STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois-American Water Company	)	
	)	
	)	ICC Docket No. 26-0127
Proposed Rate Increase for Water and Sewer Service. (tariffs filed - January 27, 2026)	)	
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	)	
	)	

DIRECT TESTIMONY
OF
SIDNEY LOCKHART, P.E. and JAMES A. BUSCH
of the WIRED GROUP

SUBMITTED ON BEHALF OF
THE PEOPLE OF THE STATE OF ILLINOIS
BY THE OFFICE OF THE ATTORNEY GENERAL

AG EXHIBIT 2.00
PUBLIC VERSION

Information designated by Illinois-American Water Company as confidential pursuant to the Protective Order is indicated with [BEGIN CONF] [redacted] [END CONF]

May 27, 2026

Illinois American Water Company
ICC Docket No. 26-0127
Direct Testimony of Sidney Lockhart, P.E. and James A. Busch

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I. INTRODUCTION

Q. Mr. Lockhart, please state your name and business address.

A. My name is Sidney Lockhart. My business address is Wired Group, PO Box 620756, Littleton, CO 80162.

Q. What is your occupation?

A. I am an engineer specializing in water and wastewater utility infrastructure systems. I occasionally work for the Wired Group in support of the firm's clients.

Q. Please describe your educational background and professional certifications.

A. I received a Bachelor of Science degree in Civil Engineering from Michigan State University in 1997. I am a licensed Professional Engineer in the State of Michigan and hold a Master Plumber license in the State of Michigan. I am also currently Pipeline Assessment Certification Program ("PACP") Certified through the National Association of Sewer Service Companies ("NASSCO").

Q. Please summarize your professional experience relevant to this proceeding.

A. I have more than 30 years of experience involving design, right of way, permitting, engineering, construction, maintenance, rehabilitation, procurement, financing, and oversight of water and wastewater utilities as well as plumbing-related infrastructure systems. My experience includes water transmission and distribution systems, sanitary sewer systems, force mains, interceptor systems, pumping

stations, water and wastewater treatment facilities, water meter and smart meter replacement programs, lead service line replacement programs, trenchless rehabilitation technologies, emergency infrastructure repairs, and large-scale public infrastructure construction and rehabilitation projects. I was also the lead engineer involved in active management and mitigation of damages associated with three major sanitary sewer sinkhole failures involving the Michigan Department of Transportation ("MDOT") U.S. Routes, county roads, and local roadway systems.

Q. Please describe your employment experience.

A. I previously worked approximately 23 years for the Oakland County, Michigan Water Resources Commissioner's Office in progressively responsible engineering and management positions including Civil Engineer, Assistant Chief Engineer, Chief Engineer, and Special Projects Manager & Deputy. My responsibilities included design oversight, right of way coordination, permitting, engineering, construction contract administration, procurement, financing coordination, capital planning, public board reporting, contractor claims resolution, coordination with consultants and contractors, and management of large-scale public infrastructure projects. My experience also includes preparing contract documents for engineering consultant and construction contractor procurement, development of County Standard Specifications, and implementation of ISO 9001 quality management procedures.

Q. Please describe your additional experience relevant to construction management and project delivery methods.

A. Prior to my public sector experience, I worked for Walbridge Aldinger as a Project Engineer, Superintendent, and On-Site Safety Representative. My experience there included work on the Renaissance Center Chilled Water Plant Design-Build Project for DTE Northwind and General Motors, along with other large-scale infrastructure and construction projects. While working for Oakland County, Michigan, I championed the use of alternative construction delivery processes including Construction Manager at Risk ("CMAR") and Design-Build project delivery methods for public infrastructure projects.

Q. Does your experience include public infrastructure financing and rate-related matters?

A. Yes. My experience includes public infrastructure financing involving grants, low-interest state loan programs, public bonds, assessments, rates, apportionments, and other capital funding mechanisms associated with water, wastewater, drainage, and related public infrastructure systems. My experience also includes coordination with financial consultants, bond counsel, public boards, and infrastructure financing proceedings involving capital improvement programs and public infrastructure projects. One of these projects involved participation on a three-county committee during the City of Detroit bankruptcy proceedings concerning the cost basis, operational structure, financing considerations, and risks associated with separating major regional water and wastewater assets from the City of Detroit

and establishing an independent regional authority, now known as the Great Lakes Water Authority ("GLWA").

Q. Have you previously presented engineering or infrastructure-related matters before public bodies or in legal-related proceedings?

A. Yes. Throughout my career, I have presented engineering, infrastructure, construction, financing, claims, and project-related matters before public boards, in public hearings, stakeholder meetings, drain proceedings, arbitration-related matters, and other governmental and legal-related proceedings. I have also performed engineering evaluations and prepared reports involving infrastructure and plumbing-related matters for parties to legal proceedings in civil courts. I have also participated in and presided over public hearings involving public infrastructure improvements while serving as an elected official on a local School Board, including service as Chair of the Capital Improvement Committee.

Q. Have you previously testified before the Illinois Commerce Commission?

A. No. However my professional experience qualifies me to do so, and I ask that the Commission accept my credentials and qualifications as an expert. My curriculum vitae is attached as AG Exhibit 2.01.

Q. Mr. Busch, please state your name and business address.

A. My name is James A. Busch. My business address is Wired Group, PO Box 620756, Littleton, CO 80162.

Q. What is your occupation?

A. I am an independent consultant specializing in utility policy work. I occasionally work for the Wired Group in support of the firm's clients.

Q. Please describe your educational and professional background.

A. I received Bachelors and Master's Degrees in Economics from the Southern Illinois University at Edwardsville. I began my professional career as a Research Analyst with the Missouri Department of Economic Development in 1996. In 1997, I began work with Missouri Public Service Commission ("MoPSC") as a Regulatory Economist in the Gas Procurement Department. In that role, I focused primarily on reviewing and analyzing hedging programs developed by Investor-Owned Local Distribution Companies ("LDCs") and filed related testimony. In 1999 I took a position with the Missouri Office of the Public Counsel ("MoOPC") as a Public Utility Economist, where I continued work on LDC gas procurement plans, but also began performing Class Cost of Service Studies ("CCOS") and Rate Design for Water and Sewer utilities and Electric Utilities among other responsibilities.

I transferred back to the MoPSC in 2005, accepting the position as Regulatory Economist III in the Economic Analysis Department. In this position, I worked on CCOS studies and rate design, Integrated Resource Plans ("IRPs"), and brief work with RTOs (Regional Transmission Organizations). I was promoted in 2008 to the position of Regulatory Manager in the Water and Sewer Department of the MoPSC. In that role, I managed a group of eight individuals with

backgrounds in engineering, accounting, and field inspections, and wrote testimony and reviewed Staff recommendations involving, but not limited to, CCOS and rate design, acquisition cases, and cases involving the granting of CCNs (Certificates of Convenience and Necessity). Besides casework, I also led MoPSC engagement with stakeholders such as Missouri Department of Natural Resources in finding solutions to help ensure that Missourians were receiving safe and adequate water and sewer service.

In 2021 I was promoted to Director of the Industry Analysis Division ("IAD") at the MoPSC. As the Director of IAD, I was responsible for a group of approximately 60 employees spread over seven departments, including engineering, economics (tariff/rate design), telecommunications, water and sewer, gas engineering safety, energy resources, and manufactured housing. I was in charge of setting the general policy direction of Staff in almost all cases. I reviewed all testimony and recommendations, making appropriate edits to ensure that the cases were providing a consistent message to the Commission. I also worked on legislation and testified in front of the Missouri Legislature. I performed in this capacity until my retirement in January of 2026.

Q. Have you testified before the Commission previously?

A. No. However, I have testified numerous times in front of the Missouri Public Service Commission. My professional experience qualifies me to testify before this Commission, and I ask that the Commission accept my credentials and qualifications as an expert. A complete list of my appearances in state utility

regulatory proceedings is provided in my curriculum vitae, attached as AG Exhibit 2.02.

Q. On whose behalf are you both appearing?

A. We are testifying on behalf of the People the of the State of Illinois through the Office of the Illinois Attorney General (the "People" or the "AG").

Q. Do you sponsor any exhibits?

A. Yes. In addition to our qualifications, which are in AG Exhibits 2.01 and 2.02, respectively, we have attached AG 2.03 – AG 2.06, which contain selected responses to data requests issued by the AG.

Q. What is the purpose of your testimony?

A. We reviewed Illinois-American Water Company's ("ILAWC" or the "Company") testimony, exhibits, and discovery responses to determine whether the Company's assertions and requests for funding are prudent, reasonable, and adequately supported by the record. Our testimony provides recommendations based on this review and raises ILAWC numerous concerns regarding the $573 million in capital additions ILAWC seeks to recover in this case.

Q. Please provide a preview of your testimony.

A. Our testimony is organized into seven substantive sections and includes recommendations to reduce the size of the Company's 2026-2027 capital spending plan by $98.5 million as summarized in Table 1 below.

Table 1: Summary of Recommended Reductions in ILAWC 2026-2027 Capital Plan

Testimony Section	Description	Reduction
II	Plant not likely to be in service by the end of the test year	$55,828,498
II	Granite City WW Primary Clarifier Replacement Project	$3,000,000
II	Valley View 53 & 56 Water Main Relocation Project	$5,400,000
III	Enterprise IT Investment Projects	$31,835,419
V	Tolono WW Short-Term IEPA Compliance Project	$2,500,000
	Total	**$98,563,917**

In Section II, we will provide the supporting analysis for our recommendation to reduce the Company's capital spending plan (and associated rate increases) by $64.2 million. This spending is either premature, unnecessary, or untimely (meaning, unlikely to result in used and useful plant placed into service within the proposed future test year starting January 1, 2026 through the end of December 31, 2027).

Section III will provide the basis for our disallowance recommendation of what appears to be inflated and unjustified costs totaling $31,835,419 for ILAWC's allocated portion of the Enterprise IT Investment Projects.

Section IV will discuss our concerns regarding the Company's push to install smart water meters in all its systems. We believe that the customer value proposition for smart water meters is negative. Since smart meters may qualify as

Qualifying Infrastructure Plant ("QIP") under Illinois law, we do not recommend a reduction in the Company's 2026-2027 spending plan.[1] We do, however, recommend that the Commission require the Company provide leak detection alerts for all customers that currently have smart water meters because we are concerned that ILAWC is underutilizing smart meter technology and data analytics to the detriment of ratepayers.

In Section V, we will discuss the Company's recent acquisition activity and the challenges of regulating the privatization of water and sewer systems under Section 9-210.5 of the Public Utilities Act.[2] We use the Tolono wastewater system acquisition as an example to illustrate our concerns and recommend a $2.5 million reduction in the 2026-2027 capital plan for that system.

In Section VI, we recommend the Commission reject the Company's proposed PFAS mitigation rider. The evidence shows that the Company is well-aware of PFAS standards that will go into effect in coming years, has evaluated its owned systems' compliance with those regulations, and has already made preliminary plans for the capital expenditures required to address non-compliance.

