

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 12-0200

IAWC EXHIBIT 1.00SR

**SURREBUTTAL TESTIMONY OF
RICH KERCKHOVE**

ILLINOIS-AMERICAN WATER COMPANY

December 4, 2015

**SURREBUTTAL TESTIMONY
OF
RICH KERCKHOVE**

1 **Q. Please state your name.**

2 **A.** Rich Kerckhove.

3 **Q. Are you the same Rich Kerckhove who previously filed direct and rebuttal**
4 **testimony in this proceeding?**

5 **A.** Yes, I am.

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

7 **A.** The purpose of my rebuttal testimony is to respond to the rebuttal testimony of
8 Staff witness Mary H. Everson. It appears that there are now two issues
9 between Staff and the Company; the first is the determination of the amount of
10 interest to be applied to past Commission O Factors and the second is the
11 determination of interest on prior reconciliations where the final order was not
12 issued prior to the conclusion of the current reconciliation year.

13 **Q. Are you sponsoring any exhibits with your rebuttal testimony?**

14 **A.** Yes. I am sponsoring the following purchased water exhibits:

- 15 • IAWC Exhibit 1.01SR – Summary of Water Reconciliations
- 16 • IAWC Exhibit 1.02SR – Alpine Heights
- 17 • IAWC Exhibit 1.03SR – Chicago Suburban - Variable
- 18 • IAWC Exhibit 1.04SR – Chicago Suburban - Fixed
- 19 • IAWC Exhibit 1.05SR – DuPage County - Variable
- 20 • IAWC Exhibit 1.06SR – DuPage County - Fixed
- 21 • IAWC Exhibit 1.07SR – Fernway
- 22 • IAWC Exhibit 1.08SR – Moreland

- 23 • IAWC Exhibit 1.09SR – Southwest Suburban
- 24 • IAWC Exhibit 1.10SR – Waycinden
- 25 • IAWC Exhibit 1.11SR – South Beloit - Variable
- 26 • IAWC Exhibit 1.12SR – South Beloit – Fixed

27 I am also sponsoring the following purchased sewage treatment exhibits:

- 28 • IAWC Exhibit 1.13SR – Summary of Sewage Treatment Reconciliations
- 29 • IAWC Exhibit 1.14SR – Country Club
- 30 • IAWC Exhibit 1.15SR – Valley View
- 31 • IAWC Exhibit 1.16SR – Rollins
- 32 • IAWC Exhibit 1.17SR – Romeoville
- 33 • IAWC Exhibit 1.18SR ICC Staff Exhibit 1.0, Schedule 4 RV, Page 2

34 **Q. Please describe IAWC Exhibit 1.01SR – Summary of Water Reconciliations.**

35 **A.** IAWC Exhibit 1.01SR summarizes all of the reconciliations for the eight
36 purchased water service districts.

37 **Q. Please describe IAWC Exhibits 1.02SR through 1.12SR.**

38 **A.** IAWC Exhibits 1.02SR through 1.12SR present the 2011 purchased water
39 reconciliations in Staff format. In certain districts, there is a second page to
40 calculate interest on Commission-ordered O factors. The reconciliations may
41 differ from the Staff version for multiple reasons. The first is that the IAWC
42 Exhibits start with the filed data and ties back to IAWC Exhibit 1.13 filed with my
43 direct testimony. The second is that the second column carries forward from the
44 second page the effects of Company-proposed interest on O factors. The
45 interest differs from the Staff calculation due to use of simple interest by the

46 Company and the use of compounded interest by Staff. I discuss the interest
47 issue later in my testimony. In addition, the Company exhibits exclude O factors
48 for 2009 and 2010 that were ordered by the Commission subsequent to the end
49 of 2011 for the DuPage County, Moreland, and South Beloit districts. The 2009
50 and 2010 final orders were issued by the Commission in 2015 and the respective
51 O factors will be reflected, along with interest, in subsequent reconciliations and
52 rate filings.

53 **Q. Please describe IAWC Exhibit 1.13SR – Summary of Sewage Treatment**
54 **Reconciliations.**

55 **A.** IAWC Exhibit 1.13SR summarizes all of the reconciliations for the four purchased
56 sewage treatment service districts.

