

DIRECT TESTIMONY

of

MARY H. EVERSON

Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Aqua Illinois, Inc.
Petition for the Issuance of a Certificate of Public
Convenience and Necessity to Operate a Water
Supply and Distribution System in Champaign County, Illinois;
and for the Issuance of an Order Approving
Rates, Accounting Entries, and Tariff Language

Docket No. 04-0362

December 10, 2004

1 **Witness Identification**

2 Q. Please state your name and business address.

3 A. My name is Mary H. Everson. My business address is 527 East Capitol Avenue,
4 Springfield, Illinois 62701.

5 Q. Please describe your professional background and affiliations.

6 A. I have a Bachelor of Science in Accounting from the University of Central Florida.
7 I am a Certified Public Accountant licensed to practice in the State of Illinois. I
8 joined the staff of the Illinois Commerce Commission (“Staff”) in February 1999.
9 Prior to joining Staff, I was employed in industry as a financial analyst and in
10 government as an internal auditor.

11 Q. Have you previously testified before any regulatory bodies?

12 A. Yes. I have testified on several occasions before the Illinois Commerce
13 Commission (“Commission”).

14 Q. What is the purpose of your testimony in this proceeding?

15 A. The purpose of my testimony is to present my position regarding:

16 1) The original cost determination for the Village of Philo (“Philo”)
17 water system;

18 2) The journal entries proposed to record the transaction by Aqua
19 Illinois, Inc. (“Aqua” or “Company”);

20 3) The accounting treatment of the acquisition adjustment as
21 presented in the Revised Direct Testimony of Michael D. Bratetic,
22 Aqua Illinois Ex. 3.0 Revised;

- 23 4) The Forecasted Revenue Requirement Schedules with the Philo
24 acquisition; and
25 5) The effect of the water system purchase price on customer rates.

26 **Schedules**

27 Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 2.0?

28 A. Yes. I prepared the following schedules:

- 29 Schedule 2.1 Staff Recommended Journal Entries
30 Schedule 2.2 Adjustment to Distribution Reservoirs & Standpipes
31 Schedule 2.3 Adjustment to Contributions in Aid of Construction
32 Schedule 2.4 Adjustment to Acquisition Adjustment
33 Schedule 2.5 Calculation of Original Cost
34 Schedule 2.6 Aqua Illinois Forecasted Statement of Operating Expense
35 with Philo Adjustments
36 Schedule 2.7 Aqua Illinois-Adjustments to Operating Income
37 Schedule 2.8 Aqua Illinois-Forecasted Rate Base with Philo
38 Schedule 2.9 Aqua Illinois-Adjustments to Rate Base
39 Schedule 2.10 Aqua Illinois-Interest Synchronization Adjustment
40 Schedule 2.11 Aqua Illinois-Gross Revenue Conversion Factor
41 Schedule 2.12 Aqua Illinois-Adjustment to Cash Working Capital
42 Schedule 2.13 IAWC-Forecasted Statement of Operating Expense with
43 Philo Adjustments
44 Schedule 2.14 IAWC-Adjustments to Operating Income
45 Schedule 2.15 IAWC-Forecasted Rate Base with Philo

| | | |
|----|---------------|--|
| 46 | Schedule 2.16 | IAWC-Adjustments to Rate Base |
| 47 | Schedule 2.17 | IAWC-Interest Synchronization Adjustment |
| 48 | Schedule 2.18 | IAWC-Gross Revenue Conversion Factor |
| 49 | Schedule 2.19 | IAWC-Adjustment to Cash Working Capital |

50 **Original Cost Determination**

51 Q. Was an original cost study prepared to determine the original cost of the Village
52 of Philo's water system?

53 A. Yes. David R. Monie presented the original cost study in Aqua Illinois Ex. 3.0
54 Revised. I analyzed the itemized listing of utility plant assets presented on
55 Schedule 1 Revised, pages 1-3.

56 Q. What do you recommend as the Original Cost of the Philo water system?

57 A. I recommend that the Commission approve \$1,009,594 as the original cost of the
58 Philo water system. The calculation of this adjusted amount is presented on
59 Schedule 2.5.

60 Q. Is the original cost as presented by the Company in its original cost study, 2nd
61 Revised GPC Exhibit 1 accurate?

62 A. No. I have made adjustments for some of the items presented on Schedule 1 of
63 Attachment 1 presented by Mike Bratetic. I have made adjustments to the
64 amounts of Distribution Reservoirs & Standpipes based on my review and the
65 Company's responses to Staff data requests. These adjustments necessitated
66 revision of some of the Company's proposed journal entries and preparation of
67 two new entries. On Schedule 2.1 pages 1 and 2, Journal Entries 1 and 4 are

68 new entries and Journal Entries 2, 3, and 5 are revisions of the Company's
69 proposed entries.

70 **Staff Recommended Journal Entries**

71 Q. What standard did you use in reviewing the Company's proposed journal entries,
72 as shown on Aqua Bratetic Revised Attachment 1?

73 A. I analyzed Aqua's journal entries for compliance with the Uniform System of
74 Accounts for Water Utilities, 83 Ill. Adm. Code 605 ("USOA"). According to the
75 USOA's Accounting Instruction #21, purchased utility plant is to be recorded at
76 original cost if available or estimated if actual records of original cost do not exist.

77 Q. Please describe Schedule 2.1, Staff Recommended Journal Entries.

78 A. Schedule 2.1 presents the journal entries proposed by the Company, the Staff
79 adjustments to those entries and the Staff proposed entries. Journal Entries 1
80 and 4 are new entries and Journal entries 2, 3 and 5 are revisions of the
81 Company's proposed entries. My adjustments to the Company's proposed
82 journal entries include the following:

- 83 1) Recording the purchase initially into Account 104, Water Utility Plant
84 Purchased (JE #1);
- 85 2) Correction to remove tank painting costs from plant accounts (JE #2);
- 86 3) Recognition of contributions in aid of construction (JE #2);
- 87 4) Recalculation of the Acquisition Adjustment (JEs # 2 and 3); and
- 88 5) Retirement of the west water tank (JE #4).

89 **Journal Entry to Record Initial Purchase-Journal Entry #1**

90 Q. Did the Company make the correct initial recording of the transaction into
91 Account 104 in accordance with Accounting Instruction 21?

92 A. No. The Company did not demonstrate that the initial recording was to Account
93 104. I have included that entry in my recommended journal entries on Schedule
94 2.1 as Journal Entry # 1. The Company did not present this entry in its Aqua
95 Bratetic Revised Exhibit 3.0 Attachment 1, so my entry is a new one that should
96 be made by the Company in accordance with Accounting Instruction 21.