Section VII will describe our concerns regarding the Company's failure to adhere to certain industry best practices that would likely reduce capital spending, rate case frequency, and rate increases. We present best practice recommendations in areas of asset condition assessments and procurement along with more detailed

[1] 220 ILCS 5/9-220.2(b) (QIP costs include "a return on the investment in and depreciation expense related to plant items or facilities (including, but not limited to, replacement mains, meters, services, and hydrants) which (i) are not reflected in the rate base used to establish the utility's base rates and (ii) are non-revenue producing").
[2] 220 ILCS 5/9-210.5.

budgeting and tracking of capital programs that we believe represent significant, low-risk opportunities to reduce costs for ILAWC.

Section VIII will address our concern that ILAWC over-classifies projects as QIP-eligible. We request the Company address these issues on rebuttal to ensure ILAWC is not double-recovering on capital investments.

II. PREMATURE, UNNECESSARY, OR UNTIMELY CAPITAL SPENDING

Q. How much does ILAWC propose to spend on capital investments in 2026-2027?

A. The Company seeks to recover $573 million in capital additions that are planned to occur from January 1, 2026 through December 31, 2027, which is the end of the test year.[3] Given the Company's use of a future test year, we do not have the opportunity to perform a post-construction review of costs in this case. Instead, we are left to look at how ILAWC *intends* to do work for hundreds of projects worth hundreds of millions of estimated and projected dollars - a challenge that we believe can lead to rate increases that are higher than necessary for safe and reliable water and wastewater services.

Q. Did you identify any issues with ILAWC's future spending plans?

A. Yes. We found projects amounting to $55.8 million that will not likely be in service by December 31, 2027, and two projects with unnecessary and premature costs that should not be recovered from ratepayers We also note that over 51% of ILAWC's

[3] ILAWC Ex. 3.00 at 13:274-278, 19:378-20:381.

projected capital investments (about $297 million) have been identified by the Company as QIP-eligible[4] and therefore will not be reviewed for prudency until a future reconciliation proceeding. We further have concerns that ILAWC is over-classifying projects as QIP-eligible which will be addressed further in Section VIII of this testimony.

A. Projects not likely to be in service by the end of the proposed test year

Q. Please explain why the time frame for the placement of projects into service is important for the Company's rate increase request.

A. It is standard ratemaking practice to refrain from charging customers for equipment that is not used and useful. Rates based on how much capital a utility spends, rather than the cost of projects a utility actually places into service, could allow a utility to charge customers for capital spent without actually finishing a project that is used and useful in delivering utility services.

In future test year ratemaking, as the Company proposes in this case, the placement of a particular project into service by a certain date can only be anticipated and can be delayed in design, equipment procurement, permitting, construction, or testing and startup. Accurate estimations of in-service dates are critical for just and reasonable rates because future test year ratemaking calculates revenue requirements and rates based on anticipated project placements into

[4] ILAWC Ex. 3.00 at 14:286-15:302.

service. It would not be fair or equitable to incorporate projects in rate calculations that are unlikely to be placed into service by the end of a future test year.

Q. Did you examine the expected in-service dates of projects for which the Company includes costs for ratemaking purposes in this proceeding?

A. Yes. We reviewed Company Exhibits 3.01, 3.02, and 3.05 in detail which provide the anticipated cost of projects expected to go into service during 2026-2027.[5] We also reviewed ILAWC Exhibit 3.03, the Illinois Strategic Capital Expenditure Plan ("Capital Expenditure Plan") and ILAWC Exhibit 3.04 which identifies the investments in recently acquired systems included in the Capital Expenditure Plan.[6] The $573 million in capital investments ILAWC seeks to recover in this case is the sum of the total expected spend for 2026 ($297,091,570) and for 2027 ($275,928,829) in the Capital Expenditure Plan.[7]

Q. **Did you identify any issues when reviewing the Company's proposed project spend?**

A. Yes. During our review, we observed differing project costs across these Exhibits despite all of them allegedly representing the same amount of project spend for the test year. We asked the Company to reconcile the differences between these Exhibits and discovered the Company's 2026-2027 Capital Expenditure Plan

[5] ILAWC Exs. 3.01, 3.02, 3.05; ILAWC Ex. 3.00 at 19:376-20:381.
[6] ILAWC Exs. 3.04 and 3.05; ILAWC Ex. 3.00 at 21:421-423, 19:376-20:381.
[7] ILAWC 3.03 (Rev.) FINAL.

includes higher costs for numerous projects when compared to the project costs included in Exhibits 3.01 and 3.05.[8] The Company explained that the reason for the cost variances is that the Capital Expenditure Plan "has 2026 and 2027 spend for projects that will continue into 2028 and will not go into service until after 2027 while Exhibit 3.01 represents projects that will be completed in 2026/27."[9] In other words, it appears the Company is seeking to recover costs for projects that will not go into service until after the test year.[10]

Q. Are your observations directed toward all project categories reflected within Exhibit 3.03?

A. No. The Company's Capital Expenditure Plan is divided into two areas: Recurring Projects and Investment Projects.[11] A majority of the projects planned for 2026-2027 are Recurring Projects (approximately $320 million) which the Company claims require less long-term financial and capital planning.[12] It appears that much of the spending for these Recurring Projects such as the replacement of Meters, Water Mains, and Valves are not subject to review and consideration in the instant proceeding due to their qualification as QIP projects.[13] It is our understanding that such spending is reviewed for prudence as part of the annual reconciliation process for QIP spending and cost recovery,[14] and as a result, is not within the scope of the

[8] AG Ex. 2.03, ILAWC's Response to AG 3.15_Attachment_Revised at 1.
[9] *Id.*
[10] *Id.*
[11] ILAWC Ex. 3.00 at 8:160-166.
[12] ILAWC Ex. 3.00 at 14:290-15:302.
[13] 220 ILCS 5/9-220.2; 83 Ill. Adm. Code 656; AG Ex. 2.03, ILAWC's Response to AG 3.06 at 2-3.
[14] 220 ILCS 5/9-220.2; 83 Ill. Adm. Code 656.

this case. Therefore, the concerns discussed within this testimony are directed mostly toward the Investment Projects in the Capital Expenditure Plan.

Q. When you asked the Company to reconcile the projects and costs across exhibits, did you identify additional limitations or inconsistencies?

A. Yes. The Company's explanation and our review demonstrate that the Capital Expenditure Plan includes millions in projected costs for broader project groupings without the detailed project descriptions and identifiers included in Exhibits 3.01 or 3.05.[15] This raises the question as to whether these projects will be in service after the test year since they are not included in the Company's Exhibits that reflect capital spending for projects expected to go into service during 2026 and 2027.

These project groupings also lack necessary project identifiers which limits the ability to fully trace expenditures reflected within the Capital Expenditure Plan to discrete project-level records, implementation status information, and corresponding in-service assumptions reflected within the Company's proposed capital investment program. We have not been able to fully analyze the financial impact of this problem given we have not had the opportunity to review the discovery responses issued by the Company yesterday evening. We reserve the right to file supplemental direct or address the issue further in rebuttal.

Q. What do the Company's responses to data requests ultimately demonstrate regarding the project expenditures?

[15] AG Ex. 2.03, ILAWC's Response to AG 3.15_Attachment_Revised at 1.

A. The Company's explanation demonstrates that expenditures proposed for recovery in 2026 and 2027 are associated with projects extending beyond the proposed rate period, and for which the associated plant is not anticipated to be placed into service during 2026 or 2027. We therefore recommend a disallowance of the inflated project costs identified in the Company's explanation for the plant not anticipated to be placed into service during 2026 or 2027.

Q. Did you identify additional support for these timing and in-service concerns during your review of the Company's exhibits and discovery?

A. Yes. Additional support for these timing and in-service concerns was identified during review of ILAWC Exhibit 3.02 project descriptions together with related discovery responses.[16] Additional discovery into these documents revealed many projects with projected in-service dates in 2026 and 2027 for which project status was described as in "Planning" status or "Unknown" status. The information obtained in discovery also reflects related project cost estimates are in early stages and not based on projects in design or later stages of development. A project with an in-service deadline of December 31, 2027 (for incorporation into 2027 revenue requirement and rate calculations) should not still be in the planning stage, or worse, be of unknown status.

Even ILAWC's Capital Program Management Practice states that the purpose of the planning stage is to **[BEGIN CONF]** [redacted]

[16] ILAWC Ex. 3.02; AG Ex. 2.03, ILAWC's Response to AG 3.28 Attachment Final and AG 3.28 Supp_Attachment at 4-8.

[redacted] **[END CONF]**.[17]

Q. Why is the identified project status information significant?

A. Projects remaining in planning or active design phases may face substantial remaining implementation activities prior to being placed into service. Based upon my experience with water and wastewater infrastructure implementation, projects remaining in planning or active design status may be difficult to fully complete and place into service prior to the end of 2027 depending upon project complexity. Issues relating to the progression of design, other project coordination, stake holder engagement, permitting requirements, material delays, current geo-political events, unforeseen contractor conditions, and other construction delays can extend project durations, procurement lead times, property access coordination requirements, and other implementation factors associated with large infrastructure projects. These activities can take in excess of 24 months to complete especially when coupled with the noted construction issues. Projects that are in a robust design status, on the other hand, bring clarity to a lot of these areas along with more reliable project estimates.

Q. Have you prepared a summary of the projects you identified that are not likely to be placed into service by December 31, 2027?

[17] AG Ex. 2.03, ILAWC's Response to AG 8.06 Attachment C_Capital Program Management Practice at 17.

A. Yes. Table 2 below summarizes identified projects and expenditures associated with projects continuing beyond 2027 based upon the Company's reconciliation provided in discovery and the other data request responses cited above. We recommend the Commission reduce the proposed 2026 and 2027 capital expenditures by approximately $55.8 million which represents the cost variances identified the Company's data request responses.[18] The record does not presently demonstrate that recovery of these expenditures through proposed 2026 and 2027 rates is appropriate, because project in-service, and associated customer benefits, appear unlikely to occur by the end of the proposed test year (December 31, 2027).

Table 2: Summary of projects unlikely to be placed into service by December 31, 2027

Project Category	Code	Basis	Reduction
Peoria Investments	I25-6500(62)(72-76)(87)	Projects continue beyond 2027 and are not anticipated to be placed into service during the Test Year	$22,697,554
Mt Pulaski WW Investments	Not Listed		$6,753,392
Jerseyville WW Investments	I25-200007(200008)		$5,467,175
Peoria WW Investments	I25-660002		$5,033,647
Interurban Investments	125-350088		$3,735,758
Shilo WW Investments	I25-360005(360009)		$3,225,387
Livingston W Investments	I25-210002(210003)		$2,294,184
Streator Investments	125-270002		$1,768,300
Hardin W Investments	125-260008		$1,495,453
Alton WW Investments	125-1700(07)(35)(36)(42)		$1,432,925
Santa Fe Investments	Not Listed		$1,124,117
Rosiclare WW Investments	125-470020		$800,606
		Total	**$55,828,498**

B. Primary clarifier replacements at the Granite City wastewater treatment plant

Q. Did your review of information the Company provided in support of other projects lead you to recommend additional capital spending plan reductions?

