUPP and 5.02SUPP for a reconciliation detailing the  
203 corrections and updates flowing through Schedule C-1 First Revised.

204 **Q23. Please describe Schedule C-2 First Revised (attached as IAWC**  
205 **Exhibit 7.02SUPP).**

206 **A.** Schedule C-2 First Revised provides a summary of the adjustments to  
207 operating income. These adjustments are required to reflect ratemaking  
208 treatment of certain items or to adjust certain updated operating  
209 projections. There are four additional schedules in C-2 First Revised.  
210 These new schedules are Schedules C-2.14, C-2.15, C-2.16, and C-2.17.  
211 Each of these new schedules has been described in my supplemental  
212 direct testimony with the exception of Schedule C-2.17, which is covered  
213 in the testimony of Mr. Kerckhove (IAWC Ex. 5.00SUPP). Refer to IAWC  
214 Exhibits 5.01SUPP and 5.02SUPP for a reconciliation detailing the  
215 corrections and updates flowing through Schedule C-2 First Revised.

216 **VI. ADOPTION OF DIRECT TESTIMONY OF EDWARD J. GRUBB**

217 **Q24. Are you proposing to adopt a portion of Edward J. Grubb's direct**  
218 **testimony (IAWC Exhibit 4.00)?**

219 **A.** Yes. As explained by Mr. Kerckhove, Mr. Grubb has retired from the  
220 Company. I am therefore adopting a portion of his testimony, namely, the  
221 ICC Management Audit Costs testimony.

222 **Q25. Do you adopt the portion of IAWC Exhibit 4.00, the Direct Testimony**  
223 **of Edward J. Grubb, which you identified above as your own**  
224 **testimony in this proceeding?**

225 **A. Yes.**

226 **Q26. Does this conclude your supplemental direct testimony?**

227 **A. Yes, it does.**