STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois-American Water Company	:	
	:	07-0507
Proposed general increase in water and sewer rates.	:	

REPLY BRIEF OF THE STAFF OF THE ILLINOIS COMMERCE COMMISSION

LINDA M. BUELL
Office of General Counsel
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62701
Phone: (217) 557-1142
Fax: (217) 524-8928
E-mail: lbuell@icc.illinois.gov

MICHAEL J. LANNON
Office of General Counsel
Illinois Commerce Commission
160 North LaSalle, Ste. C-800
Chicago, IL 60601
Phone: (312) 814-4368
Fax: (312) 793-1556
E-mail: mlannon@icc.illinois.gov

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REPLY BRIEF OF THE STAFF
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Pursuant to 83 Ill. Adm. Code 200.800, Staff of the Illinois Commerce Commission ("Staff"), by and through its undersigned attorneys, hereby files its Reply Brief in the instant proceeding. On April 22, 2008, Initial Briefs ("IB") were filed in this matter by Illinois-American Water Company ("IAWC", "Illinois-American" or the "Company"); the Citizens Utility Board ("CUB"); the Attorney General of the State of Illinois (the "AG"); Caterpillar Inc., U.S. Steel Corporation, the University of Illinois, Bond-Madison Water Company, Fosterburg Water District and Jersey County Rural Water Company, Inc., referred to as the Large Water Consumers (the "LWC"); the Cities of Champaign and Urbana, and the Villages of Homer Glen, Orland Hills, St. Joseph and Savoy (the "Municipalities"); the Village of Bolingbrook ("Bolingbrook");[1] and Staff. Staff hereby submits this Reply Brief in response to arguments advanced by the parties in their Initial Briefs, and revenue requirement schedules attached hereto as Appendix A, which reflect revisions to deferred tank painting charges and related expense,

[1] Bolingbrook's IB merely adopts the Municipalities' IB in its entirety and the portion of the AG's IB regarding Management Fee Expense, and will not be cited herein.

discussed *infra* at II. Rate Base, C. Contested Issues, 2. Deferred Tank Painting, and at III. Operating Revenues and Expenses, C. Contested Issues, 4. Tank Painting Expense.

I. BACKGROUND; PROCEDURAL HISTORY; NATURE OF OPERATIONS; TEST YEAR

II. RATE BASE

A. Introduction

B. Resolved Issues

1. Original Cost Determination

2. Utility Plant-in-Service

3. Cash Working Capital

4. Champaign District Water Treatment Facility

C. Contested Issues

1. Impact of Depreciation Expense

Staff's revenue requirement schedules, attached hereto as Appendix A, reflect Staff witness Johnson's changes to Water Meter Depreciation Rates and a correction to the Valley Marina project in the Chicago Metro Sewer District. There is no dispute between the Company and Staff with respect to plant-in-service balances and allowable depreciation expense. (Staff IB, pp. 16-17; IAWC IB, p. 17.)

LWC recommends reducing test year depreciation expense by approximately $5,792,279 based on its net salvage proposal. (LWC IB, pp. 3-10.) The Municipalities agree with LWC and request that the net salvage proposal be adopted by the Commission. (Municipalities IB, pp. 3-4.) Staff continues to recommend that the Commission reject LWC's net salvage proposal. (*See infra* III. Operating Revenues and Expenses, C. Contested Issues, 3. Depreciation Expense.)

2. Deferred Tank Painting

Staff continues to support its position that the Company's most recent five-year average of actual tank painting activities should be the basis for establishing the correct level of both deferred tank painting charges and annual tank painting expenses. (Staff IB, pp. 17-19.) However, Illinois-American advanced the argument in its Initial Brief that Staff's recommended deferred tank painting charges should include increases for inflation. (IAWC IB, p. 38.) After consideration, Staff agrees with the Company.

Accordingly, Staff's recommended deferred tank painting charges to be included in rate base, as adjusted for inflation, are $8,584,218 for the Company in total. Staff's recommended deferred tank painting charges, as adjusted for inflation, for each District are indicated in the following table.

District	Staff's Corrected Rebuttal Position	2008 Increase for Inflation at 2.00%	2009 Increase for Inflation at 2.30%	Staff's Reply Brief Position
(A)	(B)	(C)	(D)	(E)
		(B * 2.00%)	((B+C)*2.30%)	(B + C + D)
Rate Base				
SPSPSB District	$ 4,844,739	$ 96,895	$ 113,658	$ 5,055,291
Chicago Metro - Water Dist.	1,663,844	33,277	39,034	1,736,155
Champaign District	1,542,751	30,855	36,193	1,609,799
Sterling District	8,971	179	210	9,361
Pekin District	143,547	2,871	3,368	149,786
Lincoln District	23,826	-	-	23,826
Company Total	$ 8,227,678	$ 164,077	$ 192,463	$ 8,584,218

Notes:
Column B from ICC Staff Exhibit 12.0-C (Second Corrected), Schedule 12.1 (Corrected).
Column C 2008 inflation rate of 2.00% per Company Schedule G-5.
Column D 2009 inflation rate of 2.30% per Company Schedule G-5.
Staff did not adjust the Company's proposal for the Lincoln District.

Staff’s adjustments to the revenue requirement are calculated in the following table, and reflected in Appendix A attached to Staff’s Reply Brief.

District (A)	Staff's Reply Brief Position (B)	Company's Position per Schedule B-10 First Revised (C)	Difference - Staff Adjustment (D) (B - C)
Rate Base			
SPSPSB District	$ 5,055,292	$ 5,225,684	$ (170,392)
Chicago Metro - Water District	1,736,155	1,888,986	(152,831)
Champaign District	1,609,799	1,443,557	166,242
Sterling District	9,360	87,435	(78,075)
Pekin District	149,786	358,417	(208,631)
Lincoln District	23,826	23,826	-
Company Total	$ 8,584,218	$ 9,027,905	$ (443,687)

If the Commission adopts the Company’s proposal, deferred tank painting charges and annual tank painting expenses should not exceed the amounts supported by the Company’s Schedule B-10 First Revised. (Staff IB, pp. 19-21.)

Along with Staff witness Kahle's adjustment to reduce deferred tank painting charges included in rate base, Mr. Kahle proposed a related reduction in amortization expense. (*See infra* at III. Operating Revenues and Expenses, C. Contested Issues, 4. Tank Painting Expense.)

D. Recommended Rate Base

Staff's recommended rate bases for Illinois-American's respective Districts are reflected in Appendix A, Schedules 3, attached hereto.

III. OPERATING REVENUES AND EXPENSES

A. Introduction

B. Resolved Issues

1. Executive Perquisites Expense

2. Advertising Expense

3. Depreciation Rates – Water Meters

4. State Deferred Income Tax Expense

5. Test Year Waste Water Revenues for the Chicago Metro District

C. Contested Issues

1. Test Year Revenues for Sales for Resale for the SPSPS, Chicago Metro Water, and Champaign Districts

The Company continues to oppose the AG's adjustment to increase test year Sales for Resale in the SPSPSB, Chicago Metro Water, and Champaign rate areas. (IAWC IB, pp. 20-24.) Concerning the Champaign rate area, in its rebuttal testimony the Company increased its original test year Sales for Resale by $329,000, from $239,000 to $568,000. (IAWC Exhibit 4.12.) The AG argues for a total of $684,000. (AG IB, p. 12.)

The AG argues that the Company had understated demand and revenues for Sales for Resale by relying on old data in a way that avoids recent trends in the three previously identified service areas. (*Id*., pp. 5-15.) After making certain adjustments to remove surcharge revenues, agreed to by both the Company and AG witness Effron in rebuttal testimony, the AG proposed increases in the Sales for Resale in the SPSPSB, Chicago Metro Water, and Champaign Districts by $705,000, $93,000, and $116,000 to $9,927,000, $103,000 and $684,000, respectively. (AG Exhibit 1.3, Schedule C-1.)

Staff has not testified regarding the adjustments proposed by either the Company or the AG, other than to state that the Company's argument that the AG failed to consider that surcharge revenues were included in the June 30, 2007, Sales for Resale revenue but not in the test year Sales for Resale revenue was not persuasive and did not invalidate the AG's reasons for making the adjustments. To avoid the impression that Staff favors the Company's

Champaign rate area Sales for Resale total of $568,000 over the AG's total of $684,000, the revenue requirements attached hereto as Appendix A do not reflect the Company's Sales for Resale adjustment to the Champaign rate area or the AG's proposed adjustments to the SPSPSB, Chicago Metro Water, and Champaign rate areas.

2. Test Year Revenues for Other Revenues for the SPSPS, Chicago Metro Water, Champaign, Sterling, and Pekin Districts

The parties take similar positions with respect to Other Revenues as those taken in the previously discussed Sales for Resale, *supra* at III. Operating Revenues and Expenses, C. Contested Issues, 1. Test Year Revenues for Sales for Resale for the SPSPS, Chicago Metro Water, and Champaign Districts. The Company, in its rebuttal testimony, agreed with AG witness Effron that averaging more current information is appropriate. The Company then proposed a three-year average of Other Revenues for the SPSPSB, Chicago Metro Water, Champaign, Sterling, Peking and Lincoln Districts of $1,875,000. This level of Other Revenues represents a $7,000 decrease from its original filing and is the Company's final Other Revenue position. (IAWC IB, p. 36.)

The AG argues that actual Other Revenues for the years ended June 30, 2006 and June 30, 2007 were $2,286,021 and $2,582,425, respectively. The AG further argues that although the Company has experienced growth in Other Revenues, it has not reflected any growth in its proposal. The AG states that Other Revenues have ranged from $2,124,106 for the 12 months ended June 30, 2006 to $2,582,425 for the same period in 2007. Therefore, the appropriate level of Other Revenues is the amount represented for the most recent year ended June 30, 2007, or $2,582,425 - not the $1,875,000 proposed by the Company. (AG IB, pp. 15-16.)

The Company's updated average of $1,875,000, which the Company testified is based on the three-year period 2005-2007, is significantly less than the average that results from using the historical Other Revenues for 2005, 2006, and 2007 reported by the Company on Schedule C-23 and the response to data request AG 2.22(f). The average calculated with those numbers is $2,345,000. (Staff IB, pp. 27-28.) In its calculation of the $1,875,000, the Company used Other Revenues for 2006 of $1,594,000, whereas the historical Other Revenues for 2006 reported on Schedule C-23 of the original filing were $2,286,000. (*Id.*) The Company was unable to explain this discrepancy. (Tr., pp. 114-116.) Based on a comparison of the Company's $1,875,000 Other Revenues and the AG's $2,582,425 Other Revenues to the historical Other Revenues average of $2,345,000, it is Staff's opinion that the AG presents the more reasonable level of Other Revenues. (Staff IB, pp. 27-28.)

Similar to the Sales for Resale revenue adjustments proposed by the Company and the AG, the revenue requirements attached hereto as Appendix A do not reflect the Other Revenue levels of $1,875,000 proposed by the Company or the $2,582,425 proposed by the AG. Staff's revenue requirements schedules reflect Other Revenues of $1,882,000 from the Company's original filing.

3. Depreciation Expense

a. IAWC's proposed net salvage ratios are not excessive when compared to the actual net salvage ratios historically experienced by the Company.

LWC argues that IAWC's net salvage ratios are excessive and are well in excess of those used by other water companies affiliated with IAWC in adjoining states. (LWC IB, p. 3.) As Staff explained, IAWC provided an in-depth (historical net salvage) analysis for the period 1980-2005, the period for which data was available, and a three-year rolling band analysis that was based on historical data. The data from IAWC's analysis identified historical information, by property group, on the end of life cost relative to the cost of the plant when it was first put into service for that portion of the property group's total plant already retired. The Company's proposed net salvage ratios were in line with the net salvage ratios historically experienced by IAWC and when applied to the original cost of existing plant, reflect what can reasonably be expected to be the end of life cost of removal and salvage (future net salvage) for plant still in service. Staff further stated that the net salvage analysis performed by Illinois-American was an accepted practice used by depreciation professionals. (Staff IB, pp. 30-31.)

Staff continues to support the use of IAWC's proposed net salvage ratios and recommends they be approved by the Commission.

b. LWC's proposal to use the net salvage ratios from IAWC affiliates should be rejected.

LWC advocates the use of net salvage ratios from IAWC affiliates in states adjoining Illinois for the determination of depreciation rates. (LWC IB, p. 9.)

However, LWC's use of net salvage ratios from IAWC affiliates does not take into account IAWC's plant retirement policies and/or experience. Moreover, actual company-specific data provides a clearer picture of how a particular company retires its plant investments. (Staff IB, p. 31.)

As discussed, IAWC performed a depreciation study that used actual historical data. It is not clear from the affiliates LWC witness Collins chose whether other factors were considered or used in the determination of their net salvage ratios. In fact, Mr. Collins' testimony states that one of the affiliates he used in determining his proposed net salvage ratios had net salvage ratios that were determined through settlement. (IIWC Exhibit 2.0, pp. 13-14.) As such, there is no way to tell from the evidence provided what factors were taken into consideration when determining the net salvage ratios for the settlement case.

Therefore, the Commission should reject LWC's proposal to use the average net salvage ratios of IAWC affiliates. IAWC's net salvage ratios, which were determined from an in-depth depreciation study based upon actual company-specific data, should be approved by the Commission.

4. Tank Painting Expense

Staff continues to support its position that the Company's tank painting expense (the annual amortization of deferred tank painting charges) be reduced to reflect the adjusted cost of deferred tank painting as proposed by Staff witness Kahle. (*See supra* at II. Rate Base, C. Contested Issues, 2. Deferred Tank Painting.) However, Illinois-American advanced the argument in its Initial Brief that Staff's recommended annual tank painting expenses should include increases for inflation. (IAWC IB, p. 38.) After consideration, Staff agrees with the Company.

Accordingly, Staff's recommended annual tank painting expenses to be included in operating expense, as adjusted for inflation, are $815,999 for the Company in total. Staff's recommended annual tank painting expenses for each District, as adjusted for inflation, are indicated in the following table.

District	Staff's Corrected Rebuttal Position	2008 Increase for Inflation at 2.00%	2009 Increase for Inflation at 2.30%	Staff's Reply Brief Position
(A)	(B)	(C)	(D)	(E)
		(B * 2.00%)	((B+C)*2.30%)	(B + C + D)
Operating Expense				
SPSPSB District	$ 435,329	$ 8,707	$ 10,213	$ 454,248
Chicago Metro - Water Dist.	117,917	2,358	2,766	123,042
Champaign District	183,513	3,670	4,305	191,488
Sterling District	12,629	253	296	13,178
Pekin District	19,474	389	457	20,320
Lincoln District	13,723	-	-	13,723
Company Total	$ 782,585	$ 15,377	$ 18,037	$ 815,999

Notes:
Column B from ICC Staff Exhibit 12.0-C (Second Corrected), Schedule 12.1 (Corrected).
Column C 2008 inflation rate of 2.00% per Company Schedule G-5.
Column D 2009 inflation rate of 2.30% per Company Schedule G-5.
Staff did not adjust the Company's proposal for the Lincoln District.

Staff's adjustments to the revenue requirement are calculated in the following table, and reflected in Appendix A attached to Staff's Reply Brief.

District (A)	Staff's Reply Brief Position (B)	Company's Position per Schedule B-10 First Revised (C)	Difference - Staff Adjustment (D) (B - C)
Operating Expense			
SPSPSB District	$ 454,249	$ 567,765	$ (113,516)
Chicago Metro - Water District	123,041	161,434	(38,393)
Champaign District	191,488	178,277	13,211
Sterling District	13,178	17,906	(4,728)
Pekin District	20,320	35,209	(14,889)
Lincoln District	13,723	13,723	-
Company Total	$ 815,999	$ 974,314	$ (158,315)

5. Incentive Compensation

Illinois-American proposes to reflect $1,515,083 as the test year level of incentive compensation expense. (IAWC IB, pp. 38-39.) Staff, on the other hand, proposes to disallow $1,631,000 of incentive compensation program costs and related payroll taxes in connection with the instant proceeding. (Staff IB, pp. 32-39.) Staff's position is supported by the AG (AG IB, pp. 17-22), and the Municipalities (Municipalities IB, pp. 5-6). The Company argues that these costs are customary in the utility industry and that such incentive compensation plans allow it to be more competitive in attracting and retaining highly qualified personnel. The ability to attract and retain qualified personnel better enables IAWC to provide a high level of service to customers and operate more efficiently, according to the Company. (IAWC IB, pp. 38-39.)

The matter of incentive compensation is not a new issue before the Commission. Accordingly, parties on both sides of this issue have cited numerous prior cases in which the Commission has decided upon the treatment of incentive compensation costs for ratemaking purposes. Those cases include examples that range from complete disallowance to partial recovery of such costs. The Company's primary contention is that incentive compensation costs should be recoverable because they are necessary "to attract and retain competent personnel, reduce expenses, maintain the financial health of the Company, improve service to customers, and increase operational efficiencies." (IAWC IB, p. 39.) In response to Staff's argument that the Commission has not allowed recovery of incentive compensation costs without a clear demonstration of direct ratepayer benefits, the Company used the fallback argument that the incentive compensation plans at issue provide benefits to ratepayers. (*Id*.)

However, In spite of this claim, Staff argues that the Company failed to demonstrate that without the plans, ratepayers would have been worse off. In fact, IAWC witness Grubb was unable during cross-examination to identify any goals in the incentive plans that impose a higher degree of service than is required under Commission regulations. (Tr., pp. 73, 74, 75, 78, 79, 80, 81.) Accordingly, Staff maintains that the Company did not meet its burden of proof in demonstrating the types of clear ratepayer benefits the Commission has required in numerous dockets as a basis for recovery of incentive compensation costs. Instead, the Company seeks in the instant proceeding to recover a premium in the form of incentive compensation expenses, simply to provide the safe reliable service it is mandated to provide under the Illinois Public Utilities Act (the "Act"). (Staff IB, pp. 37-39.)

Staff's primary support for its adjustment is that the incentive compensation plans are first and foremost dependent upon the parent

Company's achievement of a specified financial target which benefits shareholders, not ratepayers. If the target is not reached, no incentive payments will be made. Accordingly, the plans are discretionary in nature and dependent upon a circular relationship that enhances the Company's ability to reach its financial target if these costs are included in rates. Finally, there has been no demonstration of ratepayer benefits above and beyond the statutory requirements.

Accordingly, Staff continues to recommend that the Commission deny recovery of 100% of the costs related to Illinois-American's incentive compensation plans.

6. Management Fee Expense

The AG argues that the Company's Management Fee Expense should be reduced by approximately $2,667,000 of unexplained charges based on an analysis of the increases from the Company's last rate proceeding, Docket No. 02-0690. (AG IB, pp. 22-29.) On the other hand, Illinois-American argues that the AG's adjustment is unjustified and that its Management Fee Expense is justified as it is based on a detailed, audited forecast. (IAWC IB, pp. 45-52.) Based upon its own analysis, Staff does not believe that an adjustment for management fees is necessary. (Staff IB, pp. 39-40.)