[18] AG Ex. 2.03, ILAWC's Response to AG 3.15_Attachment_Revised at 1.

A. Yes. For example, we reviewed the justification the Company provided for a project to replace six Primary Clarifiers at the Granite City wastewater treatment plant (I25-370016) at an estimated project cost of $6.0 million.[19] However, the project justification indicated that only three of the six clarifiers have failed and are currently unusable (except as holding tanks) due to structural and mechanical deficiencies. The Company's justification documents further indicate that the project was originally bid as a base bid for replacement of three clarifiers, with an alternate bid item added for replacement of the remaining three clarifiers.[20]

The Company states that replacement of the functioning three clarifiers was recommended due to "great pricing," "long lead times," and because the remaining clarifiers were anticipated for replacement within the five-year capital plan. However, the records reviewed do not clearly provide quantified procurement savings analyses, lifecycle cost analyses, escalation analyses, present-value analyses, alternative rehabilitation evaluations, or documented engineering studies supporting acceleration of replacement for the remaining three clarifiers during the requested recovery period.

Q. Did the Company provide sufficient condition assessment information supporting replacement of all six clarifiers?

A. In our opinion, no. While the records reasonably support replacement of the three clarifiers currently out of service, the records reviewed do not demonstrate

[19] AG Ex. 2.03, ILAWC's Response to AG 3.28 Supp Attach 2_I25-370016 - Primary Clarifier – Estimate at 23.
[20] *Id.*

sufficient condition assessment documentation, remaining useful life analyses, maintenance history evaluations, rehabilitation alternative analyses, or quantified economic justification supporting accelerated replacement of the remaining three clarifiers during the requested recovery period. The records primarily reference age, fatigue, future planning considerations, and procurement convenience rather than documented condition-based engineering analysis.[21]

Q. What reduction in the Company's 2026-2027 capital plan do you recommend for the Granite City WW Primary Clarifier Replacement Project?

A. Based on the records reviewed and the lack of supporting analyses, we conclude that the replacement of three of the six primary clarifiers is not justified. As the project cost is estimated at $6.0 million, we recommend a 50 percent reduction in the 2026-2027 capital spending plan, or $3.0 million.

C. Valley View water main relocation project

Q. Please describe your concerns regarding the Valley View 53 & 56 Water Main Relocation Project.

A. The Valley View 53 & 56 Water Main Relocation Project includes approximately $5.4 million of requested capital expenditures associated with relocation of water main infrastructure reportedly required for an Illinois Department of Transportation roadway project (I25-860094). However, the records reviewed contain significant

[21] *Id.* at 23-25.

inconsistencies regarding project timing, project status, implementation schedule, and cost recovery.[22]

The project justification forms indicate that portions of the project were already underway prior to the requested recovery period, including references indicating that Phase 1 water main facilities were anticipated to be in service before October 2025 and Phase 2 facilities anticipated to be in service by July 2026.[23] At the same time, portions of the Company's capital schedules and exhibits continue to present the project as part of the forecasted 2026–2027 capital investment program.[24]

Q. Did the explanation discussed earlier address these timing and cost recovery inconsistencies?

A. Not to our satisfaction, no. While the Company's reconciliation of project costs appears intended to reconcile project timing, status, and cost recovery among the Company's various capital planning schedules and exhibits, the records reviewed still contain inconsistencies regarding implementation timing, in-service dates, project classification, and cost recovery associated with the Valley View water main relocation project. The records reviewed also do not clearly identify how much, if any portion, of the project costs were incurred, committed, or placed into service prior to 2026.[25] (Such timing would have made cost recovery appropriate

[22] AG Ex. 2.03, ILAWC Response to AG 3.28 Supp Attach 2_I25-860094 - Valley View 53 & 56 WMR – Estimate at 27.
[23] *Id*.
[24] ILAWC Exs. 3.01, 3.02, and 3.03.
[25] AG Ex. 2.03, ILAWC's Response to AG 3.15_Attachment_Revised at 1.

for the Company's last rate case, but not the instant application for a rate increase.)

Q. Did the records reviewed contain sufficient support for the requested recovery treatment associated with the Valley View project?

A. No. While utility relocation work associated with roadway improvements may ultimately be necessary, the records reviewed do not clearly demonstrate sufficient reconciliation of expenditures, implementation timing, in-service dates, and associated cost recovery associated with the requested project costs. In addition, the project justification materials contain limited engineering evaluation, limited alternatives analysis, and limited supporting documentation relative to the requested project expenditures.[26]

Q. What adjustment do you recommend for the Valley View 53 & 56 Water Main Relocation Project?

A. Based on the records reviewed, we recommend removal of the $5.4 million associated with the Valley View 53 & 56 Water Main Relocation Project from the proposed capital investment recovery request. The Company has not sufficiently demonstrated the timing, classification, expenditure reconciliation, or forecasted recovery treatment associated with the requested project costs.

[26] AG Ex. 2.03, ILAWC's Response to AG 3.28 Supp Attach 2_I25-860094 - Valley View 53 & 56 WMR – Estimate at 27.

III. RECURRING PROJECT BUDGETING ISSUES

Q. You mentioned earlier that the Company seeks to recover approximately $320 million in capital investments for Recurring Projects. Were you able to determine the scope of work to be completed for that amount?

A. Not entirely. ILAWC's Capital Expenditure Plan includes large buckets of proposed project spend for general line items such as "Meters – Replaced," and "Enterprise IT Investment Projects."[27] When asked to break down those project costs by individual water and wastewater systems and the work to be completed in each, the Company's responses lead to more questions than answers particularly regarding costs for these two line items.

Q. Please explain.

A. We asked the Company for the total number of meters planned for installation and replacement in 2026-2027, by system and in total, and discovered that ILAWC plans to install 66,704 meters in 2026-2027,[28] for an average cost of $428 per replacement meter. That totals to $28,549,312 for meter replacements, but according to ILAWC's Capital Expenditure Plan, the Company seeks to recover $33,700,000 for meter replacements in this proceeding.[29] These projected costs, which seem $5.151 million higher than the per unit cost would require, will be subject to review in IAWC's QIP reconciliation.

[27] ILAWC Ex. 3.03 (Rev.) FINAL.
[28] AG Ex. 2.04, ILAWC Response to AG 6.10 (c) at 2 and ILAWC Response to AG 6.10_Attachment at 5.
[29] ILAWC Ex. 3.03 (Rev.) FINAL.

We identified a similar discrepancy with the large "Enterprise IT Investment Projects" line item under which the Company projects spending $24.1 million in 2026 and $28.1 million in 2027.[30] We asked the Company to provide a breakdown of costs associated with these recurring projects and an explanation of how the Company determined the costs.[31] In response, the Company provided a breakdown of the components of these projects and reported the combined total costs for 2026 and 2027 as $20.4 million.[32]

Q. How should the Commission treat the costs for Recurring Projects in ILAWC's Capital Expenditure Plan that exceed the costs specifically identified in discovery?

A. The meter costs are considered QIP, although the Company is seeking recovery of these projected costs in base rates. The $5.151 million discrepancy in meter costs should be addressed in the QIP reconciliations for 2025 and 2026.[33] The costs for Enterprise IT Investment Projects are being reviewed in this rate case. The Company's Capital Expenditure Plan included $52.2 million total cost for 2026 and 2027, but the Company only confirmed $20.4 million in costs for those years.

[30] ILAWC Ex. 3.03 (Rev.) FINAL.
[31] AG Ex. 2.04, ILAWC Response to AG 6.21_Supplement Attachment at 6-7 and ILAWC Response to AG 9.08 at 8-10.
[32] *Id.*
[33] See 83 Ill. Admin. Code 656.40(e).

As a result, we recommend a disallowance for what appears to be inflated and unjustified costs totaling $31,835,419[34] for the Enterprise IT Investment Projects.

IV. SMART WATER METERS

Q. How much does ILAWC include for metering in its 2026-2027 capital plan?

A. The Company's capital plan indicates a meter replacement budget of $33.7 million.[35] The Company plans to replace 66,704 meters in 2026-2027,[36] for an average cost of $428 per replacement meter.

Q. How much has ILAWC spent on smart water meters to date?

A. It is hard to say with precision, but the Company reports that smart water meters, Advanced Metering Infrastructure ("AMI"), have been installed at 58.8% of customer premises.[37] With 379,000 connections,[38] and using the $428 estimated cost per replacement meter above, this implies a cost of approximately $95 million to date.

Q. Do you know if ILAWC plans to replace all non-AMI meters with AMI technology?

[34] AG Ex. 2.04, ILAWC Response to AG 6.21_Supplement Attachment at 6-7 and ILAWC Response to AG 9.08 at 8-10 (showing the grand total of Enterprise IT Investment Projects Costs for 2026 and 2027 equaling $20,431,288 ($52,266,707-20,431,288 = $31,835,419)).
[35] ILAWC Ex. 3.03 (Rev.) FINAL; ILAWC Ex. 3.00 at 21:409-410.
[36] AG Ex. 2.04, ILAWC Response to AG 6.10_Supp FINAL (c) at 2 and ILAWC Response to AG 6.10_Attachment at 5.
[37] AG Ex. 2.04, ILAWC Response to AG 6.10_Supp FINAL (e) at 2.
[38] ILAWC Ex. 1.00 at 1:15.

A. It appears so unless cellular signal is insufficient.[39] According to the 2025 Asset Investment Strategy, **[BEGIN CONF]** [redacted] **[END CONF]**.[40]

Q. Do you believe smart water meters are cost-effective?

A. Like smart electric meters, smart water meters present an opportunity to reduce meter reading expenses, thereby reducing utility costs and, eventually, customer rates. However, that is where the similarities end. Unlike water, electricity is extremely expensive to store. As a result, electricity is largely created and consumed in real time, and all electric infrastructure, including generation, transmission, and distribution, has been designed to accommodate peak demand periods that are dramatically higher than average demand and occur on a small minority of days per year. In such a scenario, time is of the essence, and smart electric meters measure both how much electricity a customer uses, and also when the customer uses it. This smart electric meter capability unlocks all manner of value propositions for electricity customers, from time-of-use rates and real time pricing to peak-time rebate and

[39] AG Ex. 2.04, ILAWC Response to AG 3.30 (a)(i) at 12.
[40] AG Ex. 2.04, ILAWC Response to AG 8.06_Attachment A at 43.

similar programs. All these programs are designed to reduce electric system peak demand, and as a result, reduce the cost of meeting that peak demand in real time for which all electric customers pay. It is these value propositions, combined with manual meter reading reductions, that can make smart electric meters a cost-effective investment.

