Petitioner’s Exhibit No. 2-R

INDIANA-AMERICAN WATER COMPANY, INC.

INDIANA UTILITY REGULATORY COMMISSION

CAUSE NO. 45043

REBUTTAL TESTIMONY

OF

STACY S. HOFFMAN
INDIANA-AMERICAN WATER COMPANY, INC.

Cause No. 45043

Rebuttal Testimony of Stacy S. Hoffman

Q. Please state your name and business address.
A. My name is Stacy S. Hoffman and my business address is 153 North Emerson Avenue, Greenwood, Indiana 46143.

Q. By whom are you employed and in what capacity?
A. I am employed by Indiana-American Water Company, Inc. (“Indiana-American” or “Company”) as Director of Engineering.

Q. How long have you held that position?
A. I have held that position from December 2007 to February 2012 as an employee of American Water Works Service Company (“Service Company”), a subsidiary of American Water Works Company, Inc. (“American Water”) that provides support services to American Water’s subsidiaries, including Indiana-American. I have held that position since February 2012 as an Indiana-American employee.

Q. What do your job responsibilities include?
A. My job responsibilities are to lead and direct a staff of engineering personnel at Indiana-American to deliver planning, design, and construction of source of supply, treatment, production, transmission, and distribution facilities for Indiana-American, and to provide engineering support to daily operations.
Q. **What is your educational background?**

A. I received a Bachelor of Science Degree in Mechanical Engineering from Purdue University in 1991.

Q. **Are you a Registered Professional Engineer?**

A. Yes, I have been a Registered Professional Engineer in the states of Indiana, Ohio, Illinois, Missouri, and Iowa, and currently maintain an active Registered Professional Engineer status in Indiana.

Q. **Please describe your business experience in the water utility industry.**

A. From 1994 to 1997 I was employed with Indiana-American as Engineer. From 1997 to 2000 I was employed with Indiana-American as Operations Engineer. My job responsibilities as Engineer and Operations Engineer were designing and managing construction of source of supply, treatment, production, transmission, and distribution facilities for Indiana-American, and providing engineering support to daily operations. From 2000 to 2004, I was employed as Engineering Manager for a now former subsidiary of American Water, Ohio-American Water Company, Inc. (“Ohio American”). In this role, I was responsible for managing the planning, design, and construction of source of supply, treatment, production, transmission and distribution facilities for the now former Ohio American subsidiary and providing engineering support to daily operations. From 2004 to 2007, I was employed with the Service Company as Engineering Manager. My job responsibilities were managing a staff of engineering personnel to deliver planning, design, and construction of source of supply, treatment, production, transmission and distribution facilities for Missouri-American Water Company, Inc. (“Missouri...
American”) and for Illinois-American Water Company, Inc. (“Illinois American”) in the service areas of Alton, Granite City, Belleville, East St. Louis, and Cairo. My job responsibilities also included providing engineering support to daily operations in Missouri American and in the Illinois American service areas described above. From December 2007 to present I have been employed with the Service Company and Indiana-American as Director of Engineering as described earlier in this testimony.

Q. Are you also testifying on direct?

A. I am adopting the previously filed direct testimony of Gary M. VerDouw, except for the statement of his background.

Q. What is the purpose of your rebuttal testimony?

A. While it appears that there is general agreement on the approval of Indiana-American’s lead service line plan, I will respond to some of the suggestions OUCC witness Cynthia Armstrong has given for improving the plan. My responses will cover the following categories: (1) information to be supplied by Indiana-American during the implementation of the plan and the OUCC’s suggestion that the plan be reopened after five years; (2) her request for further testing for informational purposes; (3) incorporating customer-owned lead service line replacements into our prioritization model; (4) communications; (5) indemnification; (6) proposed Addendum 4.4; and (7) recovery through a fixed charge.
1. Information To Be Supplied and 5-Year Sunset

Q. Is Indiana-American agreeable to providing the various categories of information about plan implementation that Ms. Armstrong outlines commencing at page 8?
A. Yes. She would like to see us report back on the availability of additional grants or low-interest loans and the status of any applications we have made. She has additional requests for reporting information related to her other suggested improvements to the plan, which I will cover when I address those improvements. She is correct that there are potentially other sources of funding that may become available. In our plan, we only covered those that are currently available. We are agreeable to providing reports when the status of available and applicable grants and/or low interest loans for which Indiana-American is eligible changes, as well as the status of any applications we have made.