Staff continues to recommend that the Commission approve the Company's request for Management Fee Expense.

7. Chicago Metro District Operations and Maintenance Expenses

The AG proposed adjustments to reduce the Operations and Maintenance ("O&M") Expenses for the Chicago Metro Water District, including an adjustment to bring Illinois-American's O&M expense into line with the O&M expense shown for neighboring water systems and with the American Water Works Association's benchmark O&M expense. (AG IB, pp. 29-39.) The Municipalities recommend that the Commission require IAWC to provide an independent analysis of the Company's rates in the Champaign District in comparison to what municipal systems charge their customers so that the Champaign District's rates can be appropriately adjusted to bring them in line with other communities. (Municipalities IB, pp. 7-9.) The Company, on the other hand, disagrees and argues that it has provided extensive evidence supporting the reasonableness of its specific proposed levels of costs and rates, which demonstrate that the rate increase proposed in this proceeding should be approved in full. (IAWC IB, pp. 53-85.)

Since Staff did not have the opportunity to review the extensive information presented regarding the other utilities used in the comparative analysis, Staff did not present an opinion regarding this issue. Staff maintains, however, that as a general matter, the Commission establishes water and sewer rates based upon the cost of service, not upon a comparison of adjacent or regional utility rates. (Staff IB, p. 40.)

8. Other

D. Recommended Operating Income/Revenue Requirement

Schedules that calculate the revenue requirement for each respective Illinois-American District are attached to Staff's Reply Brief as Appendix A, which has been updated from Staff's Initial Brief to reflect Staff's revisions to deferred tank painting charges and related expense, discussed *supra* at II. Rate Base, C. Contested Issues, 2. Deferred Tank Painting, and at III. Operating Revenues and Expenses, C. Contested Issues, 4. Tank Painting Expense.

IV. COST OF CAPITAL/RATE OF RETURN

A. Capital Structure

B. Cost of Debt

1. Cost of Short-Term Debt

2. Cost of Long-Term Debt

C. Cost of Common Equity

Staff's Initial Brief identified and responded to many of the arguments raised in the Initial Briefs filed by the Company, LWC and CUB. (Staff IB, pp. 46-64.) In this Reply Brief, Staff responds only to the extent that the Company, LWC, or CUB raised arguments that Staff did not adequately address in Staff's Initial Brief. Staff has not altered its positions and arguments set forth in Staff's Initial Brief and those arguments are incorporated and adopted as if fully set forth herein.

1. Business Risk Adjustment

The Company argues that its business risk adjustment is not based solely on the size of IAWC. (IAWC IB, p. 91.) It further claims that although a size premium was rejected in Docket No. 03-0403, a business risk premium was granted. (*Id*., pp. 91-92.) The Company is mischaracterizing both its adjustment and the Order in Docket No. 03-0403. Contrary to IAWC's Initial Brief, the Company's adjustment is based on "its small size relative to each proxy group." (IAWC Exhibit 12.00 (Revised), p. 35; ICC Staff Exhibit 4.0, p. 31.) Second, the "business risk premium" that was approved in Docket No. 03-0403 was based on Consumers Illinois Water Company's ("CIWC") NAIC rating, not on its size. (Order, Docket No. 03-0403, April 13, 2004, p. 43.) Although IAWC has chosen to identify its adjustment as a business risk adjustment, it is a size adjustment nonetheless - the very same type of risk adjustment that was rejected in Docket No. 03-0403, wherein the Commission stated:

> The Commission does not conclude that the size of CIWC warrants a risk premium. CIWC is a wholly-owned subsidiary within a much larger organization, and in that sense is distinguishable from an independent utility of the same size as CIWC. (*Id*.)

Therefore, the Commission should again reject the Company's business risk adjustment (*i.e*., size adjustment).

2. Other

a. CAPM

CUB asserts that the CAPM used by Staff is unreliable. (CUB IB, p. 5.) CUB is mistaken. In fact, the Nagel Paper, CUB's only support that the Commission has not previously rejected, does not even apply to Staff's CAPM, because Nagel did not evaluate a CAPM that utilized adjusted betas. (Staff IB, p. 59.) The Nagel Paper examined a CAPM implemented with raw, unadjusted betas, the same form of CAPM that CUB witness Thomas used to verify the results of his DCF. (ICC Staff Exhibit 14.0C, p. 15.) The Nagel Paper found Mr. Thomas's implementation of the CAPM (CUB IB, p. 10) to be unreliable, not Staff's version of the CAPM.

CUB further argues that its version of the CAPM, which was examined in the Nagel Paper, was "more accurate than the version used by Staff in this proceeding." (*Id*., p. 10.) CUB's argument is nonsensical. The Nagel Paper found that a CAPM using raw betas was less accurate in predicting realized rate of return than a forecast model that assumed future returns would equal the market average (beta equals 1.0). (Staff IB, p. 59.) Staff utilized adjusted betas, which are adjusted closer to the market average. Therefore, Staff utilized a version of the CAPM, which incorporates betas adjusted closer towards the market average beta, which is more accurate than the raw beta-based CAPM.

b. Historical Data

LWC contends that a 13-week average stock price should be used in the DCF model and that historical data should be used in estimating the market risk premium. (LWC IB, pp. 12, 14-15.) LWC is wrong. In Docket No. 92-0357, a rate proceeding for Iowa-Illinois Gas and Electric Company, the Commission Order stated, "[t]he Commission notes that the investor-required return on common equity is a forward-looking concept. Mr. Benore [the company witness], in many instances, inappropriately utilized historical data to determine the Company's cost of common equity." (Order, Docket No. 92-0357, July 21, 1993, p. 66.) Similarly, in Docket No. 95-0076, a rate proceeding for Consumers Illinois Water Company, the Commission Order stated, "[t]he Commission also concludes that Staff's criticism of Dr. Phillips' use of two-month average historical stock prices and historical growth rates in his traditional DCF analysis, and historical risk premiums in his risk premium analysis are valid. Historical data is inappropriate in determining a forward-looking cost of common equity because it contains information that may no longer be relevant to investors." (Order, Docket No. 95-0076, December 20, 1995, p. 70.)

c. Risk of IAWC Compared to Proxy Groups

The Company claims that IAWC is riskier than the proxy groups. (IAWC IB, p. 93.) The Company's claim is misleading. The Company does not distinguish between the proxy groups used by the Company, LWC, CUB and Staff. The testimony which it cites only refers to the Company's and LWC's proxy groups. (IAWC Schedule 12.25 (Revised).) Staff witness Kight-Garlisch clearly showed that IAWC is less risky than both of her proxy groups. In fact, Staff made a downward adjustment to the cost of common equity to reflect the lower risk of IAWC compared to Staff's proxy groups. (ICC Staff Exhibit 4.0, pp.

24-28.)

D. Recommended Overall Rate of Return

V. RATE DESIGN; TARIFF TERMS AND CONDITIONS

A. Introduction

B. Resolved Issues

1. Future IAWC Cost of Service Studies

2. Single Tariff Pricing

3. Uniformity and Consistency in Tariff Language

4. Number of Days for an Effective Date after Filing Compliance Tariffs

5. Lincoln District Private Fire Protection Charge

6. Sewage Treatment Plant Connection Fee for the Chicago Metro Sewer District

7. Municipal Franchise Fees

8. Reconnection Fee

9. Home Inspection Fee

10. Multi Residential Tariff

11. Refunds of Customer Advances for Main Extensions

C. Contested Issues

1. $10 Activation Charge

Illinois-American argues that the $10 Customer Activation Charge (the "$10 charge") presently approved for the Champaign District should be approved for all of the Company's Districts. IAWC further contends that the purpose of the $10 charge is to recover the cost of turning on service to all new customers in a consistent manner and that the Company has supported its request for the $10 charge. (IAWC IB, pp. 115-116.) Staff, however, does not agree that the Company has fully supported the $10 charge. Not only was the supporting data provided to Staff minimal, but the Company has also not demonstrated why the $10 charge should be recovered as a separate charge instead of being recovered in base rates as in prior rate cases. Furthermore, Staff could not find a similar charge for any other water utility in the State. As such, Staff removed the revenue from the $10 charge from the cost of service ("COS") studies presented in the instant proceeding. (Staff IB, pp. 80-81.)

Staff continues to recommend that the Commission not approve Illinois-American's proposed $10 Customer Activation Charge for all of its Districts and order that it be eliminated in the Champaign District.

2. Sewer Collection Charge and Section 8-306(h)

In its Initial Brief, the Company submitted a proposed rate for residential sewer collection-only customers to comply with Section 8-306(h) of the Act, 220 ILCS 5/8-306(h). The Company initially proposed a flat rate of $17.60 per month for these customers and then, in response to AG witness Rubin's testimony, the Company proposed, in its Initial Brief, a low-volume charge with a 1,000 gallon allowance of $17.52 per month with a volumetric charge of $0.01355 per 1,000 gallons of usage. This was based on the average customer using 7,000 gallons of water per month. The Company states the change would be minimal from its originally-proposed flat rate. (IAWC IB, pp. 116-119.)

While the newly-proposed rate meets the requirements of Section 8-306(h) of the Act, it arrives too late. Moreover, the Company failed to provide adequate support for its position with data analysis and/or a cost benefit study on the implementation of such a rate. Staff, in its Initial Brief, recommended that the Commission order the Company to submit, within 30 days of the Final Order in this docket, the new proposed rate for Collection-Only Chicago Metro Sewer customers as a 45-day filing. Furthermore, it would be Staff's intent that such a filing would be suspended and an expedited hearing process would occur so that an appropriate rate could be determined with the input of interested parties. Staff also recognized that such a rate would be set outside of a rate case process, but thought that a fair determination of such a rate could be attained via this procedure. (Staff IB, pp. 83-84.) Nonetheless, the issue of single-issue ratemaking would presumably arise. (*See Citizens Utility Board v. Illinois Commerce Commission*, 166 Ill.2d 111, 138 (1995) ("The prohibition against single-issue ratemaking requires that, in a general base rate proceeding, the Commission must examine all elements of the revenue requirement formula to determine the interaction and overall impact any change *will* have on the utility's revenue requirement, including its return on investment.") (Emphasis in original.))

In light of the single-issue ratemaking concern, Staff suggests, as an alternative, that the issue could be determined during the rehearing process for this docket. In fact, the Commission could conclude in the Final Order that this issue should be reheard and direct the Company to file for rehearing on the issue. This alternative could alleviate any concerns regarding the determination of a rate outside of the rate case process.

3. "Across the board" increases vs. Staff COSS and Rate Design Proposals

Staff continues to recommend that rates be generally based on the results of the cost of service studies it prepared for this case. The arguments presented by various parties against Staff's proposed cost of service studies and the rates reflective of those studies are ill-conceived and should be rejected by the Commission. Staff will begin its discussion by addressing the cost of service issues that have been raised in this proceeding. Then, Staff will respond to those arguments that were raised concerning the proposed charges based on those studies.

Cost of Service

Staff has presented a reasonable set of cost of service studies which provide an appropriate foundation for ratemaking in this case. The reasonableness of those services studies is recognized by IAWC, which states that "…the Commission could reasonably establish rates based on moving toward the Staff cost of service studies (as corrected in Staff's rebuttal testimony)…" (IAWC IB, p. 119.)

Demand Study Data

The first set of cost of service issues concerns the demand study data used to derive factors for allocating costs in Staff's proposed cost of service studies. Both the AG and LWC find fault with this demand data.

The AG, for its part, contends that the Staff cost of service studies are deficient. The AG presents a number of criticisms, some applying to all of the studies developed by Staff, while others are directed toward individual cost studies. (AG IB, pp. 43-51.)

The AG's general concerns begin with the demand factors used in Staff's cost of service studies. The AG notes that the Commission directed the Company to file updated demand factors for each rate area to address cost of service study problems from its 2002 rate case (Order, Docket No. 02-0690, August 12, 2003, p. 120). Nevertheless, the AG contends that those demand factors "are incomplete and non-representative, and do not provide a valid basis" for developing cost of service study results. (AG IB, p. 43.)

One problem noted by both the AG and the LWC is that the Company did not provide demand factors for each rate area as directed by the Commission in Docket No. 02-0690, but instead relied on one set of results for the Interurban District in the southern part of the state. Both parties express concern that Staff's studies for each District rely on this single set of demand factors. (AG IB, pp. 43-44; LWC IB, p. 25.) The LWC further argues that "[t]here was no analysis or study performed to establish that the load patterns of customers in the Inter-Urban District were comparable to those of other IAWC districts." (LWC IB, p. 25.)

The AG also raises concerns about the demand data itself. One of the AG's concerns is that demands for the low density customers peak between midnight and 4:00 a.m. "when there is not ordinarily much residential activity." (AG IB, p. 45.) Nevertheless, Company witness Herbert confirmed that many homes in the area monitored have automatic sprinkler systems that turn on during early morning hours. Therefore, he concluded that the demand readings for these customers were accurate. (IAWC Exhibit 11.00, p. 6.)

The AG also raises concerns about how peak demands were summed up for the residential class. According to the AG, three separate sets of peak demands were determined for low, medium and high density customers on different days and then the peak demands on those different days were added together to establish a single residential peak. The AG argues that this approach would "exaggerate the residential demand ratios, thereby increasing cost allocation to that class". (AG IB, p. 46.)

In response to these concerns, the Company notes that the relevant peaks are not for the State as a whole but for individual systems. Thus, the Company argues that localized demands are relevant for planning purposes. According to IAWC witness Herbert, "[e]ach system has to meet peak demands on the specific day when that system peaks." (IAWC Exhibit 11.20, p. 5.) This means that in low density areas, low density residential demands are relevant, rather than the summation of low, medium and high demands. This is why separate peaks were identified for low, medium and high density customers and those peaks were summed together for the purpose of determining overall residential demands.

Furthermore, the AG argues that the residential demand data is distorted because the Company failed to weight the numbers of low, medium and high density residential customers used in the demand study to reflect the mix of these customers on the IAWC system. This failure, the AG argues, exaggerates the influence of low density demands in shaping overall residential demands. (AG IB, pp. 46-47.) So, for example, the AG notes that these low density customers account for 66% of the residential class peak day demand. (*Id.*, p. 45.)

AG witness Rubin makes a reasonable argument that demands should be weighted to reflect the actual mix of low, medium and high density customers on the IAWC system. To the extent that discrepancies arise, that will distort the cost of service study results. (AG Exhibit 3.10, pp 4-5.) Nevertheless, this deficiency is not sufficient to make the cost of service study results unsuitable for ratemaking in this case. The results of Staff's cost of service studies provide the most reasonable foundation for designing rates in this proceeding.

The LWC complains that the industrial demand data collected for the study is unrepresentative of the class. According to the LWC, the six companies used in the study represent less than 3% of IAWC's industrial customers across the State. Furthermore, the LWC claims that the load characteristics of individual companies in the study have not been demonstrated to reflect the class as a whole. (LWC IB, p. 26.)

The LWC also contends that the demand factors developed by IAWC are not consistent with industrial demand factors in neighboring States. (*Id.*, p. 27.) However, the Company notes that the neighboring demand studies cited by the LWC were not based on actual data from demand studies. (IAWC Exhibit 11.20, p. 3.) Thus, the demand data for IAWC's industrial customers is clearly more accurate.

The LWC also argues that the demand data is problematic because it produces load factors for industrial customers that are comparable to the commercial and residential classes. The LWC considers this unreasonable because residential and commercial customer load have poorer load factors "due to temperature, dry weather, air conditioning, etc." (LWC IB, p. 27.)

These complaints were also addressed by IAWC witness Herbert. He noted that while the relative industrial peak day extra capacity share increased when compared to the prior case peak factors, the relative industrial peak hour extra capacity share actually decreased from the peak factors used in the Company's last rate case. In addition, the Company's Schedule 11.21, which compares the current peak factors with the peak factors presented in the last rate case, demonstrates that the change to the industrial demand factors does not have a significant effect on the industrial class. (IAWC Exhibit 11.20, p. 3.) Furthermore, it should be noted that the LWC fails to explain in its Initial Brief why temperature, dry weather and air conditioning should produce lower water consumption load factors for commercial and residential customers than for industrial customers.

Finally, Staff acknowledges that the demand study data is not perfect. A single set of data is used for all areas of the State and residential low, medium and high density data is not weighted to reflect the characteristics of each service area. Nevertheless, the demand data provides the most reasonable basis for designing rates in this case. The alternative proposed by the AG and LWC is to ignore cost of service study results and simply increase existing charges on an across the board, equal percentage basis. However, this approach would base current rates on the rate structures developed in IAWC's previous rate case, Docket No. 02-0690. Those rates were developed from cost of service studies which, the LWC complained, relied on demand ratios that were more than five years old in that case. (Order, Docket No. 02-0690, August 12, 2003, p. 117.) Thus, the choice in this case is to base rates on cost studies using current data with its admitted imperfections, or to continue to rely on data more than a decade old by increasing current rates on an across the board, equal percentage basis. Clearly, the ratemaking approach based on current cost data is more reasonable.

Other Cost of Service Study Issues

Both the AG and LWC claim to have identified further problems in Staff's proposed cost of service studies. One general concern raised by the AG is Staff's calculation of fire costs. The AG notes that each Staff cost of service study, except for the Southern District, used the same maximum fire demand of 3,500 gallons per minute for three hours for determining fire flows. (AG IB, p.

49.) The AG claims that its witness, Mr. Rubin, demonstrated that the studies for the Champaign, Chicago Metro Water, Pekin, and Southern Districts underestimated fire demand. This underestimation, according to the AG, calls into question Staff's recommendation that private fire charges in those areas are too high. (*Id.*)

There are a number of intrinsic problems with Mr. Rubin's argument. For one, he bases his alternative formula from a 1966 source. (Staff IB, p. 104.) In the 40 plus years since that formula was developed, there have been a host of changes in building materials and fire prevention methods which would not be factored into his calculation. Since 1966, IAWC and other Illinois water utilities have filed many rate cases where the issue of fire flows was addressed. The Commission has had ample opportunity to consider the issue over that time and has determined the 3,500 gallons per minute fire flow proposed by Staff to be reasonable for all the IAWC systems based on its acceptance of the Staff cost of service study in the Company's last rate case, Docket No. 02-0690. Mr. Rubin has failed to demonstrate that there has been any meaningful change in circumstance since IAWC's last rate case, when the 3,500 gallons per minute standard was approved for all IAWC systems, to warrant the significant increase to fire flows he now proposes.

In addition, it should be noted that the AG proposal to increase rates on an equal percentage, across the board basis, would base proposed rates on the cost-based rates developed in Docket No. 02-0690. Those rates incorporated the same assumptions concerning fire flows as the Staff studies proposed in this case. Therefore, it is difficult to understand how the AG's criticisms of Staff's proposed fire flows justify across the board changes, rather than Staff's cost-based approach.