Q. But smart water meters can reduce meter reading costs too, can they not?

A. Yes, but so can analog water meters equipped with radios, which have already been installed by most water utilities. These are known as "AMR" meters, short for 'automated meter reading' meters. In our experience, most water systems have already dramatically reduced meter reading costs by installing AMR meters. AMR meters can be read by cellular networks owned by third parties, or by fixed radio networks owned by local governments, or by driving vehicles equipped with receivers past customer premises. Once meter reading costs have been driven down by AMR meters, smart water meters offer almost no additional value proposition. As a result, there is almost no reason at all to incur the cost of replacing a functioning AMR meter with a smart water meter.

Q. Please explain the value customers receive when the Company incurs the cost to replace a functioning AMR meter with a smart water meter.

A. The benefits of replacing a functioning AMR meter with a smart water meter are almost nothing. While the Company claims that smart water meters offer leak

533 detection alerts, it has not made this functionality available to customers.[41] In fact,
534 ILAWC's meter vendors (Badger and Neptune) offer independent customer portals
535 with leak alert capabilities.[42] Customers with Badger AMI meters, for example, can
536 access the EyeOnWater portal for free and easily set up alerts by email, text, or
537 smart phone notification when their meter detects a potential leak. Numerous
538 municipalities, including the City of Evanston and the City of Des Plaines, offer
539 customer portals that monitor water usage and provide real-time leak alerts.[43] The
540 Village of Roselle encourages residents to sign up for the EyeOnWater portal as part
541 of the Village's smart meter program.[44] The Village of Western Springs offers
542 residents Neptune's My360 portal where customers can set out-of-town alerts to
543 monitor consumption and detect potential leaks.[45] ILAWC, however, does not offer
544 leak alert notifications.[46] Further, the Company does not offer its residential
545 customers the use of these vendor portals because it claims that it does not have

[41] AG Ex. 2.04, ILAWC Response to AG 3.30 (c)(ii) at 14, ILAWC Response to AG 6.11 (b)(c) at 46, and ILAWC Response to 6.12 (d) at 48.
[42] *Id.*; *see also* Badger Meter's EyeOnWater Customer Outreach page, public available here: https://helpbeaconama.net/customer-outreach/ and the EyeOnWater Signup Post, publicly available here: at, https://helpbeaconama.net/wp-content/uploads/2020/08/EOW-POSTER-email-v2-1.png.
[43] City of Evanston's Meter Division Information, publicly available here: https://www.cityofevanston.org/departments/public_works/water_sewer_service/meter.php; City of Des Plaines Track Your Water Usage Information, publicly available here: https://www.desplainesil.gov/Departments/Public-Works-and-Engineering/Water-Infrastructure.
[44] Village of Roselle Water Meters Information, publicly available here: https://www.roselle.il.us/874/Water-Meters ("As part of our ongoing efforts to improve services for Roselle residents, the new Smart Meter that will be installed in your home includes a FREE program called EyeOnWater. There is no signup or subscription fee to use this program").
[45] Village of Western Springs Monitor Water Usage with My360, publicly available here: https://wsprings.com/806/Monitor-Water-Usage-With-My360 ("The Village of Western Springs is pleased to offer a consumer water portal that allows residents to monitor and manage water consumption any time, from any connected device").
[46] The only option available to residential customers to discover a water leak is to constantly check or monitor the Company's online myWater portal. *See* AG Ex. 2.04, IAWC Response to AG 6.10_SUPP FINAL (h)(k) at 3.

access to or oversight of the information provided via these portals.[47] This is simply not true because ILAWC relies on this data for customer billing and admits to collecting and storing events and alarms, such as leak detection indicators, in their system.[48] The Company simply does not allow residential customers to access to real-time leak detection from its vendors, but "access has been provided to high usage commercial accounts that have requirements to have real time access to consumption."[49] There is no reason to assume that the smart water meter leak detection function is less accurate, needed, or effective for residential customers than for "high usage commercial accounts."

Neither does it appear that the Company employs smart water meters to help reduce non-revenue water, claiming that it "has not been able to perform an analysis of any operational savings or efficiency improvements" of smart meter capabilities because only 58.8% of the meters are replaced.[50] Further, while the Company claims operating cost savings from smart water meters, it has not quantified these benefits, or completed a type of pay-back period analysis indicating that the replacement of functioning AMR meters with smart water meters is cost-effective.[51]

Finally, despite all these deficiencies, we are concerned that ILAWC has made it standard practice to replace functioning AMR meters with smart water meters with every acquisition without regard to cost and benefit.[52] ILAWC plans to install

[47] AG Ex. 2.04, ILAWC Response to AG 3.30 (c)(ii) at 14 and ILAWC Response to AG 6.12 (d) at 48.
[48] AG Ex. 2.04, ILAWC Response to AG 6.11 (c)(f) at 46.
[49] AG Ex. 2.04, ILAWC Response to AG 6.12 (f) at 49.
[50] AG Ex. 2.04, ILAWC Response to AG 6.10_SUPP FINAL (e)(f)(h) at 2-3.
[51] *Id.*
[52] AG Ex. 2.04, ILAWC Response to AG 3.26_Attachment FINAL, tab "Nexus (Prairie Path) Water" at 50; AG Ex. 2.05, ILAWC Response to AG 8.10 at 1-2.

1,600 AMI meters each year during 2026-2027 for the recently acquired Prairie Path system despite the Company expecting that only 2% of the system's 13,200 meters (264 meters) to be "defective over their ten-year life based on past experience." [53]

Q. Why is this significant?

A. We are concerned that ILAWC is pushing costly AMI meter installation but underutilizing the smart meter technology and data analytics to the detriment of ratepayers. Leak alerts are a crucial water monitoring tool that all customers with AMI meters (not just high usage commercial accounts) should have full access to. ILAWC acknowledges that rather than discovering potential leaks or irregular flow on a monthly interval basis, AMI allows for detection of abnormal flows in a more timely manner. Yet, if AMI detects an abnormal flow, AMI does not notify its customers more frequently than on a monthly interval basis, exposing customers to extraordinarily high bills and allowing potable water to be wasted.[54]

Q. Please summarize this section of testimony.

A. In summary, despite having spent an amount approaching one hundred million dollars installing smart water meters to 58.8% of its customers to date, ILAWC customers do not have leak alert capabilities; the Company does not yet appear to employ smart water meters to reduce non-revenue water; and the Company appears

[53] AG Ex. 2.05, ILAWC Response to AG 8.10 at 1-2.
[54] AG Ex. 2.04, ILAWC Response to AG 6.10 at 1-4; AG Ex. 2.05, ILAWC Response to AG 9.01 at 3.

to have completed no analyses indicating that replacing functioning AMR meters with smart water meters delivers benefits in excess of costs for customers.

It appears that metering is among the infrastructure categories that qualify for QIP, and as a result, we recognize that meter replacement costs are reviewed in the QIP reconciliation. However, we are concerned that the Company is failing to take advantage of the potential benefits of meter replacement and further that the pace of meter replacement is not planned to maximize savings and customer benefit.

In light of the fact that 58.8% of meters are already AMI, we recommend the Commission require the Company take immediate action to provide customers with real-time leak and water threshold alerts. ILAWC should be directed to notify customers that they can sign up for the Badger and Neptune customers portals so all customers can be notified of leaks on their property as soon as possible and monitor usage to avoid unnecessarily high bills. Finally, we encourage the Commission to consider what our smart water meter findings say about capital bias, the Company's system acquisition strategy, and post-acquisition capital spending intentions and actions.

V. ACQUISITIONS

A. Illinois Water System Acquisitions – Section 9-210.5

Q. Please explain Section 9—210.5 of the Public Utilities Act.

A. Section 9-210.5 of the Public Utilities Act ("Act")[55] authorized the acquisition of water and wastewater systems by for-profit water utilities like ILAWC. It defines a process to establish the "fair market value" of the utility being acquired and provides special ratemaking and accounting treatment for water and sewer system acquisition.

Q. Do you have any concerns about the consequences of for-profit public utilities acquiring smaller or not-for-profit water and sewer systems under the ratemaking and accounting rules found in Section 9-210.5?

A. Yes. First, while selling to a for-profit utility may seem like a good idea in the short term, it can be more costly for customers over the long term. This concern is aggravated by the difficulty in obtaining appraisals that accurately value the condition of the systems' infrastructure.[56]

Inaccurate infrastructure condition assessments may result in post-acquisition capital spending and rate increases that are higher than anticipated. Furthermore, it is conceivable, if not likely, that capital bias will result in persistently higher capital spending than necessary for safe and reliable water and wastewater services. Non-profit utilities have no such capital bias. Thus, while

[55] 220 ILCS 5/9-210.5.
[56] A brief review of recent acquisitions using the method authorized in Section 9-210.5 of the Act shows that ILAWC contracts with the same three appraisers and those three appraisers all rely on the same engineering firm's Engineer Report. *See* ILAWC acquisition Docket Nos. 22-0537 (Village of Broadlands Water), 22-0536 (Village of Tolono Water and Wastewater, 23-0304 (City of Granite City Wastewater Treatment), and 25-0117 (City of Madison Wastewater Collection).

selling to a for-profit utility may seem like a good idea in the short term, it can be more costly for customers over the long term.

B. The Tolono Wastewater System

Q. When did ILAWC acquire the Tolono Wastewater system?

A. The Company received permission from the Commission to acquire the Tolono wastewater system May 18, 2023,[57] and the Company took ownership of the system on June 20, 2023. The Company paid approximately $5.5 million for the wastewater system and also acquired the Tolono water system at the same time.[58]

Q. At the time of the acquisition, what was ILAWC's five-year capital plan for the Tolono wastewater system?

A. According to the testimony of Jonathan M. Sperry of ICC Staff, the Company expected to spend $12.7 million in capital improvements within five years of taking ownership of the wastewater system. Of this $12.7 million, $9.3 million was planned for expansion and improvement of the Tolono wastewater treatment facility.[59]

[57] *Illinois-American Water Company*, *Application for the Issuance of a Certificate of Public Convenience and Necessity to Provide Water and Wastewater Service to Areas in Champaign County, Illinois, and for the Approval of the Purchase of Certain Assets of the Village of Tolono, Illinois, in Accordance with Section 8-406 of the Illinois Public Utilities Act,* Docket No. 22-0536, Order at 12-15 (May 18, 2023).
[58] *Illinois-American Water Company*, *Application for the Issuance of a Certificate of Public Convenience and Necessity to Provide Water and Wastewater Service to Areas in Champaign County, Illinois, and for the Approval of the Purchase of Certain Assets of the Village of Tolono, Illinois, in Accordance with Section 8-406 of the Illinois Public Utilities Act,* Docket No. 22-0536, ILAWC Ex. 5.00 at 2.
[59] *Illinois-American Water Company*, *Application for the Issuance of a Certificate of Public Convenience and Necessity to Provide Water and Wastewater Service to Areas in Champaign County, Illinois, and for the Approval of the Purchase of Certain Assets of the Village of Tolono, Illinois, in Accordance with Section 8-406 of the Illinois Public Utilities Act,* Docket No. 22-0536, ICC Staff Exhibit 1.0, Attachment B.