97 **Distribution Reservoirs and Standpipes-Journal Entry #2**

98 Q. Please explain the adjustment to Account 333-Distribution Reservoirs &
99 Standpipes.

100 A. My proposed adjustment to Account 333-Distribution Reservoirs & Standpipes
101 removes tank painting costs that should not be included as plant in service and
102 that would have been fully amortized at this point in time. Staff requested more
103 information in ICC Staff data request WD 1.15 regarding the water storage tank
104 improvements that were listed on Aqua Illinois Monie Exhibit 3.0 Revised,
105 Schedule 1 Revised of the original cost study with no description of the type of
106 improvement. In response to ICC Staff data request WD 1.15, the Company
107 indicated that three water storage tank improvements included in the original cost
108 study represented amounts for tank painting projects occurred in the years
109 1977,1982, and 1989, respectively. The Commission's past regulatory treatment
110 of the cost of tank painting has been to record the cost as a deferred debit in
111 Account 186,and amortized over the time period that ratepayers will benefit from
112 the painting. In Aqua's latest rate proceeding Docket No. 04-0442, the Company

113 has requested a ten-year amortization for tank painting projects, which is
114 consistent with its previous deferred tank painting amortization periods. In this
115 instance, the latest painting project identified on the Company's Aqua Illinois
116 Monie Exhibit 3.0 Revised, Schedule 1 Revised took place in 1989, which is 14
117 years ago. The standard ten-year amortization period for this tank painting
118 project would have expired in 1999. Ratepayers should not have to pay for tank
119 painting that occurred in 1999. Thus, I have reduced the amount debited to
120 Account 330-Distribution Reservoirs & Standpipes by the combined amount of
121 the three tank painting projects identified in response to ICC Staff data request
122 WD 1.15. Page 1 of Schedule 2.2 presents the calculation of this adjustment to
123 Distribution Reservoirs and Standpipes and Journal Entry #2, on Schedule 2.1,
124 presents the corrected journal entry to record these new amounts.

125 Q. Have you made any associated adjustments related to those changes in Account
126 333-Distribution Reservoirs & Standpipes?

127 A. Yes. I have made a related adjustment to Accumulated Depreciation to reflect the
128 reduction in Account 333-Distribution Reservoirs & Standpipes. Page 2 of
129 Schedule 2.2 presents the calculation of this change and Journal Entry # 2 on
130 Schedule 2.1 presents the corrected journal entry to record these new amounts.

131 **Contributions in Aid of Construction-Journal Entry #2**

132 Q. Do you agree with the Company that there are no Contributions in Aid of
133 Construction ("CIAC") that should be recorded for this transaction? (Aqua Illinois
134 Ex. 3.0 Revised (Monie), page 5)

135 A. No. I am making a change in the Company's proposed journal entries to reflect
136 CIAC. The Company's response to ICC Staff data request WD 1.07 indicated
137 that the total contributions on the Village of Philo's books totaled \$491,538. In
138 response to ICC Staff data request MHE 1.02, the Company stated that the
139 Village of Philo kept no detailed records of contributed property and that,
140 therefore, identification of each item of contributed property was not possible.
141 Identification of individual items is not necessary. Since the total amount of CIAC
142 is known, it should be recorded as CIAC. The adjustment for CIAC is presented
143 on page 1 of Schedule 2.3 and Journal Entry # 2 on Schedule 2.1 presents the
144 journal entry recording CIAC in Account 271.

145 Q. Does this change to recognize CIAC necessitate an adjustment to another
146 account?

147 A. Yes. I have made the associated entry to record Accumulated Amortization of
148 CIAC. I applied the ratio of CIAC to the total adjusted amount for mains to the
149 total adjusted amount for Accumulated Depreciation. The resulting amount is the
150 Accumulated Amortization of CIAC. The calculation of the adjustment for
151 Accumulated Amortization of CIAC is presented on page 2 of Schedule 2.3. The
152 entries to record Accumulated Amortization of CIAC in Account 272 are
153 presented in Journal Entry # 2 on Schedule 2.1.

154 **Adjustment to Acquisition Adjustment-Journal Entries #2 and #3**

155 Q. Please describe the adjustment to the Company's calculated acquisition
156 adjustment.

157 A. Schedule 2.4 presents the adjustment to the Company's calculation of the
158 acquisition adjustment for this transaction. As a result of the adjustments to
159 Transmission and Distribution Mains, Distribution Reservoirs & Standpipes and
160 CIAC described in previous sections of this testimony, the amount of the
161 acquisition adjustment has changed. The Company's calculation determined that
162 the adjustment is a credit. With the changes for Transmission and Distribution
163 Mains, Distribution Reservoirs & Standpipes and CIAC, the acquisition
164 adjustment becomes a debit amount. The calculation of the acquisition
165 adjustment is presented on page 2 of Schedule 2.4. This adjustment to record
166 the adjusted amount of acquisition adjustment is included in Journal Entry #2 on
167 Schedule 2.1.

168 Q. Does this change to the amount of the acquisition adjustment necessitate an
169 adjustment to another account?

170 A. Yes. Since the amount of the acquisition adjustment has changed, the amount of
171 annual amortization expense related to the acquisition adjustment has also
172 changed. This calculation of the amount is presented on page 3 of Schedule 2.4
173 and Journal Entry #3 presents the entry to record the amortization expense as a
174 debit to Account 426-Miscellaneous Non-Utility Expense and a credit to Account
175 114-Utility Plant Acquisition Adjustment. Journal Entry #3 is intended to replace
176 the Company's Journal Entry #3.

177 **Entry to Retire Water Tank-Journal Entry #4**

178 Q. Is another entry necessary based on your review of the Company's original cost
179 study (2nd Revised GPC Exhibit 1)?

180 A. Yes. The West Water Tank is included in the original cost of assets purchased
181 and is shown as fully depreciated. With that treatment, it will have no rate base
182 impact since the tank is fully depreciated. The tank is described as being no
183 longer used on the original cost study. Section 9-211 of the Public Utilities Act
184 states:

185 The Commission, in any determination of rates or charges,
186 shall include in a utility's rate base only the value of such
187 investment which is both prudently incurred and used and
188 useful in providing service to public utility customers. (220
189 ILCS 5/9-211)

190 Since the asset is no longer used and useful, it should be excluded from rate
191 base along with the related accumulated depreciation. Another entry to retire the
192 asset is necessary to avoid an overstatement of depreciation expense in future
193 periods. The entry to retire the West Water Tank debits Account 108-
194 Accumulated Depreciation for the original cost of the water tank and credits
195 Account 330-Distribution Reservoirs and Standpipes for the original cost of the
196 water tank. This entry is presented as Journal Entry #4. Since this entry was not
197 made by the Company, it is therefore a new entry that the Company should
198 make.

199 **Summary Entry to Record Purchase-Journal Entry #5**

200 Q. Please explain your summary entry to record the purchase.

201 A. Journal entry #5, on Schedule 2.1, page 2, presents a summary of Journal Entry
202 #2, without the plant account detail present in Journal Entry #2. This entry shows
203 the total amount of original cost plant that is being acquired in this transaction. It
204 is presented for informational purposes only. It is not an entry that I recommend

205 that the Company make since it duplicates Journal Entry #2 without the plant
206 account detail.

207 **Forecasted Revenue Requirements**

208 Q. Did you prepare separate forecasted revenue requirement schedules
209 demonstrating the effect of the purchase of the Philo water system by both Aqua
210 and Illinois-American Water Company ("IAWC")?

211 A. Yes. On May 24, 2004, IAWC filed a comment on E-Docket ("IAWC letter") that
212 indicated that it was the low cost provider of water for the Philo water system
213 customers. To date, IAWC has not intervened in this proceeding. However, to
214 address the issue presented in the IAWC letter, Staff prepared revenue
215 requirements that compared the effect of the acquisition on Aqua's Vermillion
216 customers and on IAWC's Champaign customers.