The AG also claims to have found unique problems with certain cost of service studies submitted in this docket. For example, the AG claims that the cost of service studies for the Champaign and Chicago Metro Water Districts develop a "negative allocation for administrative and general expenses for the meters and services categories," as well as for office furniture, while reporting a "substantial depreciation expense" for these same categories. The AG expresses concern that Staff relied on this Company data without addressing the anomalous results. (AG IB, pp. 49-50.)

The AG also notes that Staff lacked pumpage data for South Beloit and to fill this void used the pumpage data from the Pontiac area despite substantial differences in overall size and in the percentage of industrial and other customers. The AG also notes that IAWC did not provide Mr. Luth with expense data related to mains, services, meters and hydrants in these two districts which required Mr. Luth to develop estimates for these expenses. The AG contends that this produced further distortions in his studies. (*Id*, p. 50.)

The AG's concerns about Mr. Luth's cost of service adjustments should be rejected. Mr. Luth took the most reasonable steps necessary to develop a complete set of cost of service study results for South Beloit and Pontiac when confronted with a lack of Company-supplied data. The only alternative to Mr. Luth's actions would be no cost study results at all. Furthermore, the AG provides no evidence to indicate that the steps taken by Mr. Luth to complete his study were incorrect. The AG did not state, for example, what alternative pumpage data would be better for South Beloit. Nor does the AG provide any evidence that Mr. Luth's estimates of mains, services, meters and hydrants costs are unreasonable. Furthermore, the AG takes an inconsistent approach to the studies provided by Ms. Harden and Mr. Luth. The AG criticizes Ms. Harden for not revising Company-supplied data and then criticizes Mr. Luth when he does make revisions to his proposed cost studies.

The LWC contends that the cost of service study prepared for the Southern, Peoria, and Streator District is flawed because it improperly allocates small main costs among customers. The LWC's specific concern is that Staff employed construction advances to reduce the small main revenue requirement and thereby shift cost responsibility from smaller to larger customers. According to the LWC, construction advances should not be removed from the small mains revenue requirement because they are refunded by the Company to customers over time, and the advances apply to water mains, sewer mains, service drops, fire hydrants and other factors. (LWC IB, p. 28.)

Staff agrees that customer advances for construction should not have been an adjustment to the small mains net plant for the Southern, Peoria and Streator District. If the Commission agrees with Staff regarding cost of service and orders that rates should be set according to cost of service, then this correction should be made when determining new rates in compliance with the Commission's Order.

The LWC also claims that Staff's studies incorrectly allocate purchase power and chemicals costs based on base volume or average volume. Instead, the LWC argues, these expenses should have been allocated according to base demand, max-day demand and max-hour demand. According to the LWC, the Company's purchased power cost is driven both by energy and demand factors. The LWC contends that the price of electric delivery service for the Company is generally based on peak demand and, therefore, relates to peak hour demand, rather than average demand. The LWC argues that electric supply costs are priced differently in different months of the year and at different times of the day and are most likely to be incurred during peak days and peak hours when the volume of water pumped is greater. Thus, the LWC argues that purchase power costs should be allocated according to base demand, max-hour demand and max-day demand, rather than volumes as proposed by the Staff. (*Id.*, pp. 28-29.)

The LWC's arguments on this issue should clearly be rejected. The primary role of purchased power is to drive system pumps which operate throughout the year to replenish water consumed throughout the year. This is a clear and obvious case of year-round usage driving power costs. The LWC's argument concerning variations in electricity supply costs during different months and different times of the day fails to establish that electricity costs for IAWC are driven more by its peak demands than overall usage. Again, when pumping throughout the year contributes to purchased power costs, the appropriate allocators is base water usage.

The LWC also finds fault with the Staff study for allocating chemical costs on the basis of base demand or average volumes. The LWC argues that the combination of base demand, max-hour demand and max-day demand is more appropriate because greater volumes of water are moved during peak day and peak hour periods. (*Id.*, p. 29.)

LWC's argument does not make sense. The amount of chemicals used is a direct function of the water consumed. The utility does not provide more chemicals in the water during peak periods than other times of the year. Rather, the same amount is applied in each unit of water supplied. Thus, base usage is the clear and obvious allocator for these costs.

The AG's arguments for an across the board increase follow two paths. First, as previously discussed, the AG contends that Staff's cost of service studies are unreliable and, therefore, should not be appropriate for ratemaking. As a result, the AG proposes to increase rates on an across the board basis. The problems with this argument have been fully addressed herein. Staff also notes that the AG's alternative of increasing existing rates on an equal percentage, across the board basis, would base rates in this case on the rates developed in the Company's previous rate case, Docket No. 02-0690. Since those rates were based on cost studies prepared in that docket, the AG's proposal is to base rates in this case on a set of costs that is clearly out of date. Thus, Staff's proposed rates based on current costs are more appropriate.

Second, the AG argues that an across the board increase should be adopted because it "is more prudent and less disruptive to the public." The AG argues that changes should be minimized because IAWC consumers face increases in the costs of other utilities as well, citing in support "increases in electric charges, ICC Docket 07-0585-87 (Ameren); ICC Docket 07-0566 (Commonwealth Edison), and increases in natural gas charges, ICC Docket 07-0588-90 (Ameren); ICC Docket 07-0241/0242 (Peoples Gas and North Shore)." (AG IB, pp. 51-52.)

Staff agrees that this is a stressful time for IAWC ratepayers because they must not only contend with increases in water costs, but in many cases with rising electricity and gas costs, as well. Furthermore, they must deal with the rising cost of other energy products such as gasoline. Nevertheless, the issue to address in this proceeding is whether ratepayers are better served by cost-based rates, rather than across the board increases, on existing charges. Staff believes that whenever feasible the Commission should base rates on costs because that produces the fairest and most economically efficient results. While the Commission has focused on bill impacts for electric rates, given the unique experience since the expiration of the rate freeze on January 2, 2007, it remains committed to cost-based rates for other utility service. Under these circumstances, it would be most reasonable to base rates for IAWC ratepayers on cost of service, as well. The recent experience for IAWC ratepayers as a whole does not present overriding reasons to abandon this worthy objective.

The LWC bases its argument for an across the board increase on perceived failures in Staff's cost of service study results. (LWC IB, p. 30.) Those failures have been previously discussed and refuted herein. For all of those reasons, the LWC's proposal for an across the board increase is unjustified.

The AG attempts to counter Staff's proposed rate design by arguing that the disparate cost-based customer charges undermine the recommendation in Staff's testimony "that IAWC should move toward a common customer charge in Illinois." (AG IB, p. 55.) There is, however, no inconsistency in Staff's position. In fact, Staff clearly stated that any movement toward a common customer charge should be considered in IAWC's *next* rate case. The specific recommendation was that "the Company be directed to perform a cost of service analysis for its next rate case, that evaluates the appropriateness of a single set of customer service charges for its meter sizes and, if appropriate, to propose one customer charge for each meter size for its downstate customers." (ICC Staff Exhibit 6.0, pp. 30-31.) This future ratemaking task should not detour the Commission from the current task of basing rates on costs.

The LWC express concern about specific rate designs resulting from individual Staff cost of service studies. The LWC complains that Staff's proposed rate structure for Champaign increases the fourth volumetric rate block by 82.37% compared to a 41.9% in the first three rate blocks. As a result, the LWC contends that under Staff's original proposal in this case, the fourth volumetric block in the Champaign District would exceed the rate in the third volumetric block. The LWC argues this approach does not make sense considering small main cost allocation in the economies of scale that support a declining block rate design in the Champaign District. (LWC IB, pp. 23-24.)

In its Initial Brief, Staff explained that the intention was not to eliminate the declining fourth volumetric rate block or to discriminate against the industrial customers. However, based on Staff's COS two customer classes, Industrial and University of Illinois, were recovering just under 80% of COS. Staff proposed to move these two customer classes to 90% COS to more closely align with the other customer classes that pay over 100% of COS based on Staff's COS. (Staff IB, pp. 96 - 97.) Staff continues to recommend that rates based on Staff's COS study for the Champaign District should be approved by the Commission.

In its Initial Brief, the AG raises concerns about Staff's cost data for the Champaign and Chicago Metro COS studies, specifically that the studies developed negative allocations for some categories. (AG IB, p. 49.) Staff recognized that these negative allocations appeared to be incorrect. However, it is Staff's viewpoint that, in using the negative allocations in Staff's cost of service studies, it is likely that Staff's proposed customer charges are lower than, and Staff's proposed usage charges are higher than, would have resulted had the allocations been positive. Use of this data, as suggested by the AG, would have the effect of higher customer charges and lower usage charges than those proposed by Staff. Thus, while the COS studies should have been corrected for the data, as described by the AG, the issue is one of allocation of costs between the customer charges and the usage charges, which either way, will recover the approved revenue requirement.

Consequently, use of the negative allocations likely has minimal impact on Staff's proposed customer charges and usage rates and does not negate the use of the COS studies to determine rates in this docket. Therefore, Staff's COS studies for the Chicago Metro Water and the Champaign Water Districts should be used to determine rates for the Company.

The LWC also complains that Staff witness Luth takes an inconsistent approach to declining block rates, advocating their elimination in the Southern, Peoria and Streator District, while supporting their continued use in the Pontiac District. The LWC argues that Mr. Luth's proposed rates ignore rate impacts and thereby diverge from the principle of gradualism. Specifically, the LWC contends that large water users in the Southern, Peoria and Streator District would incur rate increases more than 2.5 times the increases for residential customers (approximately 12% v. 33%). (LWC IB, p. 24.)

In its Initial Brief, Staff explained that its updated cost of service study presented in rebuttal testimony determined new rates for the Southern, Peoria and Streator District that were much more aligned with the declining block structure that LWC had argued Staff's original rates eliminated. (LWC IB, pp. 23-24.) Staff believes that with the proposal of these rates, LWC's concerns have been addressed. (Staff IB, pp. 105-106.)

Staff continues to recommend that rates based on Staff's cost of service study for the Southern, Peoria and Streator District should be approved by the Commission.

4. Pontiac District Rate Design

IAWC argues that its rate design proposal for the Pontiac District complies with the Commission's Order in Docket No. 02-0690, wherein the Company was directed to move the Pontiac rate blocks to match the Southern, Peoria, and Streator (now SPSPSB) District block structure. Furthermore, the Company contends that Staff's proposal does not meet the intent of that Commission Order. (IAWC IB, pp. 119-120.) The AG argues that changes in the Pontiac rate design should be gradual to avoid rate shock and singling Pontiac customers out for disparate treatment. (AG IB, pp. 52-53.) Staff maintains that rates for all of Illinois-American's Districts should be determined based on cost of service studies. Moreover, Staff developed its own cost of service study for the Pontiac District in the instant proceeding, which was presented in ICC Staff Exhibit 7.0, Schedule 7.1. (Staff IB, pp. 97-99.)

Staff continues to recommend that the rates in Schedule 7.1 be adopted by the Commission for the Pontiac District because these rates are the only rates proposed that are supported by a COS study and because Staff's proposed rates place less emphasis on revenue recovery through the customer charge, and place more emphasis on revenue recovery through the usage charge.

5. South Beloit District Rate Design

IAWC argues that its proposal to combine the revenue requirement for the Southern, Peoria, Streator, Pontiac, and South Beloit Districts and develop an across the board increase will mitigate substantial rate impacts on South Beloit customers. Furthermore, the Company contends that under Staff's cost of service study proposal, there will be adverse rate consequences for South Beloit customers. (IAWC IB, pp. 120-121.) The AG argues that Staff's cost of service study for South Beloit is not based on sufficient or accurate data to justify the huge rate increases proposed by Staff. (AG IB, pp. 53-54.) Staff maintains that rates for all of Illinois-American's Districts should be determined based on cost of service studies. Moreover, Staff developed its own cost of service study for the South Beloit District in the instant proceeding, which was presented in ICC Staff Exhibit 7.0, Schedule 7.1. (Staff IB, pp. 99-101.)

Staff continues to recommend that the rates in Schedule 7.1 be adopted by the Commission for the South Beloit District because these rates are the only rates proposed that are supported by a COS study and because Staff's proposed rates place less emphasis on revenue recovery through the customer charge, and place more emphasis on revenue recovery through the usage charge.

The AG further argues that the cost study "cobbled together" by Mr. Luth is particularly problematic given the 56% increase proposed for residential customers. (AG IB, p. 54.) The problem is that the AG fails to identify specific problems that arise from the cost of service study prepared by Mr. Luth. Specifically, the AG fails to show how the steps taken by Mr. Luth adversely impact South Beloit residential customers. Thus, the choice boils down to a reasoned effort to construct a foundation based on current costs to design rates versus an across the board increase on rates reflective of a cost study that is clearly out of date. Consequently, Staff's proposed rate design based on current costs is more reasonable.

6. Southern District Competitive Customers Rate Design

In its Initial Brief, the Company notes that:

> Thus, during the test year, the rates applicable under the respective Competitive Service Tariffs for SIWC, SOWC and MEMJAWA will change in January, 2009; and the rate applicable to O'Fallon (if it were to again elect service under the Competitive Service Tariff) would change in August, 2008.

(IAWC IB, p. 123.)

Staff agrees that these competitive rates will change as described by the Company. (Staff IB, p. 101.) Staff and the Company are in agreement that projected rates, which will occur prior to, or during, the test year, should be considered in developing the revenue requirement, and the rates, of the retail customers who will support the revenue requirement. (*Id*.) Where the Company and Staff differ is that, for the Competitive Service Tariffs for SIWC, SOWC and MEMJAWA, the Company argues that the "amount of test year revenues attributed to this increase should be one-half of the annual amount for 2009, and the remainder of the test year revenues determined at one-half of the annual amount for 2008, to account for the fact that the new rate will only be in effect half of the test year." (IAWC IB, pp. 124-125.) Staff maintains that the rates established on January 1, 2009, for Competitive Service Tariffs for SIWC, SOWC and MEMJAWA will continue in effect for 12 months until January 1, 2010, and will likely increase at that time. (Staff IB, pp. 102-103.) Thus, Staff recommends that it is more reasonable that the annual revenues for calendar year 2009, based on new rates established on January 1, 2009, should be used to determine the final revenue requirement that retail customers must support through rates. (*Id.*)

Regarding the City of O'Fallon, Staff continues to recommend that the revenues attributed to the City of O'Fallon should reflect the annual amount that is projected to occur, under the conditions from the Competitive Service Tariff, for the 12 months of August 15, 2008, through August 14, 2009. This projected revenue amount should be also be used to determine the final revenue requirement that retail customers must support through rates. (*Id.,* p. 103.)

7. Private Fire Protection Charges

The AG's arguments, that the fire demands used in Staff's cost of service studies are too low (AG IB, p. 55), is simply incorrect. Staff has presented evidence in its Initial Brief that the AG has not supported its claims for higher fire demands. (Staff IB, pp. 103-104.)

Therefore, Staff relies on its Initial Brief arguments and evidence that the fire demands used in Staff's cost of service studies, and approved by the Commission in previous dockets, should be approved again for use in this docket.

8. Other

a. Southern, Peoria and Streator District Advances for Construction

In its Initial Brief, Staff agreed with LWC that customer advances for construction should not have been an adjustment to the small mains net plant for the Southern, Peoria and Streator District. (Staff IB, pp. 105-106.) It appears that no party addressed this issue in its Initial Brief.

Staff continues to recommend that if the Commission determines that rates be set according to cost of service, then this correction should be made when determining new rates in compliance with the Commission's Final Order.

b. Southern, Peoria and Streator District Rate Structure

As stated *supra* at V. Rate Design; Tariff Terms and Conditions, C. Contested Issues, 3. "Across the board" increases vs. Staff COSS and Rate Design Proposals, and in its Initial Brief, Staff explained that its updated cost of service study presented in rebuttal testimony determined new rates for the Southern, Peoria and Streator District that were much more aligned with the declining block structure that LWC had argued Staff's original rates eliminated (LWC IB, pp. 23-24). Staff believes that with the proposal of these rates, LWC's concerns have been addressed. (Staff IB, pp. 105-106.)

Staff continues to recommend that rates based on Staff's cost of service study for the Southern, Peoria and Streator District should be approved by the Commission.

c. Public Fire Protection Charges

The Company expresses concern about Staff's proposed fire protection charges based on the results of its cost of service studies. IAWC believes the following changes to fire protection charges are unacceptable:

- For the Champaign District, a decrease to public fire revenues of almost 30%, where other classes are receiving increases in the 50% to 70% range.
- For the Sterling District, the decrease to public fire revenues of almost 36%, where other classes are receiving increases in the 35% to 50% range.
- For the Pekin District, the decrease to private fire revenues of about 20%, where other classes are receiving increases in the 14% to 27% range.
- For the Southern service district, the decrease to public and private fire revenues of 5.6% and 36.8%, where other classes are receiving increases in the 15% to 32% range.
- For the South Beloit service district, an increase to public fire revenues of 290.1%.

(IAWC IB, pp. 126-127.)

The Company acknowledges that each of these changes is supported by Staff's cost of service studies. Nevertheless, IAWC contends that if Staff's cost studies are accepted, fire protection rates should remain at current levels to mitigate the impact of the rate increases in the various Districts. (*Id.*, p. 127.)

The Company also acknowledges Staff's argument that Section 9-223 of the Act requires fire protection charges to reflect the costs associated with providing fire protection service. While the language of Section 9-223 of the Act requires that fire protection charges be "sufficient to cover a reasonable portion of the cost of providing the capacity, facilities and the water necessary to meet the fire protection needs of any municipality or public fire protection district," IAWC argues that the cost of providing fire protection service is not the sole consideration for the Commission. The Company contends that the Commission has previously declined to adopt fire protection charges based strictly on cost of service when faced with the issue of ratepayer impacts. Thus, IAWC believes fire protection charges should not just consider the cost of service, but should also serve to mitigate ratepayer impacts. As a result, if the Commission adopts Staff's COS studies, the Company proposes to: (1) limit the increase in fire protection charges for South Beloit to 100%; and (2) leave fire protection rates at present rates for all other Districts. (*Id*.)

While Staff is sympathetic with the Company's concerns from the standpoint of bill impacts and rate continuity, it is bound by the provisions of the Act, which does not provide any leeway on this issue. According to Section 9-223 of the Act, "Any fire protection charge imposed shall reflect the costs associated with providing fire protection service for each municipality or fire protection district." This language mandates that fire protection charges be based on costs. The Company's proposal to maintain charges at current levels would clearly deviate from this requirement. Fire protection charges, consequently, are required to be set at cost, even if that exacerbates problems associated with rate continuity or bill impacts. Regardless of what is the best interpretation of the requirements of Section 9-223 of the Act, Staff believes the Company would agree that it is not appropriate to charge "more than" the total cost of service that is determined. Yet, the Company's proposal would result in the public fire protection charges being above the cost of service.