Q. What is your first impression of this information?

A. We were surprised by the amount the Company paid for such a small utility. Between the fair market value of $5.5 million and the estimated $9.3 million in capital needs, ILAWC paid $14.8 million to acquire a small wastewater system with just 1,200 customers, for a cost of over $12,000 per customer. As recently as 2019, in a study by the Indiana Utility Regulatory Commission on the adoption of a 'fair market value' process in 2015, the regulator identified an increase in average system per customer sales prices from $2,522 before adoption to $4,827 after adoption.[60] The price ILAWC paid for the Tolono wastewater system seems extraordinary, even when judged by the standards of a nearby state using a similar fair market value process.

Q. As you researched ILAWC's asset condition assessment process in this proceeding, did you ask the Company for its original capital plan for the Tolono wastewater system acquisition?

A. Yes. The Company provided information in this proceeding indicating that it initially planned for a 5-year capital budget of $17.3 million at acquisition. This budget, however, differs from the $12.7 million capital plan provided by ILAWC to ICC Staff in the acquisition docket.[61]

[60] IURC Annual Report 2019 at 56, publicly available here: https://www.in.gov/iurc/files/2019%20AR%20Report/IURC%20AR_2019%20WEB%20lowres%20(1).pdf
[61] AG Ex. 2.05, ILAWC Response to AG 3.20_Attachment Final at 4.

Q. What is the Company's current version of its capital plan for Tolono?

A. This is unclear because the Company's budget keeps changing. In this docket the Company reports that its current 5-year capital plan for the Tolono wastewater system is "only" $10.1 million. The Company suggests that this represents a $7.2 million reduction from the initial capital plan of $17.3 million.[62] We again note that the $17.3 million capital plan is different (and much higher) than the initially reported $12.7 million capital plan for the Tolono wastewater system in the acquisition docket. We also note the Company has already spent $2.9 million on the Tolono wastewater system,[63] causing us to question what has been spent on the system and how much more will be spent in the future.

Q. What does ILAWC include in this rate case for spending on the Tolono wastewater system?

A. The Company proposes to spend $4.3 million in 2026 and 2027 including a $2.5 million near-term improvement project, Tolono WWTP Near Term Improvements ("Tolono Near Term Improvement Project"), to meet a compliance agreement with the IEPA.[64] The Tolono Near Term Improvement Project will include short-term improvements to the wastewater treatment facility such as improvements to the headworks, wet weather treatment facilities, and plant recycle systems.[65]

[62] *Id.*
[63] *Id.*
[64] ILAWC Ex. 3.04 at 4.
[65] AG Ex. 2.05, ILAWC Response to AG 3.28 Supp Attach 2_I25-130010 - Tolono WWTP Near Term – Estimate at 5-8.

Q. Is this investment problematic?

A. Yes. While we understand that this spending is intended to comply with an agreement reached with the IEPA, ILAWC already has plans to build a new wastewater treatment facility in the near future.[66] The Company knew that a new wastewater facility was necessary at the time of acquisition but has made sizable investments in the system to push the construction of a new facility back a few years. It is not prudent for ILAWC to spend approximately $2.5 million on the Tolono Near Term Improvement Project for a short-term fix that will be taken out of service when the new facility is built. Nor was it prudent for the Company to reach an agreement with the IEPA that would ignore imminent plans to build a new facility.

Q. How do you know a new facility is going to be built by ILAWC?

A. The justification for the $2.5 million Tolono Near Term Improvement Project obtained in discovery retains references to the plan to design and construct new plant sized and equipped to meet future capacity and effluent requirements for Tolono.[67] However, at this time, we are unaware of the exact date that ILAWC plans to begin construction. It is our recommendation that if a new facility is required, that ILAWC begin construction on the new facility now and stop making millions of dollars in investments on fixes that will only be temporary in nature.

[66] AG Ex. 2.05, ILAWC Response to AG 3.20_Attachment Final at 4.
[67] AG Ex. 2.05, ILAWC Response to AG 3.28 Supp Attach 2_I25-130010 - Tolono WWTP Near Term – Estimate at 5-8.

Q. Is the plan to build a new wastewater treatment facility a recent development?

A. No. In the acquisition case, as part of the sales price, ILAWC purchased 80 – 90% of design documents from the Village of Tolono.[68] ILAWC is clearly aware that a new facility is needed, and even budgeted for that facility, yet plans $2.5 million in short-term fixes that will be removed from service upon completion of the new facility.

Q. What is your recommendation for the Tolono wastewater system?

A. Based on the testimony provided above, we recommend that the Commission disallow $2.5 million for the Tolono Near Term Improvement Project and require ILAWC to report on the progress of the new wastewater facility that was contemplated in ILAWC's original capital plan for Tolono.

VI. PFAS MITIGATION RIDER PROPOSAL

A. The Company's proposal to recover PFAS costs through a rider

Q. Briefly, what is ILAWC's argument for a PFAS rider?

A. ILAWC argues that due to changes in standards concerning PFAS, the Company is required to make investments of up to $92 million[69] or more over the next five years.[70] The Company argues that without a rider, capital projects of such size will

[68] *Illinois-American Water Company*, *Application for the Issuance of a Certificate of Public Convenience and Necessity to Provide Water and Wastewater Service to Areas in Champaign County, Illinois, and for the Approval of the Purchase of Certain Assets of the Village of Tolono, Illinois, in Accordance with Section 8-406 of the Illinois Public Utilities Act,* Docket No. 22-0536, IAWC Ex. 3.05 at 67.
[69] ILAWC Ex. 3.00 at 48:972-974.
[70] *Id.* at 51:1044-1045.

place an undue burden on the utility and displace other capital spending. ILAWC also argues that a rider will smooth out future rate case increases over time, and thus limit future rate impacts on customers.[71]

Q. Is this the first time that ILAWC has requested a PFAs capital tracker?

A. No. ILAWC proposed a PFAS rider (called an Advanced Treatment and Compliance Rider, "ATCR") in its last rate case.[72] The Commission rejected the Company's request, citing that "the record does not support ILAWC's assertion that these costs are volatile, fluctuate beyond the utility's control or are difficult to predict. Rider ATCR would allow ILAWC to recover non-QIP capital investments prospectively prior to the Commission's review of prudence and reasonableness, including a return on the investment . . . ."[73]

Q. Briefly describe how ILAWC's proposed rider would work in practice.

A. The Company proposes to project its capital and O&M spending on PFAS mitigation for the upcoming year and translate those anticipated costs into a revenue requirement. This revenue requirement would then be reduced to a surcharge that would then be passed along to customers for the next twelve months on their monthly bills. Each year, ILAWC would reconcile actual costs spent on PFAS mitigation against revenues collected from customers and include the results of the

[71] ILAWC Ex. 4.00 at 23:490-493.
[72] *Illinois-American Water Company*, *Proposed Rate Increase for Water and Sewer Service,* Docket No. 24-0097, ILAWC Ex. 4.00 at 16-25.
[73] Illinois-American Water Company, Proposed Rate Increase for Water and Sewer Service, Docket No. 24-0097, Order at 212 (December 5, 2024).

reconciliation with the next year's spending projection and associated rider proposal. In the Company's next rate case, the rider would be zeroed out, with associated costs moved to recovery through base rates.

B. Challenges to the Company's proposal for a PFAS Mitigation Rider

Q. Do you recommend the Commission accept the Company's proposal for a PFAS Mitigation Rider?

A. No. As AG Witnesses Brendan Larkin-Connolly and Mary Selvaggio further explain in their testimony, ILAWC has not justified the need for a rider in this proceeding.[74] Our review of the record demonstrates the PFAS costs are predictable because the Company already has a five-year budget for PFAS compliance including $29 million in investment on advanced treatment over the period of 2026 to 2027.[75]

Q. What are PFAS?

A. PFAS is short for perfluoroakyl and polyfluoroakyl substances. These substances are generally referred to as "forever" chemicals and can be found in water supplies. These chemicals, found in various common household materials, do not break down naturally and thus accumulate over time. This accumulation over time, in a source of water used for human consumption, are thought to increase the incidence of some diseases in humans.

[74] *See* AG Exs. 1.00 and 3.00.
[75] ILAWC Ex. 3.00 at 50:1026-52:1052.

Q. Please explain how PFAS are regulated.

A. The United States Environmental Protection Agency ("EPA") has established National Primary Drinking Water Regulations for perfluorooctanoic acid and perfluorooctane sulfonic acid, which set nationwide limits for these substances in drinking water.[76] The Agency has stated that it will maintain these regulations while ensuring that compliance remains achievable for public water systems. While the current compliance deadline is April 26, 2029, the EPA has indicated it will consider extending the compliance timeline to 2031 through future rulemaking.[77] The Illinois Environmental Protection Agency ("IEPA"), also updated its groundwater quality standards for six PFAS compounds that mirror the US EPA's maximum contaminant level (MCLs) for the same PFAS compounds.[78]

Q. Are the regulations regarding PFAS unique in terms of regulatory compliance for water utilities?

A. No. The EPA has promulgated hundreds of rules over its existence as the regulatory environment changes and health science develops. These rules are debated, and the EPA seeks out public comment, so that the most appropriate rules are enacted. The process of promulgating rules takes years.

[76] 40 C.F.R. pt. 141 and 142.
[77] US EPA's Proposed PFOA and PFOS Compliance Extension Rule summary, publicly available here: https://www.epa.gov/sdwa/proposed-pfoa-and-pfos-compliance-extension-rule#Proposed%20Rule%20Summary (referring to proposed rule in public docket accessed at www.regulations.gov under Docket ID: EPA-HQ-OW-2025-174).
[78] 35 Ill. Adm. Code 620.

Q. Do entities like ILAWC participate in the process?

A. Yes. Utilities like ILAWC can provide comments to the EPA to help shape the rules and ensure that the EPA considers the for-profit utility perspective on rules as they are developed. The EPA establishes 'rulemaking' dockets for the purpose of soliciting input on rules as they are being developed.

Q. Is compliance with PFAS regulations immediate after a rule reaches its Final Order?

A. No. The EPA, like most regulatory bodies, understands that it will take time for public utilities to make the necessary improvements to reach compliance with any new rule. In fact, new PFAS rules were enacted in 2024 and compliance has been extended to 2031 in certain circumstances.

Q. Is meeting new regulatory standards something that all utilities, including ILAWC, are used to doing?

A. Yes. Meeting regulatory standards, either existing or new, is a core responsibility for ILAWC. Compliance with revolving regulatory requirements is a fundamental aspect of providing water and wastewater services.

Q. What is ILAWC's current practice for meeting PFAS limits?

A. The Company identifies applicable PFAS regulatory requirements and treatment considerations in its testimony, including discussion of systems exceeding or

approaching regulatory limits and the need for treatment.[79] Established treatment technologies for PFAS include granular activated carbon, ion exchange resins, and membrane-based treatment systems.