57 **Q. Please describe IAWC Exhibits 1.14SR through 1.17SR.**

58 **A.** IAWC Exhibits 1.14SR through 1.17SR present the 2011 purchased sewage
59 treatment reconciliations in Staff format. In certain districts, there is a second
60 page to calculate interest on Commission-ordered O factors. The reconciliations
61 may differ from the Staff version for multiple reasons. The first is that the IAWC
62 Exhibits start with the filed data and ties back to IAWC Exhibit 1.13 filed with my
63 direct testimony. The second is that the second column carries forward from the
64 second page the effects of Company-proposed interest on O factors. The
65 interest differs from the Staff calculation due to use of simple interest by the
66 Company and the use of compounded interest by Staff. In addition, the
67 Company exhibits exclude O factors for 2009 and 2010 that were ordered by the
68 Commission subsequent to the end of 2011 for the Country Club district. The

69 2009 and 2010 final orders were issued by the Commission in 2015 and the
70 respective O factors will be reflected, along with interest, in subsequent
71 reconciliations and rate filings.

72 **Q. In your rebuttal testimony, you indicated that Staff was proposing, for the**
73 **first time after nine purchased water and purchased sewage treatment**
74 **reconciliations, to compound interest on an annual basis in the**
75 **determination of total interest associated with each O Factor, and that Staff**
76 **had not identified any Commission rule that prescribed the use of**
77 **compounding, either annually, quarterly, monthly, or daily. In her rebuttal**
78 **testimony, did the Staff witness provide the rule that delineates any**
79 **compounding of interest on outstanding O Factors?**

80 **A.** No. Staff provided the following language as the basis for compounding of
81 interest:

82 Costs and revenues associated with the purchased water/sewage
83 treatment surcharge shall be subject to adjustment components (Of,
84 Ov, and O, as applicable) as required by an Order of the Commission.
85 Any difference determined by the Commission shall be credited or
86 charged, as appropriate, along with an interest at the effective rates
87 established by the Commission under 83 Ill. Adm. Code 280.70(e)(1).
88 Interest of the adjustment component shall be applied from the end of
89 the reconciliation year until the adjustment component is refunded or
90 charged. (ICC Staff Exhibit 2.0, pp. 5-6, 83 Ill. Adm. Code 655.50(c).
91

92 The above rule cited by the Staff witness is silent with regards to the method to
93 be used for computing the interest amount on the O factors. I believe that the
94 Company has been properly calculating the interest on outstanding O factors by
95 applying the respective interest rate for each year as ordered by the Commission
96 to the outstanding O factor. The Commission has not rejected this methodology
97 in any of the nine previous reconciliation dockets. In the 2004 reconciliation,

98 Docket No. 05-0176, the Staff witness (who is the same Staff witness in this
99 reconciliation) prepared a schedule that applied the same interest rate, 2.5%, to
100 the 2003 O Factor for the Romeoville District for a 27-month period without any
101 compounding at all, citing the same Commission rule as a source that she used
102 in her rebuttal testimony in this docket. I have attached as IAWC Exhibit 1.18SR
103 the relevant page of the Staff direct testimony and exhibits that shows the simple
104 interest calculation in Docket No. 05-0176.

105 **Q. When the Commission renders its final order regarding the interest on past**
106 **O factors, should the amounts be treated as O factors in this proceeding?**

107 **A.** No. Neither Staff nor the Company are proposing any changes to either the
108 amount of revenues collected or costs recovered through the reconciliation.
109 Adjustments to revenues and costs would be considered O factors as described
110 by 83 Ill. Adm. Code 655.50(c), which is included in its entirety above. Staff and
111 the Company are now proposing what each party believes to be the proper
112 amount of interest on O factors that have already been ordered by the
113 Commission in previously litigated proceedings. The interest should not be
114 considered as O factors. It is interesting to note that Staff's position regarding
115 interest compounding essentially treats interest as O factors, resulting in interest
116 on interest.

117 **Q. What is the amount of the O factor that the Commission should order in**
118 **this reconciliation?**

119 **A.** The O factor that the Commission should order in this reconciliation is \$114,616
120 resulting from the reduction in non-revenue water in excess of tariff limit due to

121 the consideration of Company used water that was omitted from the originally-
122 filed reconciliation. This issue was addressed in my supplemental direct
123 testimony, IAWC Exhibit 1.00SUPP. The O factors and interest from prior
124 reconciliations should retain their identities and not be rolled into new O factors in
125 this reconciliation.

126 **Q. Does this conclude your rebuttal testimony?**

127 **A.** Yes.