217 Q. Why are you using the Vermillion rates in the Aqua analysis and the Champaign
218 District rates in the IAWC analysis?

219 A. On page 5 of its Petition, Aqua states that Philo instructed Aqua to include Philo
220 in Aqua's Vermillion County Division for purposes of all rate making matters and
221 tariffs. In the IAWC letter, IAWC states that Philo instructed IAWC in preparing
222 its bid to purchase the water system to include Philo in IAWC's Champaign
223 District.

224 Q. Please explain the basis for these forecasted revenue requirement schedules.

225 A. I used the most recently prepared revenue requirements for each company. The
226 starting point for the Aqua-Philo forecasted revenue requirement schedules is the
227 Appendix attached to Staff's Initial Brief in Docket No. 04-0442. This proceeding

228 is the current rate proceeding for Aqua's Vermillion Division. The starting point for
229 the IAWC-Philo forecasted revenue requirement schedules is Appendix A from
230 the Order in Docket No. 02-0690 for the Champaign Division.

231 Q. What changes did you make to the operating statement part of the revenue
232 requirements?

233 A. For both forecasted revenue requirements, I used the projected operating
234 statement information supplied by each company. Aqua provided forecasted
235 operating statement information in the 2nd Revised GPC Exhibit 1. IAWC
236 provided forecasted operating statement information in response to ICC Staff
237 data request MHE 1.01. This information was input as an adjustment to the
238 revenue requirements for each company.

239 Q. What changes did you make to the rate base part of the revenue requirements?

240 A. I used the original cost information supplied in the 2nd Revised GPC Exhibit 1,
241 adjusted for CIAC, the related amortization, a water tank retirement and the
242 improper inclusion of tank painting costs as plant additions, as presented on my
243 Schedule 2.1. This information was input as an adjustment to the revenue
244 requirements for each company. This adjustment for the corrected original cost is
245 the same for both companies.

246 Q. Were there additional changes made to the projected operating statement and
247 rate base parts of the forecasted revenue requirements?

248 A. Yes. The revenue requirement template automatically calculates the tax effect of
249 each individual adjustment, so I did not use either of the company's forecasted
250 amounts of income tax. Since IAWC did not provide an amount for cash working

251 capital, I generated the amount for cash working capital based on the 1/8
252 method. Since this method determines cash working capital based on operating
253 expenses, each company's cash working capital amount is different.

254 Q. What is the reason these forecasted revenue requirements were prepared?

255 A. They were prepared for the sole purpose of aiding Staff witness Mike Luth in his
256 analysis of the potential rate impact to both Philo's customers and Aqua's
257 Vermillion or IAWC's Champaign customers.

258 Q. Have the amounts in the revenue requirement schedules been analyzed to
259 determine whether they are a realistic forecast?

260 A. No. Staff, in each of the respective dockets, reviewed the individual issues
261 imbedded within each of the revenue requirements that form the starting point for
262 each of the analyses in this case. However, Staff has not thoroughly reviewed or
263 tested the forecasted operating statement information for Philo provided by each
264 Company to determine if the basis under which it was prepared is flawed. Some
265 differences exist in the respective companies' estimates of revenues, which Staff
266 witness Mike Luth addresses in his testimony, ICC Staff Exhibit 3.0.

267 Q. Is the beginning revenue requirement information for both companies based on
268 the same time period?

269 A. No, it is not. The IAWC revenue requirement starts with Commission-ordered
270 amounts, but it is based on a 2003 test year. The Aqua revenue requirement
271 starts with amounts that have been testified to by Staff in Docket 04-0442, but no
272 Commission Order is yet available and the information is based on a 2005 test
273 year.

274 Q. Is the Philo forecasted information from both Companies based on the same time
275 period?

276 A. Yes. Both companies provided forecasted 2004 amounts for the Philo water
277 system before any improvements. Even though Aqua also provided 2005 through
278 2009 information on December 3, 2004, I used the 2004 amounts for both
279 revenue requirements, since I did not have comparable information from Illinois-
280 American.

281 Q. Do you believe this information is sufficient?

282 A. I believe it is sufficient for the purpose of comparing the general effect on the
283 rates of each company that the acquisition of the Philo water system could have.
284 I do not, however, believe it should be used to establish rates if the Commission
285 should decide that Philo would have its own rates. If the Commission were to do
286 that, the acquiring company should have a rate proceeding to determine its
287 stand-alone rates where the amounts projected for the Philo system could be
288 thoroughly reviewed by Staff.

289 **Effect of Water System Purchase Price on Customer Rates**

290 Q. Would the purchase price paid for a water system have an impact on the
291 Company's revenue requirement that forms the basis for the rates charged to
292 customers?

293 A. No. The purchase price would have no effect on the Company's revenue
294 requirement due to recording requirements of the Uniform System of Accounts
295 ("USOA") and the ratemaking treatment the Commission typically applies to
296 acquisition adjustments.

297 Q. Please explain the accounting treatment for an acquired water system.

298 A. The difference between the purchase price of an acquired water system and its
299 original cost, less accumulated depreciation, CIAC, and amortization of CIAC is
300 treated as an acquisition adjustment. According to USOA accounting instruction
301 number 21, the original entry to record the purchase should be to Account 104-
302 Utility Plant Purchased or Sold. Account 104 is then cleared to the appropriate
303 individual Plant accounts, account 121-Non-Utility Property, account 271-
304 Contributions in Aid of Construction, and account 272-Accumulated Amortization
305 of Contributions in Aid of Construction. Any amount then remaining in account
306 104-Utility Plant Purchased or Sold after recording any Non-Utility Property,
307 Contributions in Aid of Construction, and Accumulated Amortization of
308 Contributions in Aid of Construction to their proper accounts is the amount that
309 should then be cleared to Account 114-Utility Plant Acquisition Adjustment.

310 Q. How is the acquisition adjustment treated for ratemaking purposes?

311 A. Typically, the Commission does not include the acquisition adjustment and the
312 related amortization in a Company's rate base or operating expenses when
313 determining a company's revenue requirement. Therefore, the purchase price a
314 utility pays for a water system would not impact the rates the customers pay.

315 **Additional Comment**

316 Q. Do you have additional item on which to comment?

317 A. Yes. I recommend that the Commission order the Company to file journal entries
318 for this transaction reflecting the actual amounts at closing, including updates to
319 accumulated depreciation for the intervening time period between the date of the

320 original cost study and the closing of the transaction. This is necessary because
321 the assets were valued in the original cost study as of June 2004 and closing of
322 the transaction is likely to occur some months later. The assets will continue to
323 depreciate in that intervening time period and the accumulated depreciation
324 should reflect that reality. The USOA, at Account 104, requires the Company to
325 file these journal entries with the Commission within six months from the date of
326 the acquisition. The Commission should also require the Company to provide a
327 copy of these journal entries to the Commission's Manager of Accounting at the
328 time they are filed with the Commission.