Implementation of these technologies involves purchase of specialized equipment with lead times of approximately 15-18 months, followed by an installation period of approximately 6-12 months. The pool of specialty equipment manufacturers from which these technologies can be procured is limited.

The Company has indicated that granular activated carbon treatment is being utilized for certain systems, including Lincoln and Peoria facilities, and has included cost recovery for 2026 and 2027 to place these investments into service in the current application.[80]

The technical approach to PFAS mitigation is not unique when compared to other civil infrastructure projects. Industry-standard practice follows a structured process of planning; study and evaluation; design; and construction. In fact, ILAWC includes investment on advanced treatment in this proceeding.[81] We anticipate no need for departure from these practices when identifying, planning, and budgeting for other PFAS-related projects.

Q. Has ILAWC applied for any state or financial assistance for these projects?

[79] ILAWC Ex. 3.00 at 43-47.
[80] ILAWC Exs. 3.01 and 3.03; AG Ex. 2.05, ILAWC Response to AG 3.09 (c)(d) at 10; AG Ex. 2.04, ILAWC Response to AG 3.08 (a) at 51.
[81] ILAWC Ex. 3.00 at 51:1050-52:1052.

A. No. The Company reports that it has not applied for, and does not intend to pursue, federal or state financial assistance for these projects.[82] The Company has a financial incentive (capital bias)[83] to avoid securing such assistance, providing an example as to why a PFAS rider is not appropriate.

Q. Has ILAWC received any outside dollars to address PFAS compliance?

A. Yes. ILAWC has received and anticipates receiving PFAS-related settlement proceeds from litigation with PFAS manufacturers.[84] While these proceeds are currently being credited to customers through a revenue requirement reduction, this is not the most cost-effective approach for customers. Rather than revenue requirement credits, we recommend the Commission require such funds to be applied as offsets to capital spending, thereby translating into greater and long- term cost relief for customers. Again, Company financial incentives result in a Company preference for an approach that increases shareholder payments, providing another example of why a PFAS rider is inappropriate.

C. Rider cost recovery and customer interest

Q. In general, is rider cost recovery in customer interest?

A. No. Rate cases occur periodically, when utilities request that their cost increases be translated into rate increases. However, and once rates are established at a new

[82] AG Ex. 2.04, ILAWC Response to AG 3.08 (b-d) at 51.
[83] Harvey Averch & Leland L Johnson, Behavior of the Firm Under Regulatory Constraint, 52 Am. Econ. Rev. 1052-1069 (1962).
[84] AG Ex. 2.05, ILAWC Response to AG 3.07 Supp FINAL (a-e) at 13-14.

level, utility costs and earnings can vary. This relationship provides utilities like the Company with an incentive to control costs between rate cases.

Riders provide a way to increase utility revenues as costs increase, eliminating the incentive for a utility like ILAWC to contain spending between rate cases. In this manner, riders shift cost risk from shareholders to customers. With riders, any utility failure to control costs (as opportunities to do so become available) cost increases results in rate increases for customers rather than earnings decreases for shareholders. This is what we mean when we state that a rider removes the Company's incentive to control spending.

Q. Is the PFAS rider, as proposed by ILAWC, needed by ILAWC to ensure that ILAWC stays in compliance with current EPA rules and potential changes to EPA rules regarding PFAs?

A. No. Mr. O'Neill testifies that the ILAWC must address the effectiveness of existing treatment options in order to assess the proper mitigation efforts required to meet the new standards.[85] It is certainly possible that more cost-effective approaches to PFAS treatment will arise; with a rider, ILAWC will have less incentive to adopt these.

Q. Does ILAWC estimate how much it will spend on PFAS mitigation?

[85] ILAWC Ex. 3.00 at 49:997-999.

A. Yes. ILAWC estimates it will spend approximately $92 million on PFAS compliance over the next five years, including $6.5 million for the Lincoln PFOS removal project that will be placed in service in the test year.[86]

Q. What does this tell you about ILAWC's need for a PFAS mitigation rider?

A. It tells us that ILAWC's primary argument for a PFAS rider is invalid. ILAWC argues that a PFAS rider is required because future expenditures are unknown or unpredictable. However, it appears that ILAWC has a very good grasp on the dollars it will need to expend over the next few years on PFAS mitigation.

Q. Is ILAWC still studying its facilities to determine the appropriate methods it should incorporate to meet EPA PFAS standards?

A. Yes. Mr. O'Neill has testified that ILAWC is still studying its facilities and treatment technologies.[87] With further study, it is possible that ILAWC may find lower cost alternatives to achieve compliance with the regulations. With a PFAS rider, the Company has no incentive to identify, test, and deploy such alternatives in appropriate situations, whereas traditional ratemaking encourages the Company to mitigate PFAS in the most cost-effective manner available for particular situations.

[86] *Id.* at 50:1026-1028; ILAWC Ex. 3.01.
[87] ILAWC Ex. 3.00 at 49:997-999.

D. Recommendations Regarding PFAS and the proposed PFAS rider

Q. What is your recommendation regarding the PFAS rider as proposed by ILAWC?

A. Based on the evidence provided above, we recommend that the Commission reject ILAWC's proposed PFAS rider.

Q. What other PFAS-related recommendations do you offer to the Commission?

A. We further recommend that, with respect to PFAS, the Commission:

- Require that PFAS-related capital projects follow standard infrastructure development practices, including completion of planning, study, and design prior to approval of full funding;
- Require the Company to demonstrate a clear linkage between PFAS testing results and defined project scopes, including identification of treatment locations, selected technologies, and implementation schedules; and
- Strongly encourage, and where appropriate require, the Company to pursue available federal and state grant funding, low-interest loan programs, settlement funds, and other financial assistance and legal mechanisms, and to apply such funds as reductions to rate base (rather than credits to the revenue requirement, as rate base application maximizes the rate reduction impact of such funds).

VII. INDUSTRY BEST PRACTICES

Q. Based on your review of ILAWC's operations in this rate case, have you identified any issues that likely result in increased project cost?

A. Yes. The Company fails to adhere to certain industry best practices in certain domains, including 1) asset condition assessment; 2) budgeting and tracking of blanket/recurring capital programs; and 3) procurement. These best practices impact Company spending decisions involving hundreds of millions of capital dollars annually and if followed, present opportunities to reduce capital spending, rate case frequency, and rate increases.

A. Asset condition assessment

Q. Please explain your observations regarding ILAWC's level of project development, asset management support, and implementation certainty associated with the proposed 2026 and 2027 capital program?

A. We are concerned by the lack of documented asset-specific condition assessments, maintenance history, probability of failure evaluations, consequence of failure evaluations, and supporting infrastructure risk analysis associated with portions of the proposed capital program. These are important engineering considerations when determining whether continued maintenance, rehabilitation, operational modification, or full replacement represents the most appropriate and cost-effective infrastructure solution. Throughout the Company's testimony, exhibits, and discovery responses, the Company repeatedly identifies safety, reliability,

resiliency, risk assessment, asset prioritization and consequence-of-failure considerations as important factors supporting its proposed capital investment and project prioritization decisions but falls short in producing documentation that clearly demonstrates how these determinations are made and systematically integrated into the requested capital plan.

The record does not clearly demonstrate how asset age alone translates into justified replacement decisions absent supporting engineering evaluations, documented condition assessments, maintenance history, operational performance data, or analysis regarding the potential impacts of failure on surrounding infrastructure systems and the public.

Q. Why is this significant?

A. The Company does not appear to employ a rigorous approach to prioritizing mains for replacement in this rate case, or for establishing annual water main replacement budgets. Nor does the Company appear to complete risk-based, life-cycle cost analyses on capital spending decisions. In addition to water main replacements, the Company is forecasting large amounts of capital spending to replace "leaking, failed, and obsolete hydrants and valves" ($15.3 million 2026-2027) and "shut-off valves, corporation stops, and sewer lateral connections" ($19.7 million 2026-2027).[88] Yet from 2021-2025, just 0.2% of the Company's 33,911 hydrants (2 in

[88] ILAWC Ex. 3.03 (Rev.) FINAL.

946 1,000)[89] failed per year on average, and just 0.1% of the Company's 92,103 water
947 main valves (1 in 1,000)[90] failed per year on average.
948 Relatedly, the Company plans to spend $33.7 million replacing customer
949 meters in 2026-2027, and when asked to explain the process by which the Company
950 determines the number of defective meters to be replaced and the number of smart
951 meters to be installed, the Company stated "[t]he determination of defective meters
952 is an estimate based on the Company's past experience."[91]
953
954 **Q. Based upon the materials reviewed, was it always clear how the Company**
955 **distinguished between continued maintenance, rehabilitation, operational**
956 **modifications, and full replacement?**
957 **A.** No, and this is important, particularly because the Company acknowledges
958 "condition assessments are not used as a basis for risk assessment"[92] and that asset
959 condition data plays only a small role in development of threat and consequence
960 evaluations.[93]
961 The Company further acknowledges that it "does not track its maintenance
962 expenditures to the asset level" and that "an analysis cannot be performed on the
963 effectiveness of maintenance to a particular asset without information tracked at an
964 asset level."[94] The Company also responded "No" when asked whether continued

[89] AG Ex. 2.05, ILAWC Response to AG 3.11_Attachment FINAL, Item e. at 15
[90] *Id.*
[91] ILAWC Ex. 3.03 (Rev.) FINAL; AG Ex. 2.05, ILAWC Response to AG 8.10 at 1-2.
[92] AG Ex. 2.05, ILAWC Response to AG 6.07 (a)(i) at 17.
[93] *Id.*
[94] AG Ex. 2.05, ILAWC Response to AG 6.09 (a) at 19.

maintenance versus replacement analyses were conducted for each proposed capital project.[95]

Q. What impact do these limitations have on review of the proposed capital investment program?

A. These limitations make it more difficult to fully evaluate whether certain proposed capital expenditures represent the most appropriate, cost-effective, and strategically prioritized infrastructure investments within the proposed capital investment program.

Q. Can you give an example of why these observations are important from an engineering and infrastructure risk management perspective?

A. These observations are primarily associated with buried horizontal utility infrastructure systems including watermains, water transmission mains, water distribution systems, sewer interceptors, force mains, gravity sewer systems, and related underground infrastructure assets, rather than vertical treatment plant equipment or localized service line replacements. Failure of buried horizontal infrastructure systems can create consequences extending well beyond the failed utility asset itself due to the interaction of these systems with other surrounding infrastructure such as interstate freeways and roads, fiber optic cables, power transmission lines, gas pipelines, petroleum lines, buildings, waterways, and other

[95] *Id.*

critical regional infrastructure that can impact large populations and the environment. Unlike many isolated facility equipment failures, underground pipeline failures can rapidly destabilize surrounding infrastructure and create broader public safety, environmental, operational, and economic impacts. These are important engineering and risk management considerations when evaluating infrastructure condition, consequence of failure, and long-term capital investment prioritization. Understanding the condition of these assets and how failure of these systems may impact surrounding infrastructure is paramount in the proper allocation of funds for maintenance, rehabilitation, and/or replacement activities.