Q. How would this information be most effectively reported?
A. Given that improvements made pursuant to the plan are eligible for recovery through the distribution system improvement charge (“DSIC”), this information is probably most effectively communicated either in workpapers or as additional attachments that we would submit in future DSIC cases.

Q. What is your response to Ms. Armstrong’s request that you follow up with the OUCC 60 days after submitting this information?
A. This seems an unnecessary step, given how I am suggesting we provide it. As I indicated, if we supply the information in the context of DSIC cases, we will already be
in communication with the OUCC, and there should be no need for an additional step in
the process.

Q. What is your response to her request that the program approval sunset after five
years?
A. This seems an unnecessary step that will add a layer of administrative burden and cost.
Our progress will be reviewed nearly every year via the DSIC. We will not recover
program costs without going through the required approval process for rate adjustments.
As it stands under our proposal, we will be supplying considerable information to the
Commission and the OUCC concerning how the program is being implemented. If at any
point either the Commission or the OUCC feels there is a need to revisit the approval of
the plan, it would seem that authority already exists. To make the plan automatically
sunset and require all of the parties to reconvene for another approval case when no one
has identified a need to reopen the plan strikes me as an unnecessary step. We should be
spending the available capital to replace lead service lines rather than for unnecessary
administrative activities.

2. Additional Testing

Q. What is your position regarding Ms. Armstrong’s request for additional lead
testing?
Ms. Armstrong suggests that we conduct additional testing beyond that which we already
will do with every line that we replace. Indiana-American already collects a first sample
immediately after replacing the service line and flushing the service line and the
household or facility plumbing system. Indiana-American also offers the customer an
opportunity to collect a second sample within 72 hours after the first sample. Many customers have been accepting the second sample opportunity thus far, though some customers either do not accept it or don’t follow through with the offer. In addition to this address-specific sampling and testing Indiana-American is performing for each service line replacement, Indiana-American also continues system sampling and testing at various tier 1 sites as defined by IDEM as part of the Lead and Copper Rule. Beyond all of this sampling and testing both for the Lead and Copper Rule, and for each specific service line replacement, Ms. Armstrong suggests that Indiana-American perform at least three more sample and test events for each service line replacement, above the two sample and test events Indiana-American is already performing as accepted by the customer for each service line replacement. Ms. Armstrong suggests that Indiana-American also sample and test before each service line replacement, and that Indiana-American sample and test two more times in addition to the sample and test events Indiana-American already performs after the service line replacement. She suggests these additional sample and test events be completed at three months after the service line replacement, and between 6-12 months after the service line replacement. She does not suggest that we do this for every service line replacement. She does not describe the specific purposes for the additional testing, i.e. what value it would add to the process, or how it might provide benefit to customers. As I mentioned previously, testing for lead at sites defined by IDEM is already completed and reported by federal regulation known as the Lead and Copper Rule. Indiana-American’s use of corrosion inhibitors in treatment protects the customer prior to lead service line replacement and testing after the replacement confirms water quality. The additional testing Ms. Armstrong seeks would
provide no additional value in terms of carrying out the purpose of Indiana-American’s lead service line plan. If the intended purpose for the additional testing is to collect data that could be utilized perhaps by other utilities or in other contexts, in my view it is not appropriate for Indiana-American to conduct such testing at the expense of its ratepayers, and I do not believe the testing the Company would be in a position to do would accomplish that purpose.