329 **Recommendation**

330 Q. Do you have a recommendation?

331 A. Yes. I recommend that the Commission:

- 332 1) Approve the form of the journal entries I have proposed;
- 333 2) Require the Company to file the actual journal entries including
334 updated accumulated depreciation with the Commission within six
335 months of closing the transaction, with a copy to the Commission's
336 Manager of Accounting; and
- 337 3) Require the Company to record the annual amortization of the
338 acquisition adjustment in account, 426, Miscellaneous Non-Utility
339 expense, which is a below the line account, for a period of 10
340 years.

341 **Conclusion**

342 Q. Does this question end your prepared direct testimony?

343 A. Yes.

**Aqua Illinois Acquisition of Village of Philo water system
 Staff Recommended Journal Entries**

| <u>Staff Accounting Entries with Corrections</u> | | | Entries Per Company | Staff Adjustment | Entries Per Staff | Source |
|---|----------------|---|---------------------------|---------------------|-------------------------|-----------------------------------|
| Line No. | Account No. | Description | Debit/ (Credit) | | Debit/ (Credit) | |
| | (a) | (b) | (c) | (d) | (e) | (f) |
| <u>Initial recording of purchase: Journal Entry # 1 - entry not made by Co.</u> | | | | | | |
| 1 | 104 | Water Utility Plant Purchased | \$ - | \$ 425,000 | \$ 425,000 | |
| 2 | 131 | Cash | - | (425,000) | (425,000) | |
| <u>Entry to record purchase at closing: Journal Entry #2 - replaces 1st JE to record initial purchase:</u> | | | | | | |
| 3 | 104 | Water Utility Plant Purchased | \$ - | \$ (425,000) | \$ (425,000) | Aqua 1st Revised Attachment 1 |
| 4 | 108 | Accum. Depr.-Structures and Improvements | (32,487) | - | (32,487) | Aqua 1st Revised Attachment 1 |
| 5 | 108 | Accum. Depr.-Power Generation Equipment | (6,401) | - | (6,401) | Aqua 1st Revised Attachment 1 |
| 6 | 108 | Accum. Depr.-Pumping Equipment | (3,671) | - | (3,671) | Aqua 1st Revised Attachment 1 |
| 7 | 108 | Accum. Depr.-Water Treatment Equipment | (13,967) | - | (13,967) | Aqua 1st Revised Attachment 1 |
| 8 | 108 | Accum. Depr.-Distr. Reservoirs & Standpipes | (81,019) | 13,560 | (67,459) | ICC St. Ex. 2.0, Sch. 2.2, page 2 |
| 9 | 108 | Accum. Depr.-Mains | (175,199) | - | (175,199) | Aqua 1st Revised Attachment 1 |
| 10 | 108 | Accum. Depr.-Meters & Meter Installations | (79,449) | - | (79,449) | Aqua 1st Revised Attachment 1 |
| 11 | 108 | Accum. Depr.-Hydrants | (1,161) | - | (1,161) | Aqua 1st Revised Attachment 1 |
| 12 | 114 | Utility Plant Acquisition Adj | (239,293) | 68,085 | (171,208) | ICC St. Ex. 2.0, Sch. 2.4, page 1 |
| 13 | 131 | Cash | (425,000) | 425,000 | - | |
| 14 | 271 | Contributions in Aid of Construction | - | (491,538) | (491,538) | ICC St. Ex. 2.0, Sch. 2.3, page 1 |
| 15 | 272 | Accumulated Amortization of CIAC | - | 115,530 | 115,530 | ICC St. Ex. 2.0, Sch. 2.3, page 2 |
| 16 | 303 | Land and Land Rights | 5,950 | - | 5,950 | |
| 17 | 304 | Structures and Improvements | 56,183 | - | 56,183 | |
| 18 | 310 | Power Generation Equipment | 6,401 | - | 6,401 | |
| 19 | 311 | Pumping Equipment | 6,242 | - | 6,242 | |
| 20 | 320 | Water Treatment Equipment | 13,967 | - | 13,967 | |
| 21 | 330 | Distribution Reservoirs and Standpipes | 147,326 | (48,054) | 99,272 | ICC St. Ex. 2.0, Sch. 2.2, page 1 |
| 22 | 331 | Mains | 729,698 | - | 729,698 | |
| 23 | 334 | Meters and Meter Installation | 86,402 | - | 86,402 | |
| 24 | 335 | Hydrants | 5,479 | - | 5,479 | |

**Aqua Illinois Acquisition of Village of Philo water system
 Staff Recommended Journal Entries**

| Line No. | Account No. | Description | Entries Per Company | | Entries Per Staff | | Source |
|----------|--|--|---------------------|------------------|-------------------|--|--------|
| | | | Debit/(Credit) | Staff Adjustment | Debit/(Credit) | | |
| (a) | (b) | (c) | (d) | (e) | (f) | | |
| 1 | <u>To record annual amortization of Acquisition Adjustment: #3 - replaces Co. JE #3</u> | | | | | | |
| 2 | 426 | Miscellaneous Non-Utility Expense | \$ - | \$ 17,121 | \$ 17,121 | ICC St. Ex. 2.0, Sch. 2.4, p. 3 | |
| 3 | 114 | Utility Plant Acquisition Adjustment | - | (17,121) | (17,121) | | |
| | <u>To retire the water tank no longer used (per Original Cost Study): JE #4 - Entry not made by Company</u> | | | | | | |
| 4 | 108 | Accum. Depr.-Dist. Reservoirs & Standpipes | \$ - | \$ 38,434 | \$ 38,434 | Aqua 2nd Revised GPC Exhibit 1 | |
| 5 | 330 | Distribution Reservoirs & Standpipes | - | (38,434) | (38,434) | Aqua 2nd Revised GPC Exhibit 1 | |
| | <u>Summary Entry: Journal Entry #5 - replaces Co. Summary Entry</u> | | | | | | |
| 6 | 104 | Utility Plant Purchased | \$ (239,293) | \$ 239,293 | \$ - | ICC St. Ex. 2.0, Sch. 2.1, col. (e), sum of lines 16-24 | |
| 7 | 101 | Utility Plant in Service | 1,057,648 | (48,054) | 1,009,594 | ICC St. Ex. 2.0, Sch. 2.1, col. (e), sum of lines 4-11 | |
| 8 | 108 | Accumulated Depreciation | (393,354) | 13,560 | (379,794) | sum of lines 4-11 | |
| 9 | 131 | Cash | (425,000) | - | (425,000) | Aqua Revised Attachment 1 | |
| 10 | 271 | Contributions in Aid of Construction | - | (491,538) | (491,538) | ICC St. Ex. 2.0, Sch. 2.1, p. 1 | |
| 11 | 272 | Accumulated Amortization on CIAC | - | 115,530 | 115,530 | ICC St. Ex. 2.0, Sch. 2.1, p. 1 | |
| 12 | 114 | Utility Plant Acquisition Adjustment | \$ - | \$ (171,208) | \$ (171,208) | ICC St. Ex. 2.0, Sch. 2.1, p. 1 | |