Q. Did you identify additional concerns regarding the Company's maintenance expenditure forecasting methodology?

A. Yes. The Company states that projected maintenance expenditures for outer years 2027 through 2030 were generally developed using a flat 2% year-over-year inflation assumption.[96] It is not clear how future maintenance expenditures were adjusted to reflect asset age, deterioration rates, historical maintenance frequency, operational performance trends, condition assessment results, inspection findings, or increasing maintenance demands associated with aging buried horizontal infrastructure systems.

Q. Why is that significant?

[96] AG Ex, 2.05, ILAWC Response to AG 6.08 (b) and 6.08_Attachment at 21-23.

A. This is notable in light of the Company's discovery responses stating that maintenance expenditures are not tracked at the asset level, maintenance expenditures are not categorized by maintenance activity type, and repair-versus-replacement analyses were not performed for the proposed capital projects.[97]

Q. Do you have any recommendations for how ILAWC should address these issues?

A. Moving forward, the Company should clearly identify where critical infrastructure interfaces with other systems and high-consequence utility crossings exist throughout the Company's buried horizontal utility systems, together with supporting engineering evaluations. The Company should conduct more robust condition assessment, maintenance tracking, and infrastructure risk evaluation efforts associated with these areas and submit the documentation as some of the foundational items in support of future rate requests.

Q. Would more robust condition assessment programs provide additional value?

A. Absolutely. More robust condition assessment programs may also identify localized defects, deterioration patterns, operational deficiencies, or recurring maintenance needs associated with buried horizontal infrastructure systems. As these conditions are identified, tracking maintenance activities and related costs at the asset level become increasingly important in evaluating long-term asset

[97] AG Ex. 2.05, ILAWC Response to AG 6.09 (a) at 19.

performance, rehabilitation effectiveness, recurring operational issues, and distinguishing between infrastructure assets requiring continued maintenance, rehabilitation, operational modification, or full replacement.

Q. Should your observations be interpreted as opposition to prudent infrastructure investment?

A. No. Instead, the concerns identified here are primarily associated with projects where the supporting record does not clearly demonstrate sufficient engineering development, condition assessment, and other documentation necessary to justify ILAWC's claim for the spending. We would expect to see maintenance versus replacement support, consequence-of-failure evaluation, maintenance analytics, project definition, design progression, construction readiness, scheduling certainty, and implementation certainty because this is the type of documentation that provides the adequate cost development necessary to support reliable forecasting of expenditures and projected in-service timing within the proposed test year. This is the type of documentation needed by the Commission to ensure that rate payers' dollars are spent by the Company in a prudent manner.

B. Budgeting and tracking of blanket/recurring capital programs

Q. Did you identify any deficiencies in the Company's recurring infrastructure replacement programs and the level of engineering support associated with the proposed 2026 and 2027 capital investment program?

A. Yes. We identified additional deficiencies during our review of the Company's proposed capital investment and recurring replacement programs regarding procurement transparency, alternative project delivery methods, material selection practices, lifecycle evaluation support, recurring infrastructure replacement methodologies, and the level of engineering development and project support associated with portions of the proposed capital investment program. We also identified deficiencies regarding the Company's use of enterprise procurement initiatives, volume-based purchasing claims, project-level specifications, alternatives documentation, rehabilitation evaluations, and the extent to which these factors are reflected within the forecasted project costs and recurring program expenditures proposed for recovery in this proceeding.

Q. Please first describe your observations regarding recurring or "blanket" capital replacement programs.

A. Additional review of ongoing and recurring "blanket" capital programs is recommended. When establishing budget levels for recurring infrastructure replacement programs such as water main replacement, lead service line replacement, sewer replacement, and similar ongoing programs, the Company should incorporate additional evaluation of alternative materials, rehabilitation strategies, construction methods, maintenance history, specific unit costs, lifecycle extension opportunities, and long-term cost-benefit evaluations.

Q. Did you identify additional concerns regarding material selection and recurring replacement methodologies associated with these programs?

A. Yes. Given the apparent lack of clearly identifiable centralized material specifications or enterprise-wide specification standards produced by the American Water Works Service Company Supply Chain Group within the records reviewed,[98] it is unclear what engineering, operational, lifecycle, maintenance, resiliency, or cost-based standards are consistently utilized by the Company when determining whether higher-cost materials such as ductile iron pipe should be used versus more cost-competitive materials and alternatives such as PVC, HDPE, trenchless rehabilitation technologies, or other equivalent materials and construction approaches within recurring replacement programs. It is also unclear how the Supply Chain Groups efforts are analyzed on a global scale.

Q. Why is that significant from an engineering and capital planning perspective?

A. The records reviewed do not clearly demonstrate how lifecycle costs, maintenance considerations, operational requirements, constructability, soil conditions, resiliency considerations, rehabilitation alternatives, or long-term cost-benefit evaluations are comparatively analyzed and incorporated into material selection and replacement decisions on a program-wide or project-specific basis. These considerations are important because recurring infrastructure replacement programs can involve substantial forecasted expenditures over multiple years, and

[98] AG Ex. 2.05, ILAWC Response to AG 6.06 (i)(j)(k) at 26-27; AG Ex. 2.06, ILAWC Response to AG 3.29 at 1-310.

relatively small changes in material selection practices, rehabilitation methodologies, construction approaches, or lifecycle assumptions can materially impact long-term capital costs borne by ratepayers.

Q. Did you identify additional concerns regarding alternatives evaluations and rehabilitation strategies within recurring replacement programs?

A. Yes. The records reviewed do not clearly demonstrate how alternative construction approaches, rehabilitation alternatives, or maintenance-based lifecycle extension strategies are consistently evaluated and incorporated into recurring program budgeting decisions. In particular, the record does not clearly demonstrate whether less costly alternatives such as trenchless construction methods, rehabilitation techniques, or targeted maintenance strategies are consistently evaluated prior to replacement decisions for horizontal water and wastewater infrastructure.

Q. What types of alternatives or methodologies should generally be evaluated within recurring infrastructure replacement programs?

A. Recurring program budgeting should include consideration of intentional bidding of alternative materials and construction methods, use of unit price contracts to establish measurable cost-per-mile and benefit-per-mile expectations, accountability measures to evaluate contractor performance and program cost effectiveness, rehabilitation alternatives such as pump rebuilds, motor rewinds, pipe lining, grouting, and other lifecycle extension strategies intended to reduce replacement costs while extending useful asset life, and trenchless or alternative

underground construction methods such as directional drilling, pipe bursting, pipelining, cured-in-place pipe ("CIPP") lining, slip lining, and related rehabilitation technologies where appropriate.

C. Procurement

Q. Did you also identify concerns regarding the Company's procurement practices and project delivery methodologies?

A. Yes. Once projects are determined to be in the customer and public interest based upon the Company's project selection criteria, additional project reviews and procurement evaluations are recommended to further reduce costs and improve transparency associated with the proposed capital investment program.

Q. Please explain.

A. Under Design-Build, Construction Manager ("CM"), and Construction Manager at Risk ("CMAR") project delivery methods used by the Company, alternatives to project scope, materials, and construction methods are often developed during the design phase through contractor participation, constructability reviews, value engineering discussions, and early collaboration between the owner, engineer, and contractor. These processes can create opportunities to improve constructability, reduce project costs, shorten schedules, and identify alternative materials or construction approaches.

Q. Can these delivery methods also create limitations from a procurement transparency or prudency review perspective?

A. Yes. These delivery methods are also commonly implemented on accelerated schedules where design development, procurement, and construction activities may proceed concurrently. Under these approaches, contractors are frequently engaged earlier in the design process and contractor-related project costs begin to accrue sooner than under more traditional procurement approaches. As a result, the accelerated pace of project development may reduce the opportunity for fully documented engineering evaluations, comparative alternatives analysis, and competitive bidding of multiple design concepts, materials, and construction approaches prior to implementation.

Q. Did you identify concerns regarding documentation of alternatives evaluations within the record?

A. Yes. The records reviewed do not clearly demonstrate that alternative materials, rehabilitation strategies, construction methods, or competing design concepts are consistently evaluated, comparatively analyzed, documented, and tracked throughout the Company's project planning and procurement process. The Company admits it "has not performed any studies" to determine whether alternative project delivery methods provide cost savings and further acknowledged that it "does not document all the alternatives as they are reviewed."[99] The

[99] AG Ex. 2.05, ILAWC Response to AG 6.06 (b)(e) at 25-26.

Company further states that alternatives may be discussed through contractor input, consultant recommendations, constructability discussions, value engineering, and related project development activities.[100] While these processes may provide benefits, the record shows that alternatives are not consistently documented and compared in a manner that allows the Commission to independently evaluate whether the selected approach represents the most cost-effective solution for ratepayers.

Q. Did you review testimony regarding the Company's Supply Chain procurement initiatives?

A. Yes. The Company describes the Service Company Supply Chain Group as a centralized procurement and purchasing structure intended to leverage enterprise-wide purchasing power, national contracts, preferred vendor programs, and volume-based pricing to help manage project costs and capital expenditures.[101]

Q. Did discovery provide additional clarification regarding those procurement initiatives?

A. Yes. The Company states that for certain common infrastructure materials such as piping, valves, manholes, frames and covers, and hydrants, ILAWC coordinates with the Supply Group to either directly supply materials or review contractor pricing against negotiated national contracts.[102] However, for major equipment

[100] *Id.* at (d).
[101] ILAWC Ex. 3.00 at 11:222-237.
[102] AG Ex. 2.05, ILAWC Response to AG 6.06 (i)(k)(j) at 26-27.

categories such as pumps, motors, and electrical gear, the Company states that due to the unique requirements of individual locations and facilities, obtaining volume-based pricing is more difficult and that ILAWC and the Supply Group are "currently reviewing the ability to develop a process for these items from a volume-based pricing perspective."[103]

Q. Why is that significant?

A. This response reflects that portions of the Company's procurement optimization and volume-pricing framework remain under development for certain major categories of water and wastewater infrastructure equipment and are not yet fully mature as portrayed within the broader procurement narrative presented.

Q. Did the Company quantify the realized or projected savings associated with these procurement initiatives?

A. No. The Company states that realized and projected savings associated with Supply Chain procurement initiatives "cannot be quantified."[104] The Company further objected to providing material specification equivalencies and manufacturer information requested to evaluate competitive bidding and material standardization practices.[105]

Q. Did you identify additional information in discovery relevant to these issues?

[103] *Id.* at (j).
[104] *Id.* at (n).
[105] *Id.*

A. Yes. The Company reports project-level specification[106] sections for repetitive infrastructure product materials including such as ductile iron pipe, PVC pipe, valves, hydrants, and related components while simultaneously stating that "contractor can propose alternative material for review."[107] Additionally, the Company's response to AG 3.29 Attachment ILAWC Technical Specifications Page 15, of 309; PART 2 PRODUCTS is posted as "Not Used". This is significant because the records reviewed do not clearly demonstrate how enterprise-wide procurement initiatives, standardized specifications, approved material programs, negotiated national pricing, contractor-driven alternatives, and project-level engineering specifications are consistently integrated, documented,[108] quantified,[109] and reflected within the forecasted project costs proposed for recovery in this proceeding.