Q. **What do you mean?**

A. Expanded, additional, unnecessary testing, but for research purposes, has the potential to needlessly worry some customers. After we have replaced the lead service line, flushed it, and sampled and tested the water with the result showing levels below the action level, there should be no practical possibility of levels increasing further relating to the newly installed service line. More importantly, what I believe Ms. Armstrong seeks is better obtained through a scientifically based study, which would best be managed through the commissioning of such a study, that would be appropriately designed and funded either by the State, the EPA or a non-governmental organization. Any costly data gathering effort should have a specific defined purpose and the testing protocol should be developed by those who desire the data for a specific purpose. Expanded testing not designed for such research purposes, by one utility, is not going to provide data that will be useful or reliable, because it will not be appropriately designed, nor is it likely to be statistically significant. Furthermore, such an undertaking would involve significant extra costs for funding research design, additional coordination, travel, sampling and testing activities, and study activities. Such additional costs would be reflected in the rates of customers. I recommend that the expanded additional testing Ms. Armstrong
desires, and the costs associated therewith not be added to the cost of replacing customer-owned lead service lines, but rather that those desiring the additional data commission and fund a study.

3. **Incorporating Lead in the Prioritization Model**

Q. **What is Ms. Armstrong’s position on incorporating lead into the prioritization model?**

A. She suggests that we incorporate in some fashion those service areas that may be testing closer to the action level for the Lead and Copper Rule or that have greater concentrations of lead service lines into our priority model. This is acceptable, and we will include in our reporting information how we have done so. I should note that when we do this, it may result in the lead service line replacements being accomplished at the higher end of the range set forth in our plan, given that we will be adding weight to how quickly they are replaced.

4. **Communications**

Q. **Ms. Armstrong makes a number of suggestions designed to improve communications. How do you respond?**

A. I have two responses. First, we must avoid “marketing” this plan. Second, Ms. Armstrong may not understand everything we are already doing. We have already replaced over one hundred lead service lines, and from this experience of actually communicating with these customers and completing these replacements. I will address Ms. Armstrong’s concerns.
Q. What do you mean we should avoid “marketing” the plan?

A. If we are overly aggressive in our communications, everyone will want their line replaced immediately. While the State’s objective may be to eliminate these lines as quickly as possible, we need to do so in a fashion that avoids creating panic or upsetting customers. Communication is important, but it should not rise to the level of a marketing plan. We should remember that the existing lead testing and use of corrosion inhibitors ensures that the water delivered to homes with lead service lines is safe. The long-term plan to eliminate lead service lines ensures that partial replacements will not occur in the course of replacing aging infrastructure and making emergency repairs.

Q. What do you mean she may not fully understand the efforts the Company is already undertaking?

A. Ms. Armstrong expresses a few concerns about what she perceives of Indiana-American’s communication plan. She states that effective communication will be key to preventing mass confusion, anger, or refusal to participate in the program. I certainly agree with this, and I note that in executing our communications and replacing over 100 service lines to date, we have not encountered mass confusion or anger, and I believe have encountered only one instance of a person refusing to participate, and that was because of their concern about a tree on their property. In fact, thus far, customers have been very welcoming of the program. I think this has been in part due to the effective communication.
Ms. Armstrong acknowledges that Indiana-American’s written communications contain a lot of information, but she states they must be simple, and she expresses concern again that there could be confusion. We understand this concern, and I note, thus far, the welcome high participation rate by residents has not indicated any mass confusion with Indiana-American’s communications. However, as Ms. Armstrong also appropriately suggests Indiana-American is flexible in making improvements in the written communications, and in the overall communication plan, and has already made modest adjustments in the course of its work thus far.