**Aqua Illinois Acquisition of Village of Philo water system
 Adjustment to Distribution Reservoirs & Standpipes**

| Line No. | Description | Per Company | Staff Adj. | Per Staff | Source |
|----------|-------------------------------------|-------------------|--------------------|------------------|-------------------------|
| | (a) | (b) | (c) | (d) | (e) |
| | <u>Water Storage Tank Additions</u> | | | | |
| 1 | unspecified addition | \$ 12,750 | \$ - | \$ 12,750 | Co. Sch. 1, page 1 of 3 |
| 2 | unspecified addition | 1,843 | - | 1,843 | Co. Sch. 1, page 1 of 3 |
| 3 | unspecified addition | 39,014 | - | 39,014 | Co. Sch. 1, page 1 of 3 |
| 4 | Painting in 1977 | 13,459 | (13,459) | - | Co. response to WD 1.15 |
| 5 | unspecified addition | 4,142 | - | 4,142 | Co. Sch. 1, page 1 of 3 |
| 6 | Painting in 1982 | 15,802 | (15,802) | - | Co. response to WD 1.15 |
| 7 | unspecified addition | 2,063 | - | 2,063 | Co. Sch. 1, page 1 of 3 |
| 8 | unspecified addition | 1,026 | - | 1,026 | Co. Sch. 1, page 1 of 3 |
| 9 | Painting in 1989 | 18,793 | (18,793) | - | Co. response to WD 1.15 |
| 10 | unspecified addition | <u>38,434</u> | <u>-</u> | <u>38,434</u> | Co. Sch. 1, page 1 of 3 |
| 11 | Balance | <u>\$ 147,326</u> | <u>\$ (48,054)</u> | <u>\$ 99,272</u> | |

**Aqua Illinois Acquisition of Village of Philo water system
 Adjustment to Distribution Reservoirs & Standpipes**

| Line No. | Description | Per Company | Source |
|----------|--|------------------|-------------------------|
| | (a) | (b) | (c) |
| | Accumulated Depreciation-Structures & Improvements | \$ 81,019 | Co. Sch. 1, page 1 of 3 |
| 1 | Improvements | | |
| 2 | Accumulated Amortization-tank painting additions | (4,935) | Co. Sch. 1, page 1 of 3 |
| 3 | Accumulated Amortization-tank painting additions | (4,741) | Co. Sch. 1, page 1 of 3 |
| 4 | Accumulated Amortization-tank painting additions | <u>(3,884)</u> | Co. Sch. 1, page 1 of 3 |
| | Accumulated Depreciation-Structures & Improvements-Per Staff | \$ 67,459 | |
| 5 | Improvements-Per Staff | | |
| | Accumulated Depreciation-Structures & Improvements-Per Company | \$ 81,019 | |
| 6 | Improvements-Per Company | | |
| | Accumulated Depreciation-Structures & Improvements-Per Staff | <u>67,459</u> | |
| 7 | Improvements-Per Staff | | |
| 8 | Difference-Staff Adjustment | <u>\$ 13,560</u> | |

**Aqua Illinois Acquisition of Village of Philo water system
 Adjustment to Contributions in Aid of Construction**

| Line No. | Description | Per Company | Source |
|----------|-------------------------------------|-------------------|-------------------------------------|
| | (a) | (b) | (c) |
| 1 | Contribution in Aid of Construction | \$ 491,538 | ICC Staff Ex. 2.0, Sch. 2.1, page 1 |
| 2 | Total of Mains | <u>729,698</u> | ICC Staff Ex. 2.0, Sch. 2.1, page 1 |
| 3 | Ratio of CIAC to Mains | 0.674 | line 1 / line 2 |
| 4 | Total of Corrected Accum. Depr. | <u>171,507</u> | ICC Staff Ex. 2.0, Sch. 2.1, page 1 |
| 5 | Accumulated Amortization of CIAC | <u>\$ 115,530</u> | line 3 x line 4 |

**Aqua Illinois Acquisition of Village of Philo water system
Adjustment to Acquisition Adjustment**

| Line No | Description | Amount | Source |
|---------|------------------------------------|------------------|-----------------------------------|
| | (a) | (b) | (c) |
| 1 | Acquisition Adjustment per Staff | \$ (171,208) | ICC Staff Ex. 2.0, Sch. 2.4, p. 2 |
| 2 | Acquisition Adjustment per Company | <u>(239,293)</u> | Revised Aqua Ex. 3.0, Attach. 1 |
| 3 | Difference-Staff Adjustment | <u>\$ 68,085</u> | |

**Aqua Illinois Acquisition of Village of Philo water system
 Adjustment to Acquisition Adjustment**

| Line No. | Acct. No. | Description | Entries per Staff Debit/(Credit) | Source |
|----------|-----------|---|----------------------------------|--------------------------------|
| | | (a) | (b) | (c) |
| 1 | 104 | Water Utility Plant Purchased | \$ - | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 2 | 108 | Accum. Depr.-Structures and Improvements | (32,487) | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 3 | 108 | Accum. Depr.-Power Generation Equipment | (6,401) | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 4 | 108 | Accum. Depr.-Pumping Equipment | (3,671) | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 5 | 108 | Accum. Depr.-Water Treatment Equipment | (13,967) | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 6 | 108 | Accum. Depr.-Distr. Reservoirs & Standpipes | (67,459) | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 7 | 108 | Accum. Depr.-Mains | (175,199) | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 8 | 108 | Accum. Depr.-Meters & Meter Installations | (79,449) | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 9 | 108 | Accum. Depr.-Hydrants | (1,161) | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 10 | 131 | Cash | (425,000) | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 11 | 271 | Contributions in Aid of Construction | (491,538) | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 12 | 272 | Accumulated Amortization of CIAC | 115,530 | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 13 | 303 | Land and Land Rights | 5,950 | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 14 | 304 | Structures and Improvements | 56,183 | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 15 | 310 | Power Generation Equipment | 6,401 | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 16 | 311 | Pumping Equipment | 6,242 | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 17 | 320 | Water Treatment Equipment | 13,967 | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 18 | 330 | Distribution Reservoirs and Standpipes | 99,272 | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 19 | 331 | Mains | 729,698 | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 20 | 334 | Meters and Meter Installation | 86,402 | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 21 | 335 | Hydrants | 5,479 | ICC St. Ex. 2.0, Sch. 2.1 p. 1 |
| 22 | | Difference-Staff Acquisition Adjustment | <u>\$ (171,208)</u> | |

**Aqua Illinois Acquisition of Village of Philo water system
 Adjustment to Acquisition Adjustment**

| Line No. | Description | Amount | Source |
|----------|--|--------------------|-------------------------------|
| | (a) | (b) | (c) |
| 1 | Acquisition Adjustment per Staff | \$ (171,208) | ICC St. Ex. 2.0, Sch. 2.4, p1 |
| 2 | Amortization period | 10 | Aqua IL. Ex. 3.0 Revised p. 3 |
| 3 | Annual Amortization of Acq. Adj. per Staff | <u>\$ (17,121)</u> | |

**Aqua Illinois Acquisition of Village of Philo water system
Calculation of Original Cost**

| Line No. | Description | Amount | Source |
|-------------|-----------------------------|---------------------------|---------------------------------------|
| | (a) | (b) | (c) |
| 1 | Original Cost per Staff | \$ 1,009,594 | ICC St. Ex. 2.0, Sch. 2.5 p 2 line 10 |
| 2 | Original Cost per Company | <u>\$ 1,057,648</u> | Aqua Ex. 3.0, Revised Attachment 1 |
| 3 | Difference-Staff Adjustment | <u><u>\$ (48,054)</u></u> | |