Q. Did you identify broader concerns regarding procurement transparency and public infrastructure oversight?

A. Yes. Mr. Lockhart, who worked approximately 23 years within the public infrastructure and utility field under governmental ownership structures, notes that under local governmental ownership and control, public infrastructure projects are commonly required to be publicly bid in accordance with public procurement requirements, competitive bidding standards, and public authorization processes.

[106] AG Ex. 2.06, ILAWC Response to AG 3.29_Attachment FINAL at 16.
[107] *Id.*
[108] AG Ex. 2.06, ILAWC Response to AG 3.27 (b)(c) at 311-312.
[109] AG Ex. 2.05, ILAWC Response to AG 6.06 (n) at 27.

Within those procurement structures, plans and specifications can establish contractor qualification requirements, safety standards, experience requirements, bonding requirements, and bidding conditions intended to preclude contractors with poor safety records or insufficient qualifications from performing critical public infrastructure work. Additionally, performance bonds, labor and material payment bonds, and related surety requirements help ensure that qualified contractors perform the work and provide financial assurances associated with project performance, completion, and contractor obligations.

Public bidding processes can also provide opportunities for smaller and local contractors to competitively participate in public infrastructure projects, which may further support pricing competition and broader market participation. Additionally, as much as possible, the inclusion of equivalent materials, alternative specifications, and alternative construction methods within publicly bid procurement documents can help promote competition at multiple levels of the bidding process and provide opportunities for contractors and engineers to competitively propose innovative and cost-effective solutions.

Under more traditional Design-Bid-Build procurement approaches, engineering firms competing for design assignments frequently develop and propose alternative concepts, materials, rehabilitation strategies, and construction approaches during proposal development and preliminary design in an effort to demonstrate project understanding, innovation, constructability, and overall value to the owner. This competitive design environment can create additional opportunities for creative engineering solutions, lifecycle cost evaluations,

rehabilitation alternatives, and alternative construction methodologies to be identified, comparatively evaluated, documented, and incorporated into the final project scope prior to bidding and construction.

Q. Did you identify additional differences between local governmental review processes and the record presented in this proceeding?

A. Yes. Further, under local governmental ownership structures, proposed infrastructure projects are often subject to multiple levels of public review and oversight, including board meetings, committee meetings, finance meetings, engineering reviews, public stakeholder meetings, and public authorization processes where individual projects and expenditures may receive substantial project-specific scrutiny prior to approval.

These public review processes can also create additional opportunities for engineering assumptions, procurement strategies, construction methods, rehabilitation alternatives, lifecycle cost considerations, maintenance implications, and project priorities to be openly questioned, refined, and evaluated before projects proceed into construction and ratepayer or taxpayer recovery mechanisms.

Q. Why is that important to the Company's current infrastructure investments?

A. Robust competition, coupled with procurement structures that allow sufficient time and opportunity for creative engineering design, alternative construction methods, lifecycle evaluations, and innovative contracting solutions, may represent one of the few practical mechanisms available to help offset the continued escalation of

material costs, labor costs, equipment costs, and overall infrastructure construction pricing.

Q. Did you identify additional concerns regarding the level of project support reflected within this proceeding?

A. Yes. The higher-level capital plans and supporting materials submitted in this proceeding do not consistently provide the same level of project-specific detail necessary to allow either the Commission or intervenors a similar level of project-by-project public participation, scrutiny, engineering review, and public input that may otherwise occur under more localized governmental infrastructure review and authorization processes.

Q. Why is this relevant from a prudency review perspective?

A. The Commission is effectively being asked to perform prudency review over a very large and complex capital investment program without consistently having the same level of detailed engineering analysis, procurement transparency, alternatives documentation, maintenance history, consequence-of-failure evaluation, and project-specific implementation detail that traditionally would be developed and scrutinized through local governmental infrastructure review processes.

Additionally, in this proceeding, many of the proposed expenditures are not being reviewed retrospectively after actual project costs, completed construction, and final operational outcomes are known. Instead about $573 million in investment is being presented through forecasted capital programs where a

substantial portion of the projects, costs, schedules, and implementation assumptions are estimated and projected.

Q. Based upon your review, what additional observations do you have regarding project maturity and implementation readiness?

A. In order to allow the Commission to conduct effective due diligence and consider whether future investment is prudent, it is important for both the Commission and intervenors that projects brought before the Commission for recovery through forecasted investment be supported by a sufficient level of engineering and design development, project definition, and implementation readiness. At a minimum, projects should be supported by meaningful design progression, while larger, more complex, or treatment-related water and wastewater projects should be supported by completed or substantially developed engineering studies, alternatives evaluations, preliminary design documents, and project implementation planning sufficient to demonstrate that the proposed scope, cost, schedule, operational objectives, and implementation assumptions are reasonably defined and supportable.

These concerns also directly relate to the recommended investment disallowances discussed within this testimony for projects where the current level of engineering development, project maturity, implementation readiness, or forecast certainty do not yet support the level of proposed forecasted spending identified for the years under consideration.

VIII. OTHER CONCERNS

Q. Would you like to address any other concerns?

A. Yes. When reviewing the scope of each individual water and wastewater system's Recurring Projects, we noticed potential double recovery for a number of projects and that the Company may be over-classifying projects as QIP-eligible.[110] For example, RP Line G "Services and Laterals – New" is for the installation of new water services or improvements, including corporation stops and shut-off valves and new sewer laterals that include cleanouts. RP Line H "Services and Laterals – Replaced" is for the replacement of water services or improvements, including the replacement of corporation stops, or shut-off valves and the replacement of sewer lateral connections that include cleanouts. The Company does not define the difference between "new," "replacement," "installation" or "improvement" and for numerous systems includes work that appears to be the exact same scope under these two recurring project buckets. Here is an example from the Fisher Wastewater system:[111]

RP Line G				RP Line H			
Item G - This recurring project item is for the installation of new water services or improvements, including corporation stops and shut-off valves and new sewer laterals that include cleanouts.				Item H -This recurring project item is for the replacement of water services or improvements, including the replacement of corporation stops, or shut-off valves and the replacement of sewer lateral connections that include cleanouts.			
2026		2027		2026		2027	
Proposed Quantity of Planned Work	Estimated Cost	Proposed Quantity of Planned Work	Estimated Cost	Proposed Quantity of Planned Work	Estimated Cost	Proposed Quantity of Planned Work	Estimated Cost
Installation of 4 laterals	$20,000	Installation of 4 laterals	$20,000	Replacement of 4 laterals	$20,000	Replacement of 4 laterals	$20,000

[110] AG Ex. 2.06, ILAWC Response to AG 8.02_Attachment FINAL at 313.
[111] *Id.*

Q. Did you identify any other issues with the project descriptions for ILAWC's Recurring Projects?

A. Yes. We have concerns over whether ILAWC is over-classifying projects as QIP-eligible. Section 656.40 of the Commission's rules specifies the criteria that must be met for plant additions to be classified as QIP. QIP must be **replacements** of existing plant items that are listed in 83 Ill. Adm. Code 605, for water utilities and 83 Ill. Adm. Code 650 for sewer utilities. The Company identified projects considered QIP-eligible in response to AG 3.06 which includes the Recurring Projects that allegedly replace various existing plant items such as mains, hydrants, and meters. The project descriptions for these Recurring Projects, however, indicate ILAWC is doing more than replacing existing plant. Recurring item B, for example, is for the scheduled replacement, renewal or improvement of existing water and wastewater mains including valves, manholes, and other appurtenances.[112] Renewal and improvement are not the same as replacement and may be revenue producing in violation of QIP rules.[113]

Q. Why would ILAWC over-classify projects as QIP-eligible?

A. This allows ILAWC to recover QIP capital investments prospectively without review for prudence in this docket and prior to the Commission's review of prudence and reasonableness in a reconciliation, including a return on the investment.

[112] AG Ex. 2.06, ILAWC Response to AG 3.11_Attachment at 313.
[113] 83 Ill. Admin. Code 656.40(a)(2).

Q. **Do you have any recommendations to address the issues you have identified?**

A. Yes. We ask that the Company define in its rebuttal testimony: 1) the difference between "new," "replacement," "renewal" "installation" and "improvement" in the context of the work being performed on the recurring projects and 2) provide additional information on project scopes so as to assure the Commission that ILAWC is not double recovering.

IX. REVIEW AND CONCLUSION

Q. Please review your testimony.

A. Section 1, the Introduction, presented a summary table of recommended reductions in the Company's 2026-2027 capital plan, repeated below, in the amount of $98.5 million. These reductions were supported in Sections II (regarding premature, unnecessary, and untimely spending), Section III (regarding the inflated costs for the Enterprise IT Investment Projects), and Section V (regarding spending associated with the Tolono wastewater system):

Testimony Section	Description	Reduction
II	Plant not likely to be in service by the end of the test year	$55,828,498
II	Granite City WW Primary Clarifier Replacement Project	$3,000,000
II	Valley View 53 & 56 Water Main Relocation Project	$5,400,000
III	Enterprise IT Investment Projects	$31,835,419
V	Tolono WW Short-Term IEPA Compliance Project	$2,500,000
	Total	**$98,563,917**

In Section IV, we recommend the Commission: 1) require the Company take immediate action to provide customers with real-time leak and water threshold alerts and 2) direct ILAWC to notify customers that they can sign up for the Badger and Neptune customers portals so all customers can be notified of leaks on their property as soon as possible and monitor usage to avoid unnecessarily high bills.

In Section VI, we provided support for our recommendations related to the PFAS mitigation rider the Company proposes. Recommendations included that the Commission: 1) reject the Company's request for a PFAS mitigation rider; 2) require PFAS-related capital projects follow standard infrastructure development practices, including completion of planning, study, and design prior to approval of full funding; 3) require the Company to demonstrate a clear linkage between PFAS testing results and defined project scopes, including identification of treatment locations, selected technologies, and implementation schedules; and 4) require the Company to pursue available federal and state grant funding, low-interest loan programs, settlement funds, and other financial assistance and legal mechanisms and apply such funds as reductions in rate base (rather than as credits to the revenue requirement).

Section VII recommended that the Commission encourage ILAWC compliance with certain industry best practices as cost containment measures, including 1) asset condition assessment; 2) recurring/blanket program budgeting and tracking, and 3) procurement.

Section VIII addressed our concerns regarding the Company's potential over-classification of QIP-eligible projects and asks for clarity to ensure ILAWC is not double recovering on certain capital investments.

Q. Does this conclude your direct testimony?

A. Yes. We also reserve the right to amend, revise, or supplement our testimony to incorporate new information that may become available including but not limited to information in data request responses issued by the Company in the evening of May 26, 2026.