I think a reason the communication and customer participation has been so good thus far, is due to a subject that Ms. Armstrong also highlights, that is the importance of face-to-face communication. Indiana-American has experienced that as Ms. Armstrong suggests, this face-to-face communication has been very helpful for efficiently advancing the replacement process for services replaced thus far. Indiana-American trains its own employees and consultants in interacting with customers face-to-face in this program, and has been communicating face-to-face throughout these projects with customers who can be helped with that interaction. Additionally, as Ms. Armstrong suggests a kind of escalation process, Indiana-American always trains its employees and consultants that if they can’t immediately answer or resolve a unique customer question with the customer, that they bring a supervisor or project manager into the conversation to assist. That is a standard protocol for any type of project or activity, not only with the lead service line replacement program.
In summary, thus far the customer communications, including face-to-face communications, are going well, as evidenced by the welcoming participation of customers. Indiana-American will also continue to seek out ways to continuously improve customer communication effectiveness.

Q. She also suggests that you should communicate with the State Department of Health. What is your response?

A. We can do so, but I would note we have already communicated with the Governor’s Office. I would expect if the Governor’s Office believed it should be shared with the ISDH, it would have done so already. Indiana-American communicates regularly with agencies that set and enforce regulations for water quality; these agencies work with feeder agencies that identify health risks for which regulations need to be developed.

5. Indemnification

Q. What is your position concerning Ms. Armstrong’s proposal on the indemnification clause in the lead service line replacement agreement?

A. Indiana-American Water and its parent company, American Water, use indemnification language for restoration of private property after company construction projects (e.g. main replacement, main relocation) to mitigate unanticipated and unknown costs. With this program, we are offering to replace a customer asset at no cost to the customer, with a one year warranty on material and workmanship, and site restoration with clearly defined limits. Ms. Armstrong states a concern for risk shifting, but it is only through the offering of this program that Indiana-American Water would be part of the
equation. Currently, the customer bears the entire cost of replacement, any warranty it may obtain, and all of the risk. Ms. Armstrong further presumes, without support, that the replacement estimates include liability for damage, but removing indemnification language from the agreement, as she recommends, would prevent reliable estimation of liability and instead invite costly dispute.

6. Proposed Addendum 4.4

Q. What is Ms. Armstrong’s position concerning Proposed Addendum 4.4?

A. She has requested that our Proposed Addendum 4.4 not be approved. This is the proposal that would make a premises ineligible for service if it is served by a lead service line and has not been an active customer for a period of 24 months, or it has been physically disconnected from our system due to tampering.

Q. What is your response?

A. This is really a policy call for the Commission to make. For the most part, these will be premises that are nearly uninhabitable, given that they have been vacant for more than 24 months. In all likelihood, they will be owned by landlords who will rent to tenants. Our communications always involve the property owner, and depending on the circumstances may not be with the tenant. As such, all of the information concerning the dangers of lead and the existence of lead line may not reach the tenant. Our reasoning for making the proposal was that if we want to eliminate the lead service lines as quickly as possible in this State, such premises should not be eligible for service until that lead service line has been replaced. Further, given that they have not been a customer for the past 24
months, we felt it was unfair for the company to replace the lead service line pursuant to
the plan for a long standing non-customer in the same fashion as it would the lead service
line of a customer. That is the reason we made the proposal. I understand Ms. Armstrong’s objections. If the Commission wishes us to continue to treat these premises
as eligible customers pursuant to Ms. Armstrong’s suggestion, that is acceptable, recognizing that there may be a risk of subsequent tenant or owners not being notified of
the existence of a lead service line prior to leasing or buying respectively.

7. Recovery Through A Fixed Charge

Q. What is Ms. Armstrong’s position concerning the method of recovery?

A. She simply states that the OUCC is not deemed to be approving any methodology for
how we will calculate future fixed monthly charges for this recovery. We will recover
the costs in general rate cases and in intervening DSIC cases. The DSIC recovery is set
forth by statute. In either event, we will address recovery at that time.

CONCLUSION

Q. Does this conclude your rebuttal testimony?

A. Yes, at this time.
VERIFICATION

I, Stacy S. Hoffman, Indiana-American Water Company, Inc., Director Engineering, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

[Signature]

Stacy S. Hoffman