**Aqua Illinois Acquisition of Village of Philo water system
 Calculation of Original Cost**

| Line No. | Acct. No. | Description | Entries per Staff Debit/(Credit) | Entries per Company Debit/(Credit) | Difference | Source |
|----------|-----------|---------------------------------|-------------------------------------|---------------------------------------|--------------------|--|
| | | (a) | (b) | (c) | (d) | (e) |
| 1 | 303 | Land and Land Rights | \$ 5,950 | \$ 5,950 | \$ - | |
| 2 | 304 | Structures and Improvements | 56,183 | 56,183 | - | |
| 3 | 310 | Power Generation Equipment | 6,401 | 6,401 | - | |
| 4 | 311 | Pumping Equipment | 6,242 | 6,242 | - | |
| 5 | 320 | Water Treatment Equipment | 13,967 | 13,967 | - | |
| 6 | 330 | Dist. Reservoirs and Standpipes | 99,272 | 147,326 | (48,054) | Col. (b): ICC St. Ex. 2.0, Sch. 2.2, p. 1, col (d), line 11 |
| 7 | 331 | Mains | 729,698 | 729,698 | - | Col. (b): ICC St. Ex. 2.0, Sch. 2.1, p. 1, col. (e), line 23 |
| 8 | 334 | Meters and Meter Installation | 86,402 | 86,402 | - | |
| 9 | 335 | Hydrants | 5,479 | 5,479 | - | |
| 10 | | Total-Original Cost | <u>\$ 1,009,594</u> | <u>\$ 1,057,648</u> | <u>\$ (48,054)</u> | |

Aqua Illinois Water Company with Philo
Forecasted Statement of Operating Income with Philo Adjustments
 For the Test Year Ending December 31, 2004 with Philo acquisition

| Line No. | Description | Staff's Proposed Vermilion Operating Statement (Docket No. 04-0442, Staff IB Appendix A, Sch. 3) | Staff Adjustments To Include Philo Acquisition (ICC Staff Ex. 2.0, Sch. 2.7) | Operating Statement With Philo Included (Cols. d+e) | Adjustment for Authorized Rate of Return | Operating Statement with Philo at Authorized Rate of Return (Cols. f+g) |
|----------|--|--|--|---|--|---|
| | (a) | (b) | (c) | (f) | (g) | (h) |
| 1 | Operating Revenue | \$ 11,827,417 | \$ 227,902 | \$ 12,055,319 | \$ (73,862) | \$ 11,981,457 |
| 2 | Other Revenues | - | - | - | - | - |
| 3 | Total Operating Revenue | 11,827,417 | 227,902 | 12,055,319 | (73,862) | 11,981,457 |
| 4 | Uncollectible Expense | 39,985 | 771 | 40,756 | (250) | 40,506 |
| 5 | Wages & Salaries | 963,468 | 15,000 | 978,468 | - | 978,468 |
| 6 | Employee Benefits | 455,861 | - | 455,861 | - | 455,861 |
| 7 | Contractual Services | 1,224,274 | 14,580 | 1,238,854 | - | 1,238,854 |
| 8 | Operation and Maintenance Expense | 1,301,846 | 59,144 | 1,360,990 | - | 1,360,990 |
| 9 | Depreciation Expense | 1,973,685 | 12,510 | 1,986,195 | - | 1,986,195 |
| 10 | Regulatory Expense Amortization | 73,580 | - | 73,580 | - | 73,580 |
| 11 | Taxes Other Than Income | 754,363 | 6,000 | 760,363 | - | 760,363 |
| 12 | Miscellaneous Expense | (5,106) | 11,880 | 6,774 | - | 6,774 |
| 13 | | - | - | - | - | - |
| 14 | | - | - | - | - | - |
| 15 | Total Operating Expense | | | | | |
| 16 | Before Income Taxes | 6,781,956 | 119,885 | 6,901,841 | (250) | 6,901,591 |
| 17 | State Income Tax | 259,207 | 7,056 | 266,264 | (5,285) | 260,979 |
| 18 | Federal Income Tax | 1,172,822 | 31,922 | 1,204,743 | (23,914) | 1,180,829 |
| 19 | Deferred Taxes and ITCs Net | (24,044) | - | (24,044) | - | (24,044) |
| 20 | Total Operating Expenses | 8,189,941 | 158,863 | 8,348,804 | (29,449) | 8,319,355 |
| 21 | NET OPERATING INCOME | \$ 3,637,476 | \$ 69,039 | \$ 3,706,515 | \$ (44,413) | \$ 3,662,102 |
| 22 | Forecasted Rate Base (ICC Staff Exhibit 2.0, Schedule 2.6) | | 267,118 | 42,287,555 | | \$ 42,287,555 |
| 23 | Overall Rate of Return | | 25.85% | 8.77% | | 8.66% |

Aqua Illinois Water Company with Philo
Forecasted Rate Base with Philo Adjustments
 For the Test Year Ending December 31, 2004 with Philo acquisition

| Line No. | Description | Staff | | |
|----------|--------------------------------|---|--|---|
| | | Staff Proposed Rate Base (Docket No. 04-0442 Staff IB Appendix A, Sch. 3) | Adjustments To Include Philo Acquisition (St. Ex. 2.0 Sch 2.9) | Rate Base With Philo Included (Col. b+c) |
| | (a) | (b) | (c) | (d) |
| 1 | Gross Utility Plant in Service | \$ 67,453,190 | \$ 1,009,594 | \$ 68,462,784 |
| 2 | Accumulated Depreciation | (18,369,743) | (379,794) | (18,749,537) |
| 3 | | - | - | - |
| 4 | Net Plant | 49,083,447 | 629,800 | 49,713,247 |
| 5 | Additions to Rate Base | | | |
| 6 | Property Held for Future Use | - | - | - |
| 7 | Deferred Charges | 671,058 | - | 671,058 |
| 8 | Materials and Supplies | 318,515 | - | 318,515 |
| 9 | Cash Working Capital | 563,255 | 13,326 | 576,581 |
| 10 | Amort of CIAC | 1,468,030 | 115,530 | 1,583,560 |
| 11 | | - | - | - |
| 12 | | - | - | - |
| 13 | | - | - | - |
| 14 | | - | - | - |
| 15 | | - | - | - |
| 16 | Deductions From Rate Base | | | |
| 17 | FAS 87 Pension | (286,654) | - | (286,654) |
| 18 | Customer Advances | (1,009,261) | - | (1,009,261) |
| 19 | CIAC | (3,915,663) | (491,538) | (4,407,201) |
| 20 | Deferred Income Taxes | (4,872,290) | - | (4,872,290) |
| 21 | Rate Base | <u>\$ 42,020,437</u> | <u>\$ 267,118</u> | <u>\$ 42,287,555</u> |

Aqua Illinois Water Company with Philo
Interest Synchronization Adjustment
 For the Test Year Ending December 31, 2004 with Philo acquisition

| Line No. | Description (a) | Amount (b) |
|-------------|--|-------------------|
| 1 | Gross Utility Plant in Service | \$ 42,287,555 (1) |
| 2 | Weighted Cost of Debt | 3.43% (2) |
| 3 | Synchronized Interest With Philo Included | 1,450,463 |
| 4 | Interest Expense Per Docket No. 04-0442, Staff IB Appendix A, Sch. 5 | <u>1,440,709</u> |
| 5 | Increase (Decrease) in Interest Expense | <u>9,754</u> |
| 6 | Increase (Decrease) in State Income Tax Expense | |
| 7 | at 7.180% | <u>\$ (700)</u> |
| 8 | Increase (Decrease) in Federal Income Tax Expense | |
| 9 | at 35.000% | <u>\$ (3,169)</u> |

(1) Source: ICC Staff Ex.2.0, Schedule 2.8, Column (d).
 (2) Source: Docket No. 04-0442 ICC Staff Exhibit 7.0, Schedule 7.1.