The Company acknowledges that "Staff's COSS would support the referenced increases or decreases in public and private fire protections rates…" (*Id*., p. 126.) Staff's COS study, however, shows that public fire protection charges are above the cost of service. Consequently, logic dictates that "more than" a reasonable portion of the cost is being recovered in those public fire protection charges. In sum, if Staff's cost of service study is approved, then the public fire protection charges determined by the COS study should also be approved regardless of the amount of increase or decrease.

For the reasons set forth in its Initial Brief and this Reply Brief, Staff respectfully requests that the Commission's Order in the instant proceeding reflect Staff's modifications to the Company's proposed general increase in water and sewer rates.

Respectfully submitted,

Linda M. Buell

LINDA M. BUELL
MICHAEL J. LANNON

Counsel for the Staff of the Illinois
Commerce Commission

May 6, 2008

LINDA M. BUELL
Office of General Counsel
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62701
Phone: (217) 557-1142
Fax: (217) 524-8928
E-mail: lbuell@icc.illinois.gov

MICHAEL J. LANNON
Office of General Counsel
Illinois Commerce Commission
160 North LaSalle, Ste. C-800
Chicago, IL 60601
Phone: (312) 814-4368
Fax: (312) 793-1556
E-mail: mlannon@icc.illinois.gov

Illinois-American Water Company
Southern/Peoria/Streator/Pontiac/South Beloit
Statement of Operating Income with Adjustments
For the Test Year Ending June 30, 2009

Line No.	Description	Company Rebuttal Pro Forma Present (IAWC Ex. 6.11)	Staff Adjustments (Appendix A Sch. 2-SPSPSB)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (IAWC Ex. 6.11)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	$ 89,766,720	$ -	$ 89,766,720	$ 17,379,392	$ (6)	$ 107,146,106	$ (2,835,882)	$ 104,310,224
2	Miscellaneous Revenue	905,396	(67,000)	838,396	-	-	838,396	-	838,396
3	Total Operating Revenue	90,672,116	(67,000)	90,605,116	17,379,392	(6)	107,984,502	(2,835,882)	105,148,620
4	Uncollectible Accounts Expense	1,008,055	-	1,008,055	189,314	-	1,197,369	(30,891)	1,166,478
5	Labor	13,259,581	(840,130)	12,419,451	-	-	12,419,451	-	12,419,451
6	Fuel & Power	4,965,797	-	4,965,797	-	-	4,965,797	-	4,965,797
7	Chemicals	3,870,198	-	3,870,198	-	-	3,870,198	-	3,870,198
8	Waste Disposal	843,244	-	843,244	-	-	843,244	-	843,244
9	Management Fees	10,373,670	-	10,373,670	-	-	10,373,670	-	10,373,670
10	Group Insurance	3,869,694	-	3,869,694	-	-	3,869,694	-	3,869,694
11	Pensions	980,349	-	980,349	-	-	980,349	-	980,349
12	Regulatory Expense	263,846	-	263,846	-	-	263,846	-	263,846
13	Insurance - other	2,458,048	-	2,458,048	-	-	2,458,048	-	2,458,048
14	Customer Accounting	987,757	-	987,757	-	-	987,757	-	987,757
15	Rents	195,854	-	195,854	-	-	195,854	-	195,854
16	General Office Expense	1,019,339	-	1,019,339	-	-	1,019,339	-	1,019,339
17	Maintenance - other	3,560,020	(113,516)	3,446,504		-	3,446,504	-	3,446,504
18	Miscellaneous	4,057,147	-	4,057,147	-	-	4,057,147	-	4,057,147
19	Depreciation & Amortization	18,187,533	-	18,187,533	-	-	18,187,533	-	18,187,533
20	Taxes other than Income	6,216,816	(64,270)	6,152,546	-	-	6,152,546	-	6,152,546
21	Total Operating Expense								
22	Before Income Taxes	76,116,948	(1,017,916)	75,099,032	189,314	-	75,288,346	(30,891)	75,257,455
23	State Income Tax	133,948	43,342	177,290	733,844	1	911,135	(119,745)	791,390
24	Federal Income Tax	1,059,025	340,170	1,399,195	5,759,691	(6)	7,158,880	(939,837)	6,219,043
25	Deferred Taxes and ITCs Ne	697,536	-	697,536	-	-	697,536	-	697,536
26	Total Operating Expenses	78,007,457	(634,404)	77,373,053	6,682,849	(5)	84,055,897	(1,090,473)	82,965,424
27	NET OPERATING INCOME	$ 12,664,659	$ 567,404	$ 13,232,063	$ 10,696,543	$ (1)	$ 23,928,605	$ (1,745,409)	$ 22,183,196
28	Staff Rate Base (Appendix A, Schedule 3-SPSPSB, Column (d))								$ 282,588,490
29	Staff Overall Rate of Return (ICC Staff Exhibit 14.0, Schedule 14.6)								7.85%
30	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								$ 14,543,504
31	Percentage Revenue Change (Col. (i), Line 30 divided by Col. (d), Line 3)								16.05%

Illinois-American Water Company
Adjustments to Operating Income
For the Test Year Ending June 30, 2009
Southern/Peoria/Streator/Pontiac/South Beloit

Line No.	Description	Interest Synchronization (Appendix A Sch. 5-SPSPSB)	COMPANY ACCEPTED Utility Plant-in-Service (Staff Ex. 1.0 Sch. 1.7-SPSPSB)	COMPANY ACCEPTED Depreciation Expense (Staff Ex. 1.0 Sch. 1.8-SPSPSB)	Deferred Tank Painting (Staff R. Brief)	COMPANY ACCEPTED Advertising Expense (Staff Ex. 2.0 Sch. 2.2-SPSPSB)	Incentive Compensation (Staff Ex. 13.0 Sch. 13.1-SPSPSB)	Revenue Adjustment (Staff Ex. 11.0 Sch. 11.8-SPSPSB)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Miscellaneous Revenue	-	-	-	-	-	-	(67,000)	(67,000)
3	Total Operating Revenue	-	-	-	-	-	-	(67,000)	(67,000)
4	Uncollectible Accounts Expense	-	-	-	-	-	-	-	-
5	Labor	-	-	-	-	-	(840,130)		(840,130)
6	Fuel & Power	-	-	-	-	-	-	-	-
7	Chemicals	-	-	-	-	-	-	-	-
8	Waste Disposal	-	-	-	-	-	-	-	-
9	Management Fees	-	-	-	-	-	-	-	-
10	Group Insurance	-	-	-	-	-	-	-	-
11	Pensions	-	-	-	-	-	-	-	-
12	Regulatory Expense	-	-	-	-	-	-	-	-
13	Insurance - other	-	-	-	-	-	-	-	-
14	Customer Accounting	-	-	-	-	-	-	-	-
15	Rents	-	-	-	-	-	-	-	-
16	General Office Expense	-	-	-	-	-	-	-	-
17	Maintenance - other	-	-	-	(113,516)	-	-	-	(113,516)
18	Miscellaneous	-	-	-	-	-	-	-	-
19	Depreciation & Amortization	-	-	-	-	-	-	-	-
20	Taxes other than Income	-	-	-	-	-	(64,270)	-	(64,270)
21	Total Operating Expense								
22	Before Income Taxes	-	-	-	(113,516)	-	(904,400)	-	(1,017,916)
23	State Income Tax	2,747	-	-	4,846	-	38,609	(2,860)	43,342
24	Federal Income Tax	21,557	-	-	38,035	-	303,027	(22,449)	340,170
25	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
26	Total Operating Expenses	24,304	-	-	(70,635)	-	(562,764)	(25,309)	(634,404)
27	NET OPERATING INCOME	$ (24,304)	$ -	$ -	$ 70,635	$ -	$ 562,764	$ (41,691)	$ 567,404

Illinois-American Water Company
Southern/Peoria/Streator/Pontiac/South Beloit
Rate Base
For the Test Year Ending June 30, 2009

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Line No.	Description	Company Rebuttal Pro Forma Rate Base (IAWC 6.13)	Staff Adjustments (Appendix A Sch. 4-SPSPSB)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant in Service	$ 542,326,135	$ -	$ 542,326,135
2	Less: Accumulated Depreciation	(196,419,011)	-	(196,419,011)
3	Net Utility Plant in Service	345,907,124	-	345,907,124
4	Construction Work in Progress	$ -	$ -	$ -
5	Utility Plant Acquisition Adj. - DuPage	-	-	-
6	Additions to Rate Base			
7	Cash Working Capital	1,900,237	(64,416)	1,835,821
8	Materials & Supplies	1,909,712	-	1,909,712
9	Deferred Charges - Tank Painting	5,225,684	(170,392)	5,055,292
10	FAS 109 Reg. Asset-Net of Liability	186,030	-	186,030
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Customer Advances	(34,708,116)	-	(34,708,116)
18	Pension Liability	(2,773,805)	-	(2,773,805)
19	OPEB Liability	(1,263,388)	-	(1,263,388)
20	Contributions in Aid of Construction	(27,969,377)	-	(27,969,377)
21	Accum. Depr. On CIAC	9,881,663	-	9,881,663
22	Budget Payment Plan	(6,973)	-	(6,973)
23	Deferred Federal Income Taxes	(14,197,968)	-	(14,197,968)
24	Deferred State Income Taxes	(1,263,314)	-	(1,263,314)
25	Investment Tax Credit - pre 1971	(4,211)	-	(4,211)
26	Rate Base	$ 282,823,298	$ (234,808)	$ 282,588,490

Illinois-American Water Company
Adjustments to Rate Base
For the Test Year Ending June 30, 2009
Southern/Peoria/Streator/Pontiac/South Beloit

Line No.	Description	COMPANY ACCEPTED Utility Plant-in-Service (Staff Ex. 1.0 Sch. 1.7-SPSPSB)	COMPANY ACCEPTED Depreciation Expense (Staff Ex. 1.0 Sch. 1.8-SPSPSB)	Deferred Tank Painting (Staff R. Brief)	Cash Working Capital (Appendix A Sch. 7-SPSPSB)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(e)	(f)	(f)	(g)	(h)	(i)
1	Gross Utility Plant in Service	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Less: Accumulated Depreciation	-	-	-	-	-	-	-	-
3	Net Utility Plant in Service	-	-	-	-	-	-	-	-
4	Construction Work in Progress	-	-	-	-	-	-	-	-
5	Utility Plant Acquisition Adj. - DuPage	-	-	-	-	-	-	-	-
6	Additions to Rate Base								
7	Cash Working Capital	-	-	-	(64,416)	-	-	-	(64,416)
8	Materials & Supplies	-	-	-	-	-	-	-	-
9	Deferred Charges - Tank Painting	-	-	(170,392)	-	-	-	-	(170,392)
10	FAS 109 Reg. Asset-Net of Liability	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-
16	Deductions From Rate Base								
17	Customer Advances	-	-	-	-	-	-	-	-
18	Pension Liability	-	-	-	-	-	-	-	-
19	Contributions in Aid of Construction	-	-	-	-	-	-	-	-
20	Accum. Depr. On CIAC	-	-	-	-	-	-	-	-
21	Budget Payment Plan	-	-	-	-	-	-	-	-
22	Deferred Federal Income Taxes	-	-	-	-	-	-	-	-
23	Deferred State Income Taxes	-	-	-	-	-	-	-	-
24	Investment Tax Credit - pre 1971	-	-	-	-	-	-	-	-
25	Rate Base	$ -	$ -	$ (170,392)	$ (64,416)	$ -	$ -	$ -	$ (234,808)

Illinois-American Water Company
Interest Synchronization Adjustment
For the Test Year Ending June 30, 2009
Southern/Peoria/Streator/Pontiac/South Beloit

Line No.	Description	Amount	
	(a)	(b)	
1	Gross Utility Plant in Service	$ 282,588,490	(1)
2	Weighted Cost of Debt	3.31%	(2)
3	Synchronized Interest Per Staff	9,353,679	
4	Company Interest Expense	9,418,016	(3)
5	Increase (Decrease) in Interest Expense	(64,337)	
6	Increase (Decrease) in State Income Tax Expense		
7	at 4.269%	$ 2,747	
8	Increase (Decrease) in Federal Income Tax Expense		
9	at 35.000%	$ 21,557	

(1) Source: Appendix A, Schedule 3-SPSPSB, Column (d).
(2) Source: ICC Staff Exhibit 14.0, Schedule 14.6.
(3) Source: IAWC Exhibit 6.15.

Illinois-American Water Company

Gross Revenue Conversion Factor

For the Test Year Ending June 30, 2009
Southern/Peoria/Streator/Pontiac/South Beloit

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	1.0893%	0.010893	
3	State Taxable Income		0.989107	1.000000
4	State Income Tax	4.2690%	0.042225	0.042690
5	Federal Taxable Income		0.946882	0.957310
6	Federal Income Tax	35.0000%	0.331409	0.335059
7	Operating Income		0.615473	0.622251
8	Gross Revenue Conversion Factor Per Staff		1.624767	1.607069

Illinois-American Water Company
Southern/Peoria/Streator/Pontiac/South Beloit
Cash Working Capital Adjustment
For the Test Year Ended June 30, 2009

Line No.	Item	Amount [1]	Average Daily Amount (C)/365	Expense (Lead)/Lag [2]	Cash Requirement (D)*(E)	Source
(A)	(B)	(C)	(D)	(E)	(F)	(G)
1	Revenue	$ 105,453,345				Appendix A, Sch. 7-SPSPSB, page 2, line 3
2	Return on Equity	(9,702,930)				Appendix A, Sch. 7-SPSPSB, page 2, line 19
3	Non-cash OPEB expenses	-				
4	Uncollectible Accounts	(1,166,478)				
5	Total Depr/Amortization	(18,886,708)				Appendix A, Sch. 7-SPSPSB, page 2, line 13
6						
7	Net Revenues	$ 75,697,229	$ 207,390	45.95	$ 9,530,453	
8						
9	Labor	$ 12,419,451	$ 34,026	(12.00)	$ (408,311)	
10	Fuel and Power	4,965,797	13,605	(27.08)	(368,363)	
11	Chemicals	3,870,198	10,603	(44.33)	(470,059)	Appendix A, Sch. 7-SPSPSB, page 2, line 9
12	Purchased Water	287,112	787	(7.83)	(6,163)	Co. Sch. C-2.9 First Revised, line 9
13	Waste Disposal	843,244	2,310	(33.82)	(78,141)	
14	Service Company Charges	10,373,670	28,421	3.11	88,308	
15	Group Insurance	3,869,694	10,602	7.42	78,631	
16	OPEB's	-	-	-	-	
17	Pensions	980,349	2,686	(8.00)	(21,487)	
18	Insurance Other than Group	2,458,048	6,734	0.00	-	
19	Customer Accounting	987,757	2,706	(32.48)	(87,890)	
20	Rents	195,854	537	8.00	4,290	
21	General Office	1,019,339	2,793	(16.94)	(47,310)	
22	Maintenance	3,011,175	8,250	(23.51)	(193,987)	Appendix A, Sch. 7-SPSPSB, page 2, line 16
23	Miscellaneous	4,057,147	11,115	(16.82)	(186,987)	
24						
25	Total O&M Expenses	$ 49,338,835			(1,697,470)	
26						
27	General Taxes	6,152,546	16,856	(163.34)	(2,753,298)	
28	Federal Income Tax - Current	6,219,043	17,038	(53.96)	(919,396)	
29	State Income Tax - Current	791,390	2,168	(53.96)	(116,996)	
30	Deferred Income Taxes	697,536	1,911	-	-	
31	Interest Expense	9,353,679	25,627	(86.14)	(2,207,472)	Appendix A, Sch. 5-SPSPSB, line 3
32						
33	Subtotal Other Expenses	$ 23,214,194			(5,997,162)	
34						
35	Total Cash Working Capital Requirement				$ 1,835,821	Line 7+line 25+line 33
36						
37	Cash Working Capital per Staff	$ 1,835,821				Line 35
38	Cash Working Capital per Company	$ 1,900,237				IAWC Exhibit 6.13 SPSPSB District
39						
40	Staff Proposed adjustment	$ (64,416)				

Source:
(1) Appendix A, Sch. 1-SPSPSB, except where noted

Illinois-American Water Company
Southern/Peoria/Streator/Pontiac/South Beloit
Cash Working Capital Adjustment
For the Test Year Ended June 30, 2009

Line No. (A)	Item (B)	Amount (C)	Source (D)
1	Total operating revenue	$ 105,148,620	Appendix A, Sch. 1-SPSPSB, line 3, column (i)
2	Surcharge revenue	304,725	Co. Sch. C-2.9 First Revised, line 4
3	Total revenue	$ 105,453,345	
4	Chemical expense CWC per Co.	$ (287,145)	Co. Sch. B-8 First Revised, page 2, line 11
5	Avg. daily chemical expense per Co.	$ 10,603	Co. Sch. B-8 First Revised, page 2, line 11
6	Chemical expense lead days per Co.	(27.08)	Line 4 / Line 5
7	Billing lag days	(2.00)	Co. Workpapers WPB-8e, WPB-8g, WPB-8h
8	Service period midpoint	(15.25)	Co. Workpapers WPB-8e, WPB-8g, WPB-8h
9	Chemical expense lead days per Staff	(44.33)	Sum of lines 6 through 8
10	Depr/amortization per Income Statement	$ 18,187,533	Appendix A, Sch. 1-SPSPSB, line 19, column (i)
11	Amortization of rate case expense	263,846	Appendix A, Sch. 1-SPSPSB, line 12, column (i)
12	Amortization of tank painting	435,329	Staff Ex. 12.0-C, Sch. 12.1-SPSPSB (Corrected), line 4
13	Total depr/amortization for CWC	$ 18,886,708	Sum of lines 10 through 12
14	Maintenance-other per Income Statement	$ 3,446,504	Appendix A, Sch. 1-SPSPSB, line 17, column (i)
15	Reclassify amortization of tank painting	(435,329)	Line 12
16	Total Maintenance-other for CWC	$ 3,011,175	
17	Total Return on Rate Base	$ 22,183,196	Appendix A, Sch. 1-SPSPSB, line 27, column (i)
18	Equity component of capital structure	43.74%	Staff Ex. 14.0, Sch. 14.6
19	Return on equity deduction from revenue	$ 9,702,930	

Illinois-American Water Company
Chicago Metro - Water
Statement of Operating Income with Adjustments
For the Test Year Ending June 30, 2009

Line No.	Description	Company Rebuttal Pro Forma Present (IAWC Ex. 6.11)	Staff Adjustments (Appendix A Sch. 2-CMW)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (IAWC Ex. 6.11)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	$ 24,835,268	$ -	$ 24,835,268	$ 2,641,448	$ -	$ 27,476,716	$ (880,156)	$ 26,596,560
2	Miscellaneous Revenue	595,283	80,000	675,283	-	-	675,283	-	675,283
3	Total Operating Revenue	25,430,551	80,000	25,510,551	2,641,448	-	28,151,999	(880,156)	27,271,843
4	Uncollectible Accounts Expense	421,949	-	421,949	28,773	-	450,722	(9,588)	441,134
5	Labor	3,831,011	(196,056)	3,634,955	-	-	3,634,955	-	3,634,955
6	Fuel & Power	390,421	-	390,421	-	-	390,421	-	390,421
7	Chemicals	18,657	-	18,657	-	-	18,657	-	18,657
8	Waste Disposal	-	-	-	-	-	-	-	-
9	Management Fees	1,970,079	-	1,970,079	-	-	1,970,079	-	1,970,079
10	Group Insurance	1,043,963	-	1,043,963	-	-	1,043,963	-	1,043,963
11	Pensions	257,081	-	257,081	-	-	257,081	-	257,081
12	Regulatory Expense	50,107	-	50,107	-	-	50,107	-	50,107
13	Insurance - other	466,812	-	466,812	-	-	466,812	-	466,812
14	Customer Accounting	175,876	-	175,876	-	-	175,876	-	175,876
15	Rents	533,806	-	533,806	-	-	533,806	-	533,806
16	General Office Expense	474,445	-	474,445	-	-	474,445	-	474,445
17	Maintenance - other	1,318,131	(38,393)	1,279,738		-	1,279,738	-	1,279,738
18	Miscellaneous	1,017,666	-	1,017,666	-	-	1,017,666	-	1,017,666
19	Depreciation & Amortization	5,466,198	-	5,466,198	-	-	5,466,198	-	5,466,198
20	Taxes other than Income	1,714,807	(14,998)	1,699,809	-	-	1,699,809	-	1,699,809
21	Total Operating Expense								
22	Before Income Taxes	19,151,009	(249,447)	18,901,562	28,773	-	18,930,335	(9,588)	18,920,747
23	State Income Tax	123,831	15,081	138,912	111,535	-	250,447	(37,165)	213,282
24	Federal Income Tax	974,280	118,367	1,092,647	875,400	-	1,968,047	(291,692)	1,676,355
25	Deferred Taxes and ITCs Net	218,224	-	218,224	-	-	218,224	-	218,224
26	Total Operating Expenses	20,467,344	(115,999)	20,351,345	1,015,708	-	21,367,053	(338,445)	21,028,608
27	NET OPERATING INCOME	$ 4,963,207	$ 195,999	$ 5,159,206	$ 1,625,740	$ -	$ 6,784,946	$ (541,711)	$ 6,243,235
28	Staff Rate Base (Appendix A, Schedule 3-CMW, Column (d))								$ 79,531,641
29	Staff Overall Rate of Return (ICC Staff Exhibit 14.0, Schedule 14.6)								7.85%
30	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								$ 1,761,292
31	Percentage Revenue Change (Col. (i), Line 30 divided by Col. (d), Line 3)								6.90%

Illinois-American Water Company
Adjustments to Operating Income
For the Test Year Ending June 30, 2009
Chicago Metro - Water

Line No.	Description	Interest Synchronization (Appendix A Sch. 5-CMW)	COMPANY ACCEPTED Utility Plant-in-Service (Staff Ex. 1.0 Sch. 1.7-CMW)	COMPANY ACCEPTED Depreciation Expense (Staff Ex. 1.0 Sch. 1.8-CMW)	Deferred Tank Painting (Staff R. Brief)	COMPANY ACCEPTED Advertising Expense (Staff Ex. 2.0 Sch. 2.2-CMW)	Incentive Compensation (Staff Ex. 13.0 Sch. 13.1-CMW)	Revenue Adjustment (Staff Ex. 11.0 Sch. 11.8-CMW)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Miscellaneous Revenue	-	-	-	-	-	-	80,000	80,000
3	Total Operating Revenue	-	-	-	-	-	-	80,000	80,000
4	Uncollectible Accounts Expense	-	-	-	-	-	-	-	-
5	Labor	-	-	-	-	-	(196,056)	-	(196,056)
6	Fuel & Power	-	-	-	-	-	-	-	-
7	Chemicals	-	-	-	-	-	-	-	-
8	Waste Disposal	-	-	-	-	-	-	-	-
9	Management Fees	-	-	-	-	-	-	-	-
10	Group Insurance	-	-	-	-	-	-	-	-
11	Pensions	-	-	-	-	-	-	-	-
12	Regulatory Expense	-	-	-	-	-	-	-	-
13	Insurance - other	-	-	-	-	-	-	-	-
14	Customer Accounting	-	-	-	-	-	-	-	-
15	Rents	-	-	-	-	-	-	-	-
16	General Office Expense	-	-	-	-	-	-	-	-
17	Maintenance - other	-	-	-	(38,393)	-	-	-	(38,393)
18	Miscellaneous	-	-	-	-	-	-	-	-
19	Depreciation & Amortization	-	-	-	-	-	-	-	-
20	Taxes other than Income	-	-	-	-	-	(14,998)	-	(14,998)
21	Total Operating Expense								
22	Before Income Taxes	-	-	-	(38,393)	-	(211,054)	-	(249,447)
23	State Income Tax	1,017	-	-	1,639	-	9,010	3,415	15,081
24	Federal Income Tax	7,982	-	-	12,864	-	70,716	26,805	118,367
25	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
26	Total Operating Expenses	8,999	-	-	(23,890)	-	(131,328)	30,220	(115,999)
27	NET OPERATING INCOME	$ (8,999)	$ -	$ -	$ 23,890	$ -	$ 131,328	$ 49,780	$ 195,999

Illinois-American Water Company
Chicago Metro - Water
Rate Base
For the Test Year Ending June 30, 2009

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Line No.	Description	Company Rebuttal Pro Forma Rate Base (IAWC 6.13)	Staff Adjustments (Appendix A Sch. 4-CMW)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant in Service	$ 191,137,648	$ -	$ 191,137,648
2	Less: Accumulated Depreciation	$ (67,418,331)	-	(67,418,331)
3	Net Utility Plant in Service	123,719,317	-	123,719,317
4	Construction Work in Progress	$ -	$ -	$ -
5	Utility Plant Acquisition Adj. - DuPage	117,212	-	117,212
		-		
6	Additions to Rate Base	-		
7	Cash Working Capital	1,345,502	(22,326)	1,323,176
8	Materials & Supplies	217,211	(62,555)	154,656
9	Deferred Charges - Tank Painting	1,888,986	(152,831)	1,736,155
10	FAS 109 Reg. Asset-Net of Liability	35,329	-	35,329
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base	-	-	
17	Customer Advances	(22,936,396)	-	(22,936,396)
18	Pension Liability	(719,521)	-	(719,521)
19	OPEB Liability	(327,721)	-	(327,721)
20	Contributions in Aid of Construction	(30,695,408)	-	(30,695,408)
21	Accum. Depr. On CIAC	12,558,317	-	12,558,317
22	Budget Payment Plan	-	-	-
23	Deferred Federal Income Taxes	(4,988,781)	-	(4,988,781)
24	Deferred State Income Taxes	(443,894)	-	(443,894)
25	Investment Tax Credit - pre 1971	(800)	-	(800)
26	Rate Base	$ 79,769,353	$ (237,712)	$ 79,531,641

Illinois-American Water Company
Adjustments to Rate Base
For the Test Year Ending June 30, 2009
Chicago Metro - Water

Line No.	Description	COMPANY ACCEPTED Utility Plant-in-Service (Staff Ex. 1.0 Sch. 1.7-CMW)	COMPANY ACCEPTED Depreciation Expense (Staff Ex. 1.0 Sch. 1.8-CMW)	Deferred Tank Painting (Staff R. Brief)	Cash Working Capital (Appendix A Sch. 7-CMW)	Chicago Metro-Water Materials & Supplies (IAWC Ex. 6.30)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Utility Plant in Service	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Less: Accumulated Depreciation	-	-	-	-	-	-	-	-
3	Net Utility Plant in Service	-	-	-	-	-	-	-	-
4	Construction Work in Progress	-	-	-	-	-	-	-	-
5	Utility Plant Acquisition Adj. - DuPage	-	-	-	-	-	-	-	-
6	Additions to Rate Base								
7	Cash Working Capital	-	-	-	(22,326)	-	-	-	(22,326)
8	Materials & Supplies	-	-	-	-	(62,555)	-	-	(62,555)
9	Deferred Charges - Tank Painting	-	-	(152,831)	-	-	-	-	(152,831)
10	FAS 109 Reg. Asset-Net of Liability	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-
16	Deductions From Rate Base								
17	Customer Advances	-	-	-	-	-	-	-	-
18	Pension Liability	-	-	-	-	-	-	-	-
19	Contributions in Aid of Construction	-	-	-	-	-	-	-	-
20	Accum. Depr. On CIAC	-	-	-	-	-	-	-	-
21	Budget Payment Plan	-	-	-	-	-	-	-	-
22	Deferred Federal Income Taxes	-	-	-	-	-	-	-	-
23	Deferred State Income Taxes	-	-	-	-	-	-	-	-
24	Investment Tax Credit - pre 1971	-	-	-	-	-	-	-	-
25	Rate Base	$ -	$ -	$ (152,831)	$ (22,326)	$ (62,555)	$ -	$ -	$ (237,712)

Illinois-American Water Company
Interest Synchronization Adjustment
For the Test Year Ending June 30, 2009
Chicago Metro - Water

Line No.	Description	Amount	
	(a)	(b)	
1	Gross Utility Plant in Service	$ 79,531,641	(1)
2	Weighted Cost of Debt	3.31%	(2)
3	Synchronized Interest Per Staff	2,632,497	
4	Company Interest Expense	2,656,319	(3)
5	Increase (Decrease) in Interest Expense	(23,822)	
6	Increase (Decrease) in State Income Tax Expense		
7	at 4.269%	$ 1,017	
8	Increase (Decrease) in Federal Income Tax Expense		
9	at 35.000%	$ 7,982	

(1) Source: Appendix A, Schedule 3-CMW Column (d).
(2) Source: ICC Staff Exhibit 14.0, Schedule 14.6.
(3) Source: IAWC Exhibit 6.15.

Illinois-American Water Company
Gross Revenue Conversion Factor
For the Test Year Ending June 30, 2009
Chicago Metro - Water

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	1.0893%	0.010893	
3	State Taxable Income		0.989107	1.000000
4	State Income Tax	4.2690%	0.042225	0.042690
5	Federal Taxable Income		0.946882	0.957310
6	Federal Income Tax	35.0000%	0.331409	0.335059
7	Operating Income		0.615473	0.622251
8	Gross Revenue Conversion Factor Per Staff		1.624767	1.607069

Illinois-American Water Company
Chicago Metro - Water
Adjustment to Cash Working Capital
For the Test Year Ended June 30, 2009

Line No.	Item	Amount [1]	Average Daily Amount (C)/365	Expense (Lead)/Lag [2]	Cash Requirement (D)*(E)	Source
(A)	(B)	(C)	(D)	(E)	(F)	(G)
1	Revenue	$ 40,815,075				Appendix A, Sch. 7-CMW, page 2, line 3
2	Return on Equity	(2,730,791)				Appendix A, Sch. 7-CMW, page 2, line 19
3	Non-cash OPEB expenses	-				
4	Uncollectible Accounts	(441,134)				
5	Total Depr/Amortization	(5,634,222)				Appendix A, Sch. 7-CMW, page 2, line 13
6						
7	Net Revenues	$ 32,008,928	$ 87,696	49.80	$ 4,367,324	
8						
9	Labor	$ 3,634,955	$ 9,959	(12.00)	$ (119,505)	
10	Fuel and Power	390,421	1,070	(28.51)	(30,493)	
11	Chemicals	18,657	51	(75.50)	(3,859)	Appendix A, Sch. 7-CMW, page 2, line 9
12	Purchased Water	15,010,934	41,126	(25.08)	(1,031,633)	Co. Sch. C-2.9 First Revised, line 9
13	Waste Disposal	-	-		-	
14	Service Company Charges	1,970,079	5,397	3.11	16,771	
15	Group Insurance	1,043,963	2,860	7.42	21,213	
16	OPEB's	-	-	(8.00)	-	
17	Pensions	257,081	704	(7.00)	(4,930)	
18	Insurance Other than Group	466,812	1,279	0.00	-	
19	Customer Accounting	175,876	482	(45.97)	(22,150)	
20	Rents	533,806	1,462	8.00	11,693	
21	General Office	474,445	1,300	(16.80)	(21,836)	
22	Maintenance	1,161,821	3,183	(23.96)	(76,270)	Appendix A, Sch. 7-CMW, page 2, line 16
23	Miscellaneous	1,017,666	2,788	(16.82)	(46,902)	
24						
25	Total O&M Expenses	$ 26,156,516			(1,307,904)	
26						
27	General Taxes	1,699,809	4,657	(173.45)	(807,779)	
28	Federal Income Tax - Current	1,676,355	4,593	(53.96)	(247,825)	
29	State Income Tax - Current	213,282	584	(53.96)	(31,531)	
30	Deferred Income Taxes	218,224	598	0.00	-	
31	Interest Expense	2,632,497	7,212	(90.00)	(649,109)	Appendix A, Sch. 5-CMW, line 3
32						
33	Subtotal Other Expenses	$ 6,440,167			(1,736,244)	
34						
35	Total Cash Working Capital Requirement				$ 1,323,176	Line 7+line 25+line 33
36						
37	Cash Working Capital per Staff	$ 1,323,176				Line 35
38	Cash Working Capital per Company	$ 1,345,502				IAWC Exhibit 6.13 Chicago Metro - Water District
39						
40	Staff Proposed adjustment	$ (22,326)				

Source:
(1) Staff Ex. 11.0, Sch. 11.1-CMW, except where noted.
(2) Co. Schedule B-8 First Revised, page 3, Cash Requirement/Average Daily Expense, except where noted.

Illinois-American Water Company
Chicago Metro - Water
Adjustment to Cash Working Capital
For the Test Year Ended June 30, 2009

Line No.	Item		Amount	Source
(A)	(B)		(C)	(D)
1	Total operating revenue	$	27,271,843	Appendix A, Sch. 1-CMW, line 3, column (i)
2	Surcharge revenue		13,543,232	Co. Sch. C-2.9 First Revised, line 4
3	Total revenue	$	40,815,075	
4	Chemical expense CWC per Co.	$	(2,971)	Co. Sch. B-8 First Revised, page 2, line 11
5	Avg. daily chemical expense per Co.	$	51	Co. Sch. B-8 First Revised, page 2, line 11
6	Chemical expense lead days per Co.		(58.25)	Line 4 / Line 5
7	Billing lag days		(2.00)	Co. Workpapers WPB-8e, WPB-8g, WPB-8h
8	Service period midpoint		(15.25)	Co. Workpapers WPB-8e, WPB-8g, WPB-8h
9	Chemical expense lead days per Staff		(75.50)	Sum of lines 6 through 8
10	Depr/amortization per Income Statement	$	5,466,198	Appendix A, Sch. 1-CMW, line 19, column (i)
11	Amortization of rate case expense		50,107	Appendix A, Sch. 1-CMW, line 12, column (i)
12	Amortization of tank painting		117,917	Staff Ex. 12.0-C, Sch. 12.1-CMW (Corrected), line 4
13	Total depr/amortization for CWC	$	5,634,222	Sum of lines 10 through 12
14	Maintenance-other per Income Statement	$	1,279,738	Appendix A, Sch. 1-CMW, line 17, column (i)
15	Reclassify amortization of tank painting		(117,917)	Line 12
16	Total Maintenance-other for CWC	$	1,161,821	
17	Total Return on Rate Base	$	6,243,235	Appendix A, Sch. 1-CMW, line 27, column (i)
18	Equity component of capital structure		43.74%	Staff Ex. 14.0, Sch. 14.6
19	Return on equity deduction from revenue	$	2,730,791	

Illinois-American Water Company
Chicago Metro - Sewer
Statement of Operating Income with Adjustments
For the Test Year Ending June 30, 2009

Line No.	Description	Company Rebuttal Pro Forma Present (IAWC Ex. 6.11)	Staff Adjustments (Appendix A Sch. 2-CMS)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Decrease (IAWC Ex. 6.11)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	$ 12,097,768	$ 626,000	$ 12,723,768	$ (986,350)	$ 1	$ 11,737,419	$ (990,168)	$ 10,747,251
2	Miscellaneous Revenue	-	-	-	-	-	-	-	-
3	Total Operating Revenue	12,097,768	626,000	12,723,768	(986,350)	1	11,737,419	(990,168)	10,747,251
4	Uncollectible Accounts Expense	140,375	6,819	147,194	(10,745)	1	136,450	(10,786)	125,664
5	Labor	551,936	(62,890)	489,046	-	-	489,046	-	489,046
6	Fuel & Power	592,811	-	592,811	-	-	592,811	-	592,811
7	Chemicals	25,123	-	25,123	-	-	25,123	-	25,123
8	Waste Disposal	269,759	-	269,759	-	-	269,759	-	269,759
9	Management Fees	967,650	-	967,650	-	-	967,650	-	967,650
10	Group Insurance	170,901	-	170,901	-	-	170,901	-	170,901
11	Pensions	36,209	-	36,209	-	-	36,209	-	36,209
12	Regulatory Expense	24,612	-	24,612	-	-	24,612	-	24,612
13	Insurance - other	229,286	-	229,286	-	-	229,286	-	229,286
14	Customer Accounting	82,871	-	82,871	-	-	82,871	-	82,871
15	Rents	157	-	157	-	-	157	-	157
16	General Office Expense	160,938	-	160,938	-	-	160,938	-	160,938
17	Maintenance - other	152,379	-	152,379		-	152,379	-	152,379
18	Miscellaneous	393,255	-	393,255	-	-	393,255	-	393,255
19	Depreciation & Amortization	2,741,531	(9,044)	2,732,487	-	-	2,732,487	-	2,732,487
20	Taxes other than Income	417,543	(4,811)	412,732	-	-	412,732	-	412,732
21	Total Operating Expense								
22	Before Income Taxes	6,957,336	(69,926)	6,887,410	(10,745)	1	6,876,666	(10,786)	6,865,880
23	State Income Tax	146,129	30,567	176,696	(41,649)	-	135,047	(41,810)	93,237
24	Federal Income Tax	1,147,709	239,913	1,387,622	(326,885)	-	1,060,737	(328,151)	732,586
25	Deferred Taxes and ITCs Net	134,560	-	134,560	-	-	134,560	-	134,560
26	Total Operating Expenses	8,385,734	200,554	8,586,288	(379,279)	1	8,207,010	(380,747)	7,826,263
27	NET OPERATING INCOME	$ 3,712,034	$ 425,446	$ 4,137,480	$ (607,071)	$ -	$ 3,530,409	$ (609,421)	$ 2,920,988
28	Staff Rate Base (Appendix A, Schedule 3-CMS, Column (d))								$ 37,210,032
29	Staff Overall Rate of Return (ICC Staff Exhibit 14.0, Schedule 14.6)								7.85%
30	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								$ (1,976,517)
31	Percentage Revenue Change (Col. (i), Line 30 divided by Col. (d), Line 3)								-15.53%

Illinois-American Water Company
Adjustments to Operating Income
For the Test Year Ending June 30, 2009
Chicago Metro - Sewer

Line No.	Description	Interest Synchronization (Appendix A Sch. 5-CMS)	COMPANY ACCEPTED Utility Plant-in-Service (Staff Ex. 1.0 Sch. 1.7-CMS)	COMPANY ACCEPTED Depreciation Expense (Not Applicable)	Deferred Tank Painting (Not Applicable)	COMPANY ACCEPTED Advertising Expense (Staff Ex. 2.0 Sch. 2.2-CMS)	Incentive Compensation (Staff Ex. 13.0 Sch. 13.1-CMS)	Revenue Adjustment (Not Applicable)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Miscellaneous Revenue	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts Expense	-	-	-	-	-	-	-	-
5	Labor	-	-	-	-	-	(62,890)	-	(62,890)
6	Fuel & Power	-	-	-	-	-	-	-	-
7	Chemicals	-	-	-	-	-	-	-	-
8	Waste Disposal	-	-	-	-	-	-	-	-
9	Management Fees	-	-	-	-	-	-	-	-
10	Group Insurance	-	-	-	-	-	-	-	-
11	Pensions	-	-	-	-	-	-	-	-
12	Regulatory Expense	-	-	-	-	-	-	-	-
13	Insurance - other	-	-	-	-	-	-	-	-
14	Customer Accounting	-	-	-	-	-	-	-	-
15	Rents	-	-	-	-	-	-	-	-
16	General Office Expense	-	-	-	-	-	-	-	-
17	Maintenance - other	-	-	-	-	-	-	-	-
18	Miscellaneous	-	-	-	-	-	-	-	-
19	Depreciation & Amortization	-	-	-	-	-	-	-	-
20	Taxes other than Income	-	-	-	-	-	(4,811)	-	(4,811)
21	Total Operating Expense								
22	Before Income Taxes	-	-	-	-	-	(67,701)	-	(67,701)
23	State Income Tax	858	-	-	-	-	2,890	-	3,748
24	Federal Income Tax	6,737	-	-	-	-	22,684	-	29,421
25	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
26	Total Operating Expenses	7,595	-	-	-	-	(42,127)	-	(34,532)
27	NET OPERATING INCOME	$ (7,595)	$ -	$ -	$ -	$ -	$ 42,127	$ -	$ 34,532

Illinois-American Water Company
Adjustments to Operating Income
For the Test Year Ending June 30, 2009
Chicago Metro - Sewer

Line No.	Description	Subtotal Operating Statement Adjustments	Valley Marina Excess Flow Improvements (IAWC Ex. 6.29)	Waste Water Revenues (AG Ex. 1.3, Sch. C-1)	(Source)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(j)	(l)	(l)	(m)	(n)	(o)	(p)	(q)
1	Operating Revenue	$ -	$ -	$ 626,000				$ -	$ 626,000
2	Miscellaneous Revenue	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	626,000	-	-	-	-	626,000
4	Uncollectible Accounts Expense	-	-	6,819	-	-	-	-	6,819
5	Labor	(62,890)	-	-	-	-	-	-	(62,890)
6	Fuel & Power	-	-	-	-	-	-	-	-
7	Chemicals	-	-	-	-	-	-	-	-
8	Waste Disposal	-	-	-	-	-	-	-	-
9	Management Fees	-	-	-	-	-	-	-	-
10	Group Insurance	-	-	-	-	-	-	-	-
11	Pensions	-	-	-	-	-	-	-	-
12	Regulatory Expense	-	-	-	-	-	-	-	-
13	Insurance - other	-	-	-	-	-	-	-	-
14	Customer Accounting	-	-	-	-	-	-	-	-
15	Rents	-	-	-	-	-	-	-	-
16	General Office Expense	-	-	-	-	-	-	-	-
17	Maintenance - other	-	-	-	-	-	-	-	-
12	Miscellaneous	-	-	-	-	-	-	-	-
13	Depreciation & Amortization	-	(9,044)	-	-	-	-	-	(9,044)
14	Taxes other than Income	(4,811)	-	-	-	-	-	-	(4,811)
15	Total Operating Expense								
16	Before Income Taxes	(67,701)	(9,044)	6,819	-	-	-	-	(69,926)
17	State Income Tax	3,748	386	26,433	-	-	-	-	30,567
18	Federal Income Tax	29,421	3,030	207,462	-	-	-	-	239,913
19	Deferred Taxes and ITCs Ne	-	-	-	-	-	-	-	-
20	Total Operating Expenses	(34,532)	(5,628)	240,714	-	-	-	-	200,554
21	NET OPERATING INCOME	$ 34,532	$ 5,628	$ 385,286	$ -	$ -	$ -	$ -	$ 425,446

Illinois-American Water Company
Chicago Metro - Sewer
Rate Base
For the Test Year Ending June 30, 2009

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Line No.	Description	Company Rebuttal Pro Forma Rate Base (IAWC 6.13)	Staff Adjustments (Appendix A Sch. 4-CMS)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant in Service	$ 118,727,098	$ (380,000)	$ 118,347,098
2	Less: Accumulated Depreciation	(41,060,092)	10,849	(41,049,243)
3	Net Utility Plant in Service	77,667,006	(369,151)	77,297,855
4	Construction Work in Progress	$ -	$ -	$ -
5	Utility Plant Acquisition Adj. - DuPage	57,572	-	57,572
6	Additions to Rate Base			
7	Cash Working Capital	322,344	(11,166)	311,178
8	Materials & Supplies	5,596	-	5,596
9	Deferred Charges - Tank Painting	-	-	-
10	FAS 109 Reg. Asset-Net of Liability	17,352	-	17,352
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Customer Advances	(3,647,822)	-	(3,647,822)
18	Pension Liability	(114,706)	-	(114,706)
19	OPEB Liability	(52,245)	-	(52,245)
20	Contributions in Aid of Construction	(57,124,146)	-	(57,124,146)
21	Accum. Depr. On CIAC	23,889,639	-	23,889,639
22	Budget Payment Plan	-	-	-
23	Deferred Federal Income Taxes	(3,149,601)	-	(3,149,601)
24	Deferred State Income Taxes	(280,247)	-	(280,247)
25	Investment Tax Credit - pre 1971	(393)	-	(393)
26	Rate Base	$ 37,590,349	$ (380,317)	$ 37,210,032

Illinois-American Water Company
Adjustments to Rate Base
For the Test Year Ending June 30, 2009
Chicago Metro - Sewer

Line No.	Description	COMPANY ACCEPTED Utility Plant-in-Service (Staff Ex. 1.0 Sch. 1.7-CMS)	Depreciation Expense (Not Applicable)	Deferred Tank Painting Recording Error (Not Applicable)	Deferred Tank Painting (Not Applicable)	Cash Working Capital (Appendix A Sch. 7-CMS)	Valley Marina Excess Flow Improvements (IAWC Ex. 6.29)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Utility Plant in Service	$ -	$ -	$ -	$ -	$ -	$ (380,000)	$ -	$ (380,000)
2	Less: Accumulated Depreciation	-	-	-	-	-	10,849	-	10,849
3	Net Utility Plant in Service	-	-	-	-	-	(369,151)	-	(369,151)
4	Construction Work in Progress	-	-	-	-	-	-	-	-
5	Utility Plant Acquisition Adj. - DuPage	-	-	-	-	-	-	-	-
6	Additions to Rate Base								
7	Cash Working Capital	-	-	-	-	(11,166)	-	-	(11,166)
8	Materials & Supplies	-	-	-	-	-	-	-	-
9	Deferred Charges - Tank Painting	-	-	-	-	-	-	-	-
10	FAS 109 Reg. Asset-Net of Liability	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-
16	Deductions From Rate Base								
17	Customer Advances	-	-	-	-	-	-	-	-
18	Pension Liability	-	-	-	-	-	-	-	-
19	Contributions in Aid of Construction	-	-	-	-	-	-	-	-
20	Accum. Depr. On CIAC	-	-	-	-	-	-	-	-
21	Budget Payment Plan	-	-	-	-	-	-	-	-
22	Deferred Federal Income Taxes	-	-	-	-	-	-	-	-
23	Deferred State Income Taxes	-	-	-	-	-	-	-	-
24	Investment Tax Credit - pre 1971	-	-	-	-	-	-	-	-
25	Rate Base	$ -	$ -	$ -	$ -	$ (11,166)	$ (369,151)	$ -	$ (380,317)

Illinois-American Water Company
Interest Synchronization Adjustment
For the Test Year Ending June 30, 2009
Chicago Metro - Sewer

Line No.	Description	Amount	
	(a)	(b)	
1	Gross Utility Plant in Service	$ 37,210,032	(1)
2	Weighted Cost of Debt	3.31%	(2)
3	Synchronized Interest Per Staff	1,231,652	
4	Company Interest Expense	1,251,759	(3)
5	Increase (Decrease) in Interest Expense	(20,107)	
6	Increase (Decrease) in State Income Tax Expense		
7	at 4.269%	$ 858	
8	Increase (Decrease) in Federal Income Tax Expense		
9	at 35.000%	$ 6,737	

(1) Source: Appendix A, Schedule 3-CMS Column (d).
(2) Source: ICC Staff Exhibit 14.0, Schedule 14.6.
(3) Source: IAWC Exhibit 6.15.

Illinois-American Water Company
Gross Revenue Conversion Factor
For the Test Year Ending June 30, 2009
Chicago Metro - Sewer

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	1.0893%	0.010893	
3	State Taxable Income		0.989107	1.000000
4	State Income Tax	4.2690%	0.042225	0.042690
5	Federal Taxable Income		0.946882	0.957310
6	Federal Income Tax	35.0000%	0.331409	0.335059
7	Operating Income		0.615473	0.622251
8	Gross Revenue Conversion Factor Per Staff		1.624767	1.607069

Illinois-American Water Company
Chicago Metro - Sewer
Adjustment to Cash Working Capital
For the Test Year Ended June 30, 2009

Line No.	Item	Amount [1]	Average Daily Amount (C)/365	Expense (Lead)/Lag [2]	Cash Requirement (D)*(E)	Source
(A)	(B)	(C)	(D)	(E)	(F)	(G)
1	Revenue	$ 11,535,900				Appendix A, Sch. 7-CMW, page 2, line 3
2	Return on Equity	(1,277,640)				Appendix A, Sch. 7-CMW, page 2, line 19
3	Non-cash OPEB expenses	-				
4	Uncollectible Accounts	(125,664)				
5	Total Depr/Amortization	(2,757,099)				Appendix A, Sch. 7-CMW, page 2, line 13
6						
7	Net Revenues	$ 7,375,497	$ 20,207	49.80	$ 1,006,319	
8						
9	Labor	$ 489,046	$ 1,340	(12.00)	$ (16,078)	
10	Fuel and Power	592,811	1,624	(33.47)	(54,361)	
11	Chemicals	25,123	69	(60.92)	(4,193)	Appendix A, Sch. 7-CMW, page 2, line 9
12	Purchased Water	-	-		-	Co. Sch. C-2.9 First Revised, line 9
13	Waste Disposal	1,058,977	2,901	(41.54)	(120,516)	Appendix A, Sch. 7-CMW, page 2, line 22
14	Service Company Charges	967,650	2,651	3.11	8,237	
15	Group Insurance	170,901	468	7.42	3,473	
16	OPEB's	-	-	(7.00)	-	
17	Pensions	36,209	99	(8.00)	(794)	
18	Insurance Other than Group	229,286	628	0.00	-	
19	Customer Accounting	82,871	227	(46.41)	(10,537)	
20	Rents	157	0	8.00	3	
21	General Office	160,938	441	(17.69)	(7,801)	
22	Maintenance	152,379	417	(25.66)	(10,714)	Appendix A, Sch. 7-CMW, page 2, line 16
23	Miscellaneous	393,255	1,077	(16.82)	(18,124)	
24						
25	Total O&M Expenses	$ 4,359,603			(231,405)	
26						
27	General Taxes	412,732	1,131	(33.57)	(37,955)	
28	Federal Income Tax - Current	732,586	2,007	(53.96)	(108,302)	
29	State Income Tax - Current	93,237	255	(53.96)	(13,784)	
30	Deferred Income Taxes	134,560	369	-	-	
31	Interest Expense	1,231,652	3,374	(90.00)	(303,695)	Appendix A, Sch. 5-CMW, line 3
32						
33	Subtotal Other Expenses	$ 2,604,767			(463,736)	
34						
35	Total Cash Working Capital Requirement				$ 311,178	Line 7+line 25+line 33
36						
37	Cash Working Capital per Staff	$ 311,178				Line 35
38	Cash Working Capital per Company	$ 322,344				IAWC Exhibit 6.13 Chicago Metro - Waste Water District
39						
40	Staff Proposed adjustment	$ (11,166)				

Source:
(1) Appendix A, Sch. 1-CMW, except where noted.
(2) Co. Schedule B-8 First Revised, page 4, Cash Requirement/Average Daily Expense, except where noted.

Illinois-American Water Company
Chicago Metro - Sewer
Adjustment to Cash Working Capital
For the Test Year Ended June 30, 2009

Line No. (A)	Item (B)	Amount (C)	Source (D)
1	Total operating revenue	$ 10,747,251	Appendix A, Sch. 1-CMW, line 3, column (i)
2	Surcharge revenue	788,649	Co. Sch. C-2.9 First Revised, line 4
3	Total revenue	$ 11,535,900	
4	Chemical expense CWC per Co.	$ (3,013)	Co. Sch. B-8 First Revised, page 2, line 11
5	Avg. daily chemical expense per Co.	$ 69	Co. Sch. B-8 First Revised, page 2, line 11
6	Chemical expense lead days per Co.	(43.67)	Line 4 / Line 5
7	Billing lag days	(2.00)	Co. Workpapers WPB-8e, WPB-8g, WPB-8h
8	Service period midpoint	(15.25)	Co. Workpapers WPB-8e, WPB-8g, WPB-8h
9	Chemical expense lead days per Staff	(60.92)	Sum of lines 6 through 8
10	Depr/amortization per Income Statement	$ 2,732,487	Appendix A, Sch. 1-CMW, line 19, column (i)
11	Amortization of rate case expense	24,612	Appendix A, Sch. 1-CMW, line 12, column (i)
12	Amortization of tank painting	-	Not applicable
13	Total depr/amortization for CWC	$ 2,757,099	Sum of lines 10 through 12
14	Maintenance-other per Income Statement	$ 152,379	Appendix A, Sch. 1-CMW, line 17, column (i)
15	Reclassify amortization of tank painting	-	Not applicable
16	Total Maintenance-other for CWC	$ 152,379	
17	Total Return on Rate Base	$ 2,920,988	Appendix A, Sch. 1-CMW, line 27, column (i)
18	Equity component of capital structure	43.74%	Staff Ex. 14.0, Sch. 14.6
19	Return on equity deduction from revenue	$ 1,277,640	

Illinois-American Water Company
Champaign
Statement of Operating Income with Adjustments
For the Test Year Ending June 30, 2009

Line No.	Description	Company Rebuttal Pro Forma Present (IAWC Ex. 6.11)	Staff Adjustments (Appendix A Sch. 2-C)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (IAWC Ex. 6.11)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	$ 20,845,414	$ (329,000)	$ 20,516,414	$ 11,038,931	$ (3)	$ 31,555,342	$ (580,624)	$ 30,974,718
2	Miscellaneous Revenue	240,570	(21,000)	219,570	-	-	219,570	-	219,570
3	Total Operating Revenue	21,085,984	(350,000)	20,735,984	11,038,931	(3)	31,774,912	(580,624)	31,194,288
4	Uncollectible Accounts Expense	228,909	-	228,909	120,247	-	349,156	(6,325)	342,831
5	Labor	2,982,671	(280,916)	2,701,755	-	-	2,701,755	-	2,701,755
6	Fuel & Power	1,647,425	(16,800)	1,630,625	-	-	1,630,625	-	1,630,625
7	Chemicals	1,274,539	(13,200)	1,261,339	-	-	1,261,339	-	1,261,339
8	Waste Disposal	111,315	-	111,315	-	-	111,315	-	111,315
9	Management Fees	3,479,833	-	3,479,833	-	-	3,479,833	-	3,479,833
10	Group Insurance	971,057	-	971,057	-	-	971,057	-	971,057
11	Pensions	248,029	-	248,029	-	-	248,029	-	248,029
12	Regulatory Expense	88,507	-	88,507	-	-	88,507	-	88,507
13	Insurance - other	824,738	-	824,738	-	-	824,738	-	824,738
14	Customer Accounting	309,921	-	309,921	-	-	309,921	-	309,921
15	Rents	318,291	-	318,291	-	-	318,291	-	318,291
16	General Office Expense	336,800	-	336,800	-	-	336,800	-	336,800
17	Maintenance - other	925,431	13,211	938,642		-	938,642	-	938,642
18	Miscellaneous	1,032,087	-	1,032,087	-	-	1,032,087	-	1,032,087
19	Depreciation & Amortization	4,874,010	-	4,874,010	-	-	4,874,010	-	4,874,010
20	Taxes other than Income	1,740,068	(21,490)	1,718,578	-	-	1,718,578	-	1,718,578
21	Total Operating Expense								
22	Before Income Taxes	21,393,631	(319,195)	21,074,436	120,247	-	21,194,683	(6,325)	21,188,358
23	State Income Tax	(186,113)	(678)	(186,791)	466,119	-	279,328	(24,517)	254,811
24	Federal Income Tax	(1,457,007)	(5,319)	(1,462,326)	3,658,403	(3)	2,196,074	(192,424)	2,003,650
25	Deferred Taxes and ITCs Ne	229,713	-	229,713	-	-	229,713	-	229,713
26	Total Operating Expenses	19,980,224	(325,192)	19,655,032	4,244,769	(3)	23,899,798	(223,266)	23,676,532
27	NET OPERATING INCOME	$ 1,105,760	$ (24,808)	$ 1,080,952	$ 6,794,162	$ -	$ 7,875,114	$ (357,358)	$ 7,517,756
28	Staff Rate Base (Appendix A, Schedule 3-C, Column (d))								$ 95,767,586
29	Staff Overall Rate of Return (ICC Staff Exhibit 14.0, Schedule 14.6)								7.85%
30	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								$ 10,458,304
31	Percentage Revenue Change (Col. (i), Line 30 divided by Col. (d), Line 3)								50.44%

Illinois-American Water Company
Adjustments to Operating Income
For the Test Year Ending June 30, 2009
Champaign

Line No.	Description	Interest Synchronization (Appendix A Sch. 5-C)	COMPANY ACCEPTED Utility Plant-in-Service (Staff Ex. 1.0 Sch. 1.7-C)	COMPANY ACCEPTED Depreciation Expense (Staff Ex. 1.0 Sch. 1.8-C)	Deferred Tank Painting (Staff R. Brief)	COMPANY ACCEPTED Advertising Expense (Staff Ex. 2.0 Sch. 2.2-C)	Incentive Compensation (Staff Ex. 13.0 Sch. 13.1-C)	Revenue Adjustment (Staff Ex. 11.0 Sch. 11.8-C)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ (329,000)	$ (329,000)
2	Miscellanious Revenue	-	-	-	-	-	-	(21,000)	(21,000)
3	Total Operating Revenue	-	-	-	-	-	-	(350,000)	(350,000)
4	Uncollectible Accounts Expense	-	-	-	-	-	-	-	-
5	Labor	-	-	-	-	-	(280,916)	-	(280,916)
6	Fuel & Power	-	-	-	-	-	-	(16,800)	(16,800)
7	Chemicals	-	-	-	-	-	-	(13,200)	(13,200)
8	Waste Disposal	-	-	-	-	-	-	-	-
9	Management Fees	-	-	-	-	-	-	-	-
10	Group Insurance	-	-	-	-	-	-	-	-
11	Pensions	-	-	-	-	-	-	-	-
12	Regulatory Expense	-	-	-	-	-	-	-	-
13	Insurance - other	-	-	-	-	-	-	-	-
14	Customer Accounting	-	-	-	-	-	-	-	-
15	Rents	-	-	-	-	-	-	-	-
16	General Office Expense	-	-	-	-	-	-	-	-
17	Maintenance - other	-	-	-	13,211	-	-	-	13,211
18	Miscellaneous	-	-	-	-	-	-	-	-
19	Depreciation & Amortization	-	-	-	-	-	-	-	-
20	Taxes other than Income	-	-	-	-	-	(21,490)	-	(21,490)
21	Total Operating Expense								
22	Before Income Taxes	-	-	-	13,211	-	(302,406)	(30,000)	(319,195)
23	State Income Tax	637	-	-	(564)	-	12,910	(13,661)	(678)
24	Federal Income Tax	5,002	-	-	(4,426)	-	101,324	(107,219)	(5,319)
25	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
26	Total Operating Expenses	5,639	-	-	8,221	-	(188,172)	(150,880)	(325,192)
27	NET OPERATING INCOME	$ (5,639)	$ -	$ -	$ (8,221)	$ -	$ 188,172	$ (199,120)	$ (24,808)

Illinois-American Water Company
Champaign
Rate Base
For the Test Year Ending June 30, 2009

-

Line No.	Description	Company Rebuttal Pro Forma Rate Base (IAWC 6.13)	Staff Adjustments (Appendix A Sch. 4-C)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant in Service	$ 148,407,292	$ -	$ 148,407,292
2	Less: Accumulated Depreciation	(45,497,456)	-	(45,497,456)
3	Net Utility Plant in Service	102,909,836	-	102,909,836
4	Construction Work in Progress	$ 19,034,889	$ -	$ 19,034,889
5	Utility Plant Acquisition Adj. - DuPage	-	-	-
6	Additions to Rate Base			
7	Cash Working Capital	1,565,305	(39,365)	1,525,940
8	Materials & Supplies	418,283	-	418,283
9	Deferred Charges - Tank Painting	1,443,557	166,242	1,609,799
10	FAS 109 Reg. Asset-Net of Liability	62,403	-	62,403
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base	-	-	
17	Customer Advances	(16,252,841)	-	(16,252,841)
18	Pension Liability	(709,093)	-	(709,093)
19	OPEB Liability	(322,971)	-	(322,971)
20	Contributions in Aid of Construction	(11,734,844)	-	(11,734,844)
21	Accum. Depr. On CIAC	4,142,649	-	4,142,649
22	Budget Payment Plan	-	-	-
23	Deferred Federal Income Taxes	(4,513,452)	-	(4,513,452)
24	Deferred State Income Taxes	(401,600)	-	(401,600)
25	Investment Tax Credit - pre 1971	(1,412)	-	(1,412)
26	Rate Base	$ 95,640,709	$ 126,877	$ 95,767,586

Illinois-American Water Company
Adjustments to Rate Base
For the Test Year Ending June 30, 2009
Champaign

Line No.	Description	COMPANY ACCEPTED Utility Plant-in-Service (Staff Ex. 1.0 Sch. 1.7-C)	COMPANY ACCEPTED Depreciation Expense (Staff Ex. 1.0 Sch. 1.8-C)	Deferred Tank Painting (Staff R. Brief)	Cash Working Capital (Appendix A Sch. 7-C)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Utility Plant in Service	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Less: Accumulated Depreciation	-	-	-	-	-	-	-	-
3	Net Utility Plant in Service	-	-	-	-	-	-	-	-
4	Construction Work in Progress	-	-	-	-	-	-	-	-
5	Utility Plant Acquisition Adj. - DuPage	-	-	-	-	-	-	-	-
6	Additions to Rate Base								
7	Cash Working Capital	-	-	-	(39,365)	-	-	-	(39,365)
8	Materials & Supplies	-	-	-	-	-	-	-	-
9	Deferred Charges - Tank Painting	-	-	166,242		-	-	-	166,242
10	FAS 109 Reg. Asset-Net of Liability	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-
16	Deductions From Rate Base								
17	Customer Advances	-	-	-	-	-	-	-	-
18	Pension Liability	-	-	-	-	-	-	-	-
19	Contributions in Aid of Construction	-	-	-	-	-	-	-	-
20	Accum. Depr. On CIAC	-	-	-	-	-	-	-	-
21	Budget Payment Plan	-	-	-	-	-	-	-	-
22	Deferred Federal Income Taxes	-	-	-	-	-	-	-	-
23	Deferred State Income Taxes	-	-	-	-	-	-	-	-
24	Investment Tax Credit - pre 1971	-	-	-	-	-	-	-	-
25	Rate Base	$ -	$ -	$ 166,242	$ (39,365)	$ -	$ -	$ -	$ 126,877

Illinois-American Water Company
Interest Synchronization Adjustment
For the Test Year Ending June 30, 2009
Champaign

Line No.	Description	Amount	
	(a)	(b)	
1	Gross Utility Plant in Service	$ 95,767,586	(1)
2	Weighted Cost of Debt	3.31%	(2)
3	Synchronized Interest Per Staff	3,169,907	
4	Company Interest Expense	3,184,836	(3)
5	Increase (Decrease) in Interest Expense	(14,929)	
6	Increase (Decrease) in State Income Tax Expense		
7	at 4.269%	$ 637	
8	Increase (Decrease) in Federal Income Tax Expense		
9	at 35.000%	$ 5,002	

(1) Source: Appendix A, Schedule 3-C, Column (d).
(2) Source: ICC Staff Exhibit 14.0, Schedule 14.6.
(3) Source: IAWC Exhibit 6.15.

Illinois-American Water Company

Gross Revenue Conversion Factor

For the Test Year Ending June 30, 2009

Champaign

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	1.0893%	0.010893	
3	State Taxable Income		0.989107	1.000000
4	State Income Tax	4.2690%	0.042225	0.042690
5	Federal Taxable Income		0.946882	0.957310
6	Federal Income Tax	35.0000%	0.331409	0.335059
7	Operating Income		0.615473	0.622251
8	Gross Revenue Conversion Factor Per Staff		1.624767	1.607069

Illinois-American Water Company
Champaign
Adjustment to Cash Working Capital
For the Test Year Ended June 30, 2009

Line No.	Item	Amount [1]	Average Daily Amount (C)/365	Expense (Lead)/Lag [2]	Cash Requirement (D)*(E)	Source
(A)	(B)	(C)	(D)	(E)	(F)	(G)
1	Revenue	$ 31,194,288				Appendix A, Sch. 7-C, page 2, line 3
2	Return on Equity	(3,288,266)				Appendix A, Sch. 7-C, page 2, line 19
3	Non-cash OPEB expenses	-				
4	Uncollectible Accounts	(342,831)				
5	Total Depr/Amortization	(5,146,030)				Appendix A, Sch. 7-C, page 2, line 13
6						
7	Net Revenues	$ 22,417,161	$ 61,417	61.26	$ 3,762,398	
8						
9	Labor	$ 2,701,755	$ 7,402	(12.00)	$ (88,825)	
10	Fuel and Power	1,630,625	4,467	(26.59)	(118,790)	
11	Chemicals	1,261,339	3,456	(33.12)	(114,467)	Appendix A, Sch. 7-C, page 2, line 9
12	Purchased Water	-	-		-	Co. Sch. C-2.9 First Revised, line 9
13	Waste Disposal	111,315	305	39.70	12,107	Lead days = avg. from Co. Workpaper WPB-8h
14	Service Company Charges	3,479,833	9,534	3.11	29,623	
15	Group Insurance	971,057	2,660	7.42	19,732	
16	OPEB's	-	-	(7.00)	-	
17	Pensions	248,029	680	(8.00)	(5,436)	
18	Insurance Other than Group	824,738	2,260	0.00	-	
19	Customer Accounting	309,921	849	(34.58)	(29,362)	
20	Rents	318,291	872	8.00	6,972	
21	General Office	336,800	923	(17.80)	(16,425)	
22	Maintenance	755,129	2,069	(28.27)	(58,486)	Appendix A, Sch. 7-C, page 2, line 16
23	Miscellaneous	1,032,087	2,828	(16.82)	(47,567)	
24						
25	Total O&M Expenses	$ 13,980,919			(410,924)	
26						
27	General Taxes	1,718,578	4,708	(150.80)	(710,032)	
28	Federal Income Tax - Current	2,003,650	5,489	(53.96)	(296,211)	
29	State Income Tax - Current	254,811	698	(53.96)	(37,670)	
30	Deferred Income Taxes	229,713	629	-	-	
31	Interest Expense	3,169,907	8,685	(90.00)	(781,621)	Appendix A, Sch. 5-C, line 3
32						
33	Subtotal Other Expenses	$ 7,376,659			(1,825,534)	
34						
35	Total Cash Working Capital Requirement				$ 1,525,940	Line 7+line 25+line 33
36						
37	Cash Working Capital per Staff	$ 1,525,940				Line 35
38	Cash Working Capital per Company	$ 1,565,305				IAWC Exhibit 6.13 Champaign District
39						
40	Staff Proposed adjustment	$ (39,365)				

Source:
(1) Appendix A, Sch. 1-C, except where noted.
(2) Co. Schedule B-8 First Revised, page 5, except where noted.

Illinois-American Water Company
Champaign
Adjustment to Cash Working Capital
For the Test Year Ended June 30, 2009

Line No.	Item		Amount	Source
(A)	(B)		(C)	(D)
1	Total operating revenue	$	31,194,288	Appendix A, Sch. 1-C, line 3, column (i)
2	Surcharge revenue		-	Not applicable
3	Total revenue	$	31,194,288	
4	Chemical expense CWC per Co.	$	(54,860)	Co. Sch. B-8 First Revised, page 2, line 11
5	Avg. daily chemical expense per Co.	$	3,456	Co. Sch. B-8 First Revised, page 2, line 11
6	Chemical expense lead days per Co.		(15.87)	Line 4 / Line 5
7	Billing lag days		(2.00)	Co. Workpapers WPB-8e, WPB-8g, WPB-8h
8	Service period midpoint		(15.25)	Co. Workpapers WPB-8e, WPB-8g, WPB-8h
9	Chemical expense lead days per Staff		(33.12)	Sum of lines 6 through 8
10	Depr/amortization per Income Statement	$	4,874,010	Appendix A, Sch. 1-C, line 19, column (i)
11	Amortization of rate case expense		88,507	Appendix A, Sch. 1-C, line 12, column (i)
12	Amortization of tank painting		183,513	Staff Ex. 12.0-C, Sch. 12.1-C (Corrected), line 4
13	Total depr/amortization for CWC	$	5,146,030	Sum of lines 10 through 12
14	Maintenance-other per Income Statement	$	938,642	Appendix A, Sch. 1-C, line 17, column (i)
15	Reclassify amortization of tank painting		(183,513)	Line 12
16	Total Maintenance-other for CWC	$	755,129	
17	Total Return on Rate Base	$	7,517,756	Appendix A, Sch. 1-C, line 27, column (i)
18	Equity component of capital structure		43.74%	Staff Ex. 14.0, Sch. 14.6
19	Return on equity deduction from revenue	$	3,288,266	

Illinois-American Water Company
Sterling
Statement of Operating Income with Adjustments
For the Test Year Ending June 30, 2009

Line No.	Description	Company Rebuttal Pro Forma Present (IAWC Ex. 6.11)	Staff Adjustments (Appendix A Sch. 2-S)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (IAWC Ex. 6.11)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	$ 3,481,538	$ -	$ 3,481,538	$ 880,931	$ 1	$ 4,362,470	$ (139,614)	$ 4,222,856
2	Miscellaneous Revenue	45,662	2,000	47,662	-	-	47,662	-	47,662
3	Total Operating Revenue	3,527,200	2,000	3,529,200	880,931	1	4,410,132	(139,614)	4,270,518
4	Uncollectible Accounts Expense	38,371	-	38,371	9,596	-	47,967	(1,521)	46,446
5	Labor	470,974	(33,731)	437,243	-	-	437,243	-	437,243
6	Fuel & Power	195,089	-	195,089	-	-	195,089	-	195,089
7	Chemicals	94,193	-	94,193	-	-	94,193	-	94,193
8	Waste Disposal	6,163	-	6,163	-	-	6,163	-	6,163
9	Management Fees	426,600	-	426,600	-	-	426,600	-	426,600
10	Group Insurance	165,449	-	165,449	-	-	165,449	-	165,449
11	Pensions	39,830	-	39,830	-	-	39,830	-	39,830
12	Regulatory Expense	10,850	-	10,850	-	-	10,850	-	10,850
13	Insurance - other	101,083	-	101,083	-	-	101,083	-	101,083
14	Customer Accounting	40,111	-	40,111	-	-	40,111	-	40,111
15	Rents	24,948	-	24,948	-	-	24,948	-	24,948
16	General Office Expense	52,771	-	52,771	-	-	52,771	-	52,771
17	Maintenance - other	79,106	(4,728)	74,378		-	74,378	-	74,378
18	Miscellaneous	134,551	-	134,551	-	-	134,551	-	134,551
19	(3) Source: IAWC Exhibit 6.15.	744,063	-	744,063	-	-	744,063	-	744,063
20	Taxes other than Income	275,312	(2,580)	272,732	-	-	272,732	-	272,732
21	Total Operating Expense								
22	Before Income Taxes	2,899,464	(41,039)	2,858,425	9,596	-	2,868,021	(1,521)	2,866,500
23	State Income Tax	4,446	2,065	6,511	37,197	-	43,708	(5,895)	37,813
24	Federal Income Tax	31,955	16,213	48,168	291,948	1	340,117	(46,269)	293,848
25	Deferred Taxes and ITCs Net	29,076	-	29,076	-	-	29,076	-	29,076
26	Total Operating Expenses	2,964,941	(22,761)	2,942,180	338,741	1	3,280,922	(53,685)	3,227,237
27	NET OPERATING INCOME	$ 562,259	$ 24,761	$ 587,020	$ 542,190	$ -	$ 1,129,210	$ (85,929)	$ 1,043,281
28	Staff Rate Base (Appendix A, Schedule 3-S, Column (d))								$ 13,290,205
29	Staff Overall Rate of Return (ICC Staff Exhibit 14.0, Schedule 14.6)								7.85%
30	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								$ 741,318
31	Percentage Revenue Change (Col. (i), Line 30 divided by Col. (d), Line 3)								21.01%

Illinois-American Water Company
Adjustments to Operating Income
For the Test Year Ending June 30, 2009
Sterling

Line No.	Description	Interest Synchronization (Appendix A Sch. 5-S)	COMPANY ACCEPTED Utility Plant-in-Service (Staff Ex. 1.0 Sch. 1.7-S)	COMPANY ACCEPTED Depreciation Expense (Staff Ex. 1.0 Sch. 1.8-S)	Deferred Tank Painting (Staff R. Brief)	COMPANY ACCEPTED Advertising Expense (Staff Ex. 2.0 Sch. 2.2-S)	Incentive Compensation (Staff Ex. 13.0 Sch. 13.1-S)	Revenue Adjustment (Staff Ex. 11.0 Sch. 11.8-S)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Miscellaneous Revenue	-	-	-	-	-	-	2,000	2,000
3	Total Operating Revenue	-	-	-	-	-	-	2,000	2,000
4	Uncollectible Accounts Expense	-	-	-	-	-	-	-	-
5	Labor	-	-	-	-	-	(33,731)	-	(33,731)
6	Fuel & Power	-	-	-	-	-	-	-	-
7	Chemicals	-	-	-	-	-	-	-	-
8	Waste Disposal	-	-	-	-	-	-	-	-
9	Management Fees	-	-	-	-	-	-	-	-
10	Group Insurance	-	-	-	-	-	-	-	-
11	Pensions	-	-	-	-	-	-	-	-
12	Regulatory Expense	-	-	-	-	-	-	-	-
13	Insurance - other	-	-	-	-	-	-	-	-
14	Customer Accounting	-	-	-	-	-	-	-	-
15	Rents	-	-	-	-	-	-	-	-
16	General Office Expense	-	-	-	-	-	-	-	-
17	Maintenance - other	-	-	-	(4,728)	-	-	-	(4,728)
18	Miscellaneous	-	-	-	-	-	-	-	-
19	Depreciation & Amortization	-	-	-	-	-	-	-	-
20	Taxes other than Income	-	-	-	-	-	(2,580)	-	(2,580)
21	Total Operating Expense								
22	Before Income Taxes	-	-	-	(4,728)	-	(36,311)	-	(41,039)
23	State Income Tax	228	-	-	202	-	1,550	85	2,065
24	Federal Income Tax	1,793	-	-	1,584	-	12,166	670	16,213
25	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
26	Total Operating Expenses	2,021	-	-	(2,942)	-	(22,595)	755	(22,761)
27	NET OPERATING INCOME	$ (2,021)	$ -	$ -	$ 2,942	$ -	$ 22,595	$ 1,245	$ 24,761

Illinois-American Water Company
Sterling
Rate Base
For the Test Year Ending June 30, 2009

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Line No.	Description	Company Rebuttal Pro Forma Rate Base (IAWC 6.13)	Staff Adjustments (Appendix A Sch 4-S)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant in Service	$ 22,042,284	$ -	$ 22,042,284
2	Less: Accumulated Depreciation	(6,252,806)	-	(6,252,806)
3	Net Utility Plant in Service	15,789,478	-	15,789,478
4	Construction Work in Progress	$ -	$ -	$ -
5	Utility Plant Acquisition Adj. - DuPage	-	-	-
6	Additions to Rate Base			
7	Cash Working Capital	32,842	(2,779)	30,063
8	Materials & Supplies	62,348	-	62,348
9	Deferred Charges - Tank Painting	87,435	(78,075)	9,360
10	FAS 109 Reg. Asset-Net of Liability	7,651	-	7,651
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Customer Advances	(1,093,233)	-	(1,093,233)
18	Pension Liability	(114,706)	-	(114,706)
19	(3) Source: IAWC Exhibit 6.15.	(52,245)	-	(52,245)
20	Contributions in Aid of Construction	(1,052,271)	-	(1,052,271)
21	Accum. Depr. On CIAC	357,553	-	357,553
22	Budget Payment Plan	-	-	-
23	Deferred Federal Income Taxes	(600,214)	-	(600,214)
24	Deferred State Income Taxes	(53,406)	-	(53,406)
25	Investment Tax Credit - pre 1971	(173)	-	(173)
26	Rate Base	$ 13,371,059	$ (80,854)	$ 13,290,205

Docket No. 07-0507
Appendix A - Staff Reply Brief
Schedule 4-S

Illinois-American Water Company
Adjustments to Rate Base
For the Test Year Ending June 30, 2009
Sterling

Line No.	Description	COMPANY ACCEPTED Utility Plant-in-Service (Staff Ex. 1.0 Sch. 1.7-S)	COMPANY ACCEPTED Depreciation Expense (Staff Ex. 1.0 Sch. 1.8-S)	Deferred Tank Painting (Staff R. Brief)	Cash Working Capital (Appendix A Sch. 7-S)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Utility Plant in Service	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Less: Accumulated Depreciation	-	-	-	-	-	-	-	-
3	Net Utility Plant in Service	-	-	-	-	-	-	-	-
4	Construction Work in Progress	-	-	-	-	-	-	-	-
5	Utility Plant Acquisition Adj. - DuPage	-	-	-	-	-	-	-	-
6	Additions to Rate Base								
7	Cash Working Capital	-	-	-	(2,779)	-	-	-	(2,779)
8	Materials & Supplies	-	-	-	-	-	-	-	-
9	Deferred Charges - Tank Painting	-	-	(78,075)	-	-	-	-	(78,075)
10	FAS 109 Reg. Asset-Net of Liability	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-
16	Deductions From Rate Base								
17	Customer Advances	-	-	-	-	-	-	-	-
18	Pension Liability	-	-	-	-	-	-	-	-
19	(3) Source: IAWC Exhibit 6.15.	-	-	-	-	-	-	-	-
20	Accum. Depr. On CIAC	-	-	-	-	-	-	-	-
21	Budget Payment Plan	-	-	-	-	-	-	-	-
22	Deferred Federal Income Taxes	-	-	-	-	-	-	-	-
23	Deferred State Income Taxes	-	-	-	-	-	-	-	-
24	Investment Tax Credit - pre 1971	-	-	-	-	-	-	-	-
25	Rate Base	$ -	$ -	$ (78,075)	$ (2,779)	$ -	$ -	$ -	$ (80,854)

Illinois-American Water Company
Interest Synchronization Adjustment
For the Test Year Ending June 30, 2009
Sterling

Line No.	Description	Amount	
	(a)	(b)	
1	Gross Utility Plant in Service	$ 13,290,205	(1)
2	Weighted Cost of Debt	3.31%	(2)
3	Synchronized Interest Per Staff	439,906	
4	Company Interest Expense	445,256	(3)
5	Increase (Decrease) in Interest Expense	(5,350)	
6	Increase (Decrease) in State Income Tax Expense		
7	at 4.269%	$ 228	
8	Increase (Decrease) in Federal Income Tax Expense		
9	at 35.000%	$ 1,793	

(1) Source: Appendix A, Schedule 3-S, Column (d).
(2) Source: ICC Staff Exhibit 14.0, Schedule 14.6.
(3) Source: IAWC Exhibit 6.15.

Illinois-American Water Company
Gross Revenue Conversion Factor
For the Test Year Ending June 30, 2009
Sterling

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	1.0893%	0.010893	
3	State Taxable Income		0.989107	1.000000
4	State Income Tax	4.2690%	0.042225	0.042690
5	Federal Taxable Income		0.946882	0.957310
6	Federal Income Tax	35.0000%	0.331409	0.335059
7	Operating Income		0.615473	0.622251
8	Gross Revenue Conversion Factor Per Staff		1.624767	1.607069

Illinois-American Water Company
Sterling
Adjustment to Cash Working Capital
For the Test Year Ended June 30, 2009

Line No. (A)	Item (B)	Amount [(1)] (C)	Average Daily Amount (C)/365 (D)	Expense (Lead)/Lag [(2)] (E)	Cash Requirement (D)*(E) (F)	Source (G)
1	Revenue	$ 4,270,518				Appendix A, Sch. 7-S, page 2, line 3
2	Return on Equity	(456,331)				Appendix A, Sch. 7-S, page 2, line 19
3	Non-cash OPEB expenses	-				
4	Uncollectible Accounts	(46,446)				
5	Total Depr/Amortization	(767,542)				Appendix A, Sch. 7-S, page 2, line 13
6						
7	Net Revenues	$ 3,000,199	$ 8,220	44.29	$ 364,052	
8						
9	Labor	$ 437,243	$ 1,198	(12.00)	$ (14,375)	
10	Fuel and Power	195,089	534	(27.14)	(14,506)	
11	Chemicals	94,193	258	(35.04)	(9,044)	Appendix A, Sch. 7-S, page 2, line 9
12	Purchased Water	-	-		-	Co. Sch. C-2.9 First Revised, line 9
13	Waste Disposal	6,163	17	39.70	670	Lead days = avg. from Co. Workpaper WPB-8h
14	Service Company Charges	426,600	1,169	3.11	3,632	
15	Group Insurance	165,449	453	7.42	3,362	
16	OPEB's	-	-	(7.00)	-	
17	Pensions	39,830	109	(8.00)	(873)	
18	Insurance Other than Group	101,083	277	0.00	-	
19	Customer Accounting	40,111	110	(49.24)	(5,411)	
20	Rents	24,948	68	8.00	546	
21	General Office	52,771	145	(13.98)	(2,021)	
22	Maintenance	61,749	169	(19.40)	(3,282)	Appendix A, Sch. 7-S, page 2, line 16
23	(3) S Miscellaneous	134,551	369	(16.82)	(6,201)	
24						
25	Total O&M Expenses	$ 1,779,780			(47,503)	
26						
27	General Taxes	272,732	747	(172.62)	(128,984)	
28	Federal Income Tax - Current	293,848	805	(53.96)	(43,441)	
29	State Income Tax - Current	37,813	104	(53.96)	(5,590)	
30	Deferred Income Taxes	29,076	80	-	-	
31	Interest Expense	439,906	1,205	(90.00)	(108,470)	Appendix A, Sch. 5-S, line 3
32						
33	Subtotal Other Expenses	$ 1,073,375			(286,485)	
34						
35	Total Cash Working Capital Requirement				$ 30,063	Line 7+line 25+line 33
36						
37	Cash Working Capital per Staff	$ 30,063				Line 35
38	Cash Working Capital per Company	$ 32,842				IAWC Exhibit 6.13 Sterling District
39						
40	Staff Proposed adjustment	$ (2,779)				

Source:
(1) Appendix A, Sch. 1-S, except where noted.
(2) Co. Schedule B-8 First Revised, page 6, except where noted.

Illinois-American Water Company
Sterling
Adjustment to Cash Working Capital
For the Test Year Ended June 30, 2009

Line No.	Item		Amount	Source
(A)	(B)		(C)	(D)
1	Total operating revenue	$	4,270,518	Appendix A, Sch. 1-S, line 3, column (i)
2	Surcharge revenue		-	Not applicable
3	Total revenue	$	4,270,518	
4	Chemical expense CWC per Co.	$	(4,591)	Co. Sch. B-8 First Revised, page 2, line 11
5	Avg. daily chemical expense per Co.	$	258	Co. Sch. B-8 First Revised, page 2, line 11
6	Chemical expense lead days per Co.		(17.79)	Line 4 / Line 5
7	Billing lag days		(2.00)	Co. Workpapers WPB-8e, WPB-8g, WPB-8h
8	Service period midpoint		(15.25)	Co. Workpapers WPB-8e, WPB-8g, WPB-8h
9	Chemical expense lead days per Staff		(35.04)	Sum of lines 6 through 8
10	Depr/amortization per Income Statement	$	744,063	Appendix A, Sch. 1-S, line 19, column (i)
11	Amortization of rate case expense		10,850	Appendix A, Sch. 1-S, line 12, column (i)
12	Amortization of tank painting		12,629	Staff Ex. 12.0-C, Sch. 12.1-S(Corrected), line 4
13	Total depr/amortization for CWC	$	767,542	Sum of lines 10 through 12
14	Maintenance-other per Income Statement	$	74,378	Appendix A, Sch. 1-S, line 17, column (i)
15	Reclassify amortization of tank painting		(12,629)	Line 12
16	Total Maintenance-other for CWC	$	61,749	
	(3) Source: IAWC Exhibit 6.15.			
17	Total Return on Rate Base	$	1,043,281	Appendix A, Sch. 1-S, line 27, column (i)
18	Equity component of capital structure		43.74%	Staff Ex. 14.0, Sch. 14.6
19	Return on equity deduction from revenue	$	456,331	

Illinois-American Water Company
Pekin
Statement of Operating Income with Adjustments
For the Test Year Ending June 30, 2009

Line No.	Description	Company Rebuttal Pro Forma Present (IAWC Ex. 6.11)	Staff Adjustments (Appendix A Sch. 2-P)	Staff Pro Forma Present (Cols. b+c)	Company Rebuttal Proposed Increase (IAWC Ex. 6.11)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	$ 5,232,832	$ -	$ 5,232,832	$ 1,425,725	$ 1	$ 6,658,558	$ (233,692)	$ 6,424,866
2	Miscellaneous Revenue	77,911	18,000	95,911	-	-	95,911	-	95,911
3	Total Operating Revenue	5,310,743	18,000	5,328,743	1,425,725	1	6,754,469	(233,692)	6,520,777
4	Uncollectible Accounts Expense	59,012	-	59,012	15,530	-	74,542	(2,546)	71,996
5	Labor	825,116	(69,133)	755,983	-	-	755,983	-	755,983
6	Fuel & Power	188,384	-	188,384	-	-	188,384	-	188,384
7	Chemicals	83,355	-	83,355	-	-	83,355	-	83,355
8	Waste Disposal	-	-	-	-	-	-	-	-
9	Management Fees	928,876	-	928,876	-	-	928,876	-	928,876
10	Group Insurance	266,820	-	266,820	-	-	266,820	-	266,820
11	Pensions	66,383	-	66,383	-	-	66,383	-	66,383
12	Regulatory Expense	23,626	-	23,626	-	-	23,626	-	23,626
13	Insurance - other	220,098	-	220,098	-	-	220,098	-	220,098
14	Customer Accounting	83,938	-	83,938	-	-	83,938	-	83,938
15	Rents	10,599	-	10,599	-	-	10,599	-	10,599
16	General Office Expense	157,830	-	157,830	-	-	157,830	-	157,830
17	Maintenance - other	235,679	(14,889)	220,790		-	220,790	-	220,790
18	Miscellaneous	278,032	-	278,032	-	-	278,032	-	278,032
19	Depreciation & Amortization	1,144,246	-	1,144,246	-	-	1,144,246	-	1,144,246
20	Taxes other than Income	379,965	(5,289)	374,676	-	-	374,676	-	374,676
21	Total Operating Expense								
22	Before Income Taxes	4,951,959	(89,311)	4,862,648	15,530	-	4,878,178	(2,546)	4,875,632
23	State Income Tax	(10,967)	5,014	(5,953)	60,201	-	54,248	(9,868)	44,380
24	Federal Income Tax	(89,992)	39,352	(50,640)	472,498	1	421,859	(77,448)	344,411
25	Deferred Taxes and ITCs Net	42,077	-	42,077	-	-	42,077	-	42,077
26	Total Operating Expenses	4,893,077	(44,945)	4,848,132	548,229	1	5,396,362	(89,862)	5,306,500
27	NET OPERATING INCOME	$ 417,666	$ 62,945	$ 480,611	$ 877,496	$ -	$ 1,358,107	$ (143,830)	$ 1,214,277
28	Staff Rate Base (Appendix A, Schedule 3-P, Column (d))								$ 15,468,482
29	Staff Overall Rate of Return (ICC Staff Exhibit 14.0, Schedule 14.6)								7.85%
30	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								$ 1,192,034
31	Percentage Revenue Change (Col. (i), Line 30 divided by Col. (d), Line 3)								22.37%

Illinois-American Water Company
Adjustments to Operating Income
For the Test Year Ending June 30, 2009
Pekin

			COMPANY ACCEPTED	COMPANY ACCEPTED		COMPANY ACCEPTED			
Line No.	Description	Interest Synchronization (Appendix A Sch. 5-P)	Utility Plant-in-Service (Staff Ex. 1.0 Sch. 1.7-P)	Depreciation Expense (Staff Ex. 1.0 Sch. 1.8-P)	Deferred Tank Painting (Staff R. Brief)	Advertising Expense (Staff Ex. 2.0 Sch. 2.2-P)	Incentive Compensation (Staff Ex. 13.0 Sch. 13.1-P)	Revenue Adjustment (Staff Ex. 11.0 Sch. 11.8-P)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Miscellaneous Revenue	-	-	-	-	-	-	18,000	18,000
3	Total Operating Revenue	-	-	-	-	-	-	18,000	18,000
4	Uncollectible Accounts Expense	-	-	-	-	-	-	-	-
5	Labor	-	-	-	-	-	(69,133)	-	(69,133)
6	Fuel & Power	-	-	-	-	-	-	-	-
7	Chemicals	-	-	-	-	-	-	-	-
8	Waste Disposal	-	-	-	-	-	-	-	-
9	Management Fees	-	-	-	-	-	-	-	-
10	Group Insurance	-	-	-	-	-	-	-	-
11	Pensions	-	-	-	-	-	-	-	-
12	Regulatory Expense	-	-	-	-	-	-	-	-
13	Insurance - other	-	-	-	-	-	-	-	-
14	Customer Accounting	-	-	-	-	-	-	-	-
15	Rents	-	-	-	-	-	-	-	-
16	General Office Expense	-	-	-	-	-	-	-	-
17	Maintenance - other	-	-	-	(14,889)	-	-	-	(14,889)
18	Miscellaneous	-	-	-	-	-	-	-	-
19	Depreciation & Amortization	-	-	-	-	-	-	-	-
20	Taxes other than Income	-	-	-	-	-	(5,289)	-	(5,289)
21	Total Operating Expense								
22	Before Income Taxes	-	-	-	(14,889)	-	(74,422)	-	(89,311)
23	State Income Tax	433	-	-	636	-	3,177	768	5,014
24	Federal Income Tax	3,396	-	-	4,989	-	24,936	6,031	39,352
25	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
26	Total Operating Expenses	3,829	-	-	(9,264)	-	(46,309)	6,799	(44,945)
27	NET OPERATING INCOME	$ (3,829)	$ -	$ -	$ 9,264	$ -	$ 46,309	$ 11,201	$ 62,945

Illinois-American Water Company
Pekin
Rate Base
For the Test Year Ending June 30, 2009

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Line No.	Description	Company Rebuttal Pro Forma Rate Base (IAWC 6.13)	Staff Adjustments (Appendix A Sch 4-P)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Utility Plant in Service	$ 28,631,591	$ -	$ 28,631,591
2	Less: Accumulated Depreciation	(10,059,659)	-	(10,059,659)
3	Net Utility Plant in Service	18,571,932	-	18,571,932
4	Construction Work in Progress	$ -	$ -	$ -
5	Utility Plant Acquisition Adj. - DuPage	-	-	-
6	Additions to Rate Base			
7	Cash Working Capital	173,848	(2,826)	171,022
8	Materials & Supplies	119,866	-	119,866
9	Deferred Charges - Tank Painting	358,417	(208,631)	149,786
10	FAS 109 Reg. Asset-Net of Liability	16,657	-	16,657
11	-	-	-	-
12	-	-	-	-
13	-	-	-	-
14	-	-	-	-
15	-	-	-	-
16	Deductions From Rate Base			
17	Customer Advances	(1,242,126)	-	(1,242,126)
18	Pension Liability	(187,701)	-	(187,701)
19	OPEB Liability	(85,492)	-	(85,492)
20	Contributions in Aid of Construction	(2,007,619)	-	(2,007,619)
21	Accum. Depr. On CIAC	751,215	-	751,215
22	Budget Payment Plan	-	-	-
23	Deferred Federal Income Taxes	(724,239)	-	(724,239)
24	Deferred State Income Taxes	(64,442)	-	(64,442)
25	Investment Tax Credit - pre 1971	(377)	-	(377)
26	Rate Base	$ 15,679,939	$ (211,457)	$ 15,468,482

Illinois-American Water Company
Adjustments to Rate Base
For the Test Year Ending June 30, 2009
Pekin

Line No.	Description	COMPANY ACCEPTED Utility Plant-in-Service (Staff Ex. 1.0 Sch. 1.7-P)	COMPANY ACCEPTED Depreciation Expense (Staff Ex. 1.0 Sch. 1.8-P)	Deferred Tank Painting (Staff R. Brief)	Cash Working Capital (Appendix A Sch. 7-P)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Utility Plant in Service	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Less: Accumulated Depreciation	-	-	-	-	-	-	-	-
3	Net Utility Plant in Service	-	-	-	-	-	-	-	-
4	Construction Work in Progress	-	-	-	-	-	-	-	-
5	Utility Plant Acquisition Adj. - DuPage	-	-	-	-	-	-	-	-
6	Additions to Rate Base								
7	Cash Working Capital	-	-	-	(2,826)	-	-	-	(2,826)
8	Materials & Supplies	-	-	-	-	-	-	-	-
9	Deferred Charges - Tank Painting	-	-	(208,631)	-	-	-	-	(208,631)
10	FAS 109 Reg. Asset-Net of Liability	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-
16	Deductions From Rate Base								
17	Customer Advances	-	-	-	-	-	-	-	-
18	Pension Liability	-	-	-	-	-	-	-	-
19	Contributions in Aid of Construction	-	-	-	-	-	-	-	-
20	Accum. Depr. On CIAC	-	-	-	-	-	-	-	-
21	Budget Payment Plan	-	-	-	-	-	-	-	-
22	Deferred Federal Income Taxes	-	-	-	-	-	-	-	-
23	Deferred State Income Taxes	-	-	-	-	-	-	-	-
24	Investment Tax Credit - pre 1971	-	-	-	-	-	-	-	-
25	Rate Base	$ -	$ -	$ (208,631)	$ (2,826)	$ -	$ -	$ -	$ (211,457)

Illinois-American Water Company

Interest Synchronization Adjustment

For the Test Year Ending June 30, 2009

Pekin

Line No.	Description	Amount	
	(a)	(b)	
1	Gross Utility Plant in Service	$ 15,468,482	(1)
2	Weighted Cost of Debt	3.31%	(2)
3	Synchronized Interest Per Staff	512,007	
4	Company Interest Expense	522,