Aqua Illinois Water Company with Philo
 Gross Revenue Conversion Factor
 For the Test Year Ending December 31, 2004 with Philo acquisition

| Line No. | Description | Rate | Per Staff With Bad Debts | Per Staff Without Bad Debts |
|----------|---|----------|--------------------------|-----------------------------|
| | (a) | (b) | (c) | (d) |
| 1 | Revenues | | 1.000000 | |
| 2 | Uncollectibles | 0.3381% | <u>0.003381</u> | |
| 3 | State Taxable Income | | 0.996619 | 1.000000 |
| 4 | State Income Tax | 7.1800% | <u>0.071557</u> | <u>0.071800</u> |
| 5 | Federal Taxable Income | | 0.925062 | 0.928200 |
| 6 | Federal Income Tax | 35.0000% | <u>0.323772</u> | <u>0.324870</u> |
| 7 | Operating Income | | <u>0.601290</u> | <u>0.603330</u> |
| 8 | Gross Revenue Conversion Factor Per Staff | | <u>1.663091</u> | <u>1.657468</u> |

Aqua Illinois Water Company with Philo
Adjustment to Cash Working Capital
For the Test Year Ended December 31, 2005

| <u>Line No</u> | <u>Description</u> | <u>Amount</u> | <u>Source</u> |
|----------------|----------------------------------|------------------|-------------------------------------|
| | (a) | (b) | (c) |
| 1 | Cash Working Capital per Staff | \$ 550,823 | ICC Staff Ex. 2.0, Sch. 2.12, p. 2 |
| 2 | Cash Working Capital per Company | <u>537,497</u> | Docket No. 04-0442 Staff IB, Sch. 7 |
| 3 | Difference-Staff Adjustment | <u>\$ 13,326</u> | |

Aqua Illinois Water Company with Philo
 Adjustment to Cash Working Capital
 For the Test Year Ended December 31, 2005

| Line No | Description (A) | Amount (B) | Source |
|------------|--|----------------------|--|
| 1 | Total Operating Expenses (Pre Income Tax) | \$ 6,901,591 | ICC Staff Ex. 2.0, Sch. 2.6 |
| 2 | Less: | | |
| 3 | Uncollectible Accounts Expense | 40,506 | ICC Staff Ex. 2.0, Sch. 2.6 |
| 4 | Annual Amortization of Rate Case Expense | 73,580 | ICC Staff Ex. 2.0, Sch. 2.6 |
| 5 | Depreciation Expense | 1,986,195 | ICC Staff Ex. 2.0, Sch. 2.6 |
| 6 | Real Estate Tax Expense | <u>394,728</u> | Docket No. 04-0442 Aqua Sch. C-18 |
| 7 | Operating Expenses Requiring Working Capital | \$ 4,406,582 | Line 1 minus the sum of Lines 3 through 6 |
| 8 | 45 (lag days)/360 (30 day/month/year) | <u>12.50%</u> | |
| 9 | Total Cash Working Capital With Philo | \$ 550,823 | Line 7 multiplied by Line 8 |
| 10 | Total Cash Working Capital | <u>537,497</u> | Docket No. 04-0442 Staff IB Appendix A, Sch. 7 |
| 11 | Adjustment to Cash Working Capital | <u><u>13,326</u></u> | Line 9 minus Line 10 |

Illinois-American Water Company with Philo
 Champaign District with Philo
 Forecasted Statement of Operating Income with Philo Adjustments
 For the Test Year Ending December 31, 2003 with 2004 Philo Acquisition

| Line No. | Description | Operating Statement per Order (Docket No. 02-0690) | Staff Adjustments To Include Philo Acquisition (ICC Staff Ex. 2.0 Schedule 2.14) | Operating Statement With Philo Included (Cols. b+c) | Adjustment for Authorized Rate of Return | Operating Statement With Philo at Authorized Rate of Return (Cols. d+e) |
|----------|--|--|--|---|--|---|
| | (a) | (b) | (c) | (d) | (e) | (f) |
| 1 | Operating Revenue | \$ 19,590,318 | \$ 153,306 | \$ 19,743,624 | \$ (51,654) | \$ 19,691,970 |
| 2 | | - | - | - | - | - |
| 3 | Total Operating Revenue | 19,590,318 | 153,306 | 19,743,624 | (51,654) | 19,691,970 |
| 4 | Uncollectible Accounts Expense | 128,926 | 928 | 129,854 | (313) | 129,541 |
| 5 | Labor | 2,959,121 | - | 2,959,121 | - | 2,959,121 |
| 6 | Fuel & Power & Chemicals | 1,887,317 | - | 1,887,317 | - | 1,887,317 |
| 7 | Philo Forecast O & M | - | 45,439 | 45,439 | - | 45,439 |
| 8 | Waste Disposal | 110,000 | - | 110,000 | - | 110,000 |
| 9 | Management Fees | 1,016,005 | - | 1,016,005 | - | 1,016,005 |
| 10 | Group Insurance | 681,618 | - | 681,618 | - | 681,618 |
| 11 | Pensions | 389,501 | - | 389,501 | - | 389,501 |
| 12 | Regulatory Expense | 22,700 | - | 22,700 | - | 22,700 |
| 13 | Insurance - other | 473,716 | - | 473,716 | - | 473,716 |
| 14 | Customer Accounting | 231,817 | - | 231,817 | - | 231,817 |
| 15 | Rents | 248,206 | - | 248,206 | - | 248,206 |
| 16 | General Office Expense | 321,911 | - | 321,911 | - | 321,911 |
| 17 | Maintenance - other | 406,583 | - | 406,583 | - | 406,583 |
| 18 | Miscellaneous | 1,643,608 | - | 1,643,608 | - | 1,643,608 |
| 19 | Depreciation & Amortization | 3,325,822 | 25,932 | 3,351,754 | - | 3,351,754 |
| 20 | Taxes other than Income | 992,357 | 2,873 | 995,230 | - | 995,230 |
| 21 | Total Operating Expense | | | | | |
| 22 | Before Income Taxes | 14,839,208 | 75,172 | 14,914,380 | (313) | 14,914,067 |
| 23 | State Income Tax | 137,335 | 2,815 | 140,150 | (2,038) | 138,112 |
| 24 | Federal Income Tax | 1,163,006 | 23,841 | 1,186,847 | (17,256) | 1,169,591 |
| 25 | Deferred Taxes and ITCs Net | (30,892) | - | (30,892) | - | (30,892) |
| 26 | Total Operating Expenses | 16,108,657 | 101,828 | 16,210,485 | (19,607) | 16,190,878 |
| 27 | NET OPERATING INCOME | \$ 3,481,661 | \$ 51,478 | \$ 3,533,139 | \$ (32,047) | \$ 3,501,092 |
| 28 | Rate Base (ICC Staff Exhibit 2.0, Schedule 2.15) | | \$ 262,936 | \$ 47,376,069 | | \$ 47,376,069 |
| 29 | Overall Rate of Return | | 19.58% | 7.46% | | 7.39% |

**Illinois-American Water Company with Philo
 Champaign District with Philo
 Forecasted Rate Base
 For the Test Year Ending December 31, 2003 with 2004 Philo Acquisition**

| Line No. | Description | Staff Adjustments | | |
|----------|--------------------------------------|---|---|---|
| | | Rate Base Per Order (Docket No. 02-0690) | To Include Philo Acquisition (ICC Staff Ex. 2.0 Schedule 2.16) | Rate Base With Philo Included (Col. b+c) |
| | (a) | (b) | (c) | (d) |
| 1 | Utility Plant in Service | \$ 89,355,354 | \$ 1,009,594 | \$ 90,364,948 |
| 2 | FAS 109 Reg. Asset-Net of Liability | 246,357 | - | 246,357 |
| 3 | Less: Accumulated Depreciation | <u>(28,048,268)</u> | <u>(379,794)</u> | <u>(28,428,062)</u> |
| 4 | Net Plant | 61,553,443 | 629,800 | 62,183,243 |
| 5 | Additions to Rate Base | | | |
| 6 | Cash Working Capital | 1,903,270 | 9,144 | 1,912,414 |
| 7 | Materials & Supplies | 611,369 | - | 611,369 |
| 8 | Deferred Charges | 694,099 | - | 694,099 |
| 9 | Savings/Sharing | - | - | - |
| 10 | | - | - | - |
| 11 | | - | - | - |
| 12 | | - | - | - |
| 13 | | - | - | - |
| 14 | | - | - | - |
| 15 | | - | - | - |
| 16 | Deductions From Rate Base | | | |
| 17 | Contributions in Aid of Construction | (11,516,356) | (491,538) | (12,007,894) |
| 18 | Accum. Depr. On CIAC | 2,859,361 | 115,530 | 2,974,891 |
| 19 | Customer Advances | (5,476,609) | - | (5,476,609) |
| 20 | Deferred Federal Income Tax | (2,773,531) | - | (2,773,531) |
| 21 | Deferred State Income Tax | (722,251) | - | (722,251) |
| 22 | Investment Tax Credit - pre 1971 | <u>(19,662)</u> | <u>-</u> | <u>(19,662)</u> |
| 23 | Rate Base | <u>\$ 47,113,133</u> | <u>\$ 262,936</u> | <u>\$ 47,376,069</u> |

Illinois-American Water Company with Philo
Interest Synchronization Adjustment
 For the Test Year Ending December 31, 2003 with 2004 Philo Acquisition
 Champaign District with Philo

| Line No. | Description (a) | Amount (b) |
|-------------|---|-------------------|
| 1 | Utility Plant in Service | \$ 47,376,069 (1) |
| 2 | Weighted Cost of Debt | 2.74% (2) |
| 3 | Synchronized Interest with Philo Included | 1,298,104 |
| 4 | Interest Expense Per 02-0690 Order | <u>1,290,900</u> |
| 5 | Increase (Decrease) in Interest Expense | <u>7,204</u> |
| 6 | Increase (Decrease) in State Income Tax Expense | |
| 7 | at 3.969% | \$ <u>(286)</u> |
| 8 | Increase (Decrease) in Federal Income Tax Expense | |
| 9 | at 35.000% | <u>\$ (2,421)</u> |

(1) Source: Docket No. 02-0690, ICC Staff Ex. 11.0, Schedule 11.3-C, Column (d).

(2) Source: Docket No. 02-0690, ICC Staff Exhibit 16.0, Schedule 16.01.

Illinois-American Water Company with Philo
Gross Revenue Conversion Factor
 For the Test Year Ending December 31, 2003 with 2004 Philo Acquisition
 Champaign District with Philo

| Line No. | Description | Rate | Per Staff With Bad Debts | Per Staff Without Bad Debts |
|----------|---|----------|--------------------------|-----------------------------|
| | (a) | (b) | (c) | (d) |
| 1 | Revenues | | 1.000000 | |
| 2 | Uncollectibles | 0.6050% | <u>0.006050</u> | |
| 3 | State Taxable Income | | 0.993950 | 1.000000 |
| 4 | State Income Tax | 3.9690% | <u>0.039450</u> | <u>0.039690</u> |
| 5 | Federal Taxable Income | | 0.954500 | 0.960310 |
| 6 | Federal Income Tax | 35.0000% | <u>0.334075</u> | <u>0.336109</u> |
| 7 | Operating Income | | <u>0.620425</u> | <u>0.624201</u> |
| 8 | Gross Revenue Conversion Factor Per Staff | | <u>1.611798</u> | <u>1.602048</u> |

Illinois-American Water Company
 Adjustment to Cash Working Capital
 For the Test Year Ended December 31, 2003
 Champaign District with Philo

| <u>Line No</u> | <u>Description</u> (a) | <u>Amount</u> (b) | <u>Staff Adjustment</u> (c) | <u>Source</u> (d) |
|----------------|--|----------------------|--------------------------------|--|
| 1 | Total Operating Expenses (Pre Income Tax) | \$ 14,914,067 | | ICC Staff Ex. 2.0, Sch. 2.13 |
| 2 | Less: | | | |
| 3 | Uncollectible Accounts Expense | 129,541 | | ICC Staff Ex. 2.0, Sch. 2.13 |
| 4 | Annual Amortization of Rate Case Expense | 22,700 | | ICC Staff Ex. 2.0, Sch. 2.13 |
| 5 | Savings Sharing | 60,676 | | ICC Staff Ex. 2.0, Sch. 2.13 |
| 6 | Depreciation Expense | 3,351,754 | | ICC Staff Ex. 2.0, Sch. 2.13 |
| 7 | Taxes Other Than Income | <u>995,230</u> | | ICC Staff Ex. 2.0, Sch. 2.13 |
| 8 | Operating Expenses Requiring Working Capital | \$ 10,354,166 | | Line 1 minus the sum of Lines 3 through 7 |
| 9 | Weighted Average per Company | <u>18.47%</u> | | Docket No. 02-0690, IAWC Exhibit No.11.0, Schedule B-8, Page 4 of 9. |
| 10 | Total Cash Working Capital With Philo | | \$ 1,912,414 | Line 7 multiplied by Line 8 |
| 11 | Total Cash Working Capital Per Company | | <u>1,903,270</u> | Per 02-0690 Order |
| 12 | Adjustment to Cash Working Capital | | <u>\$ 9,144</u> | Line 10 minus Line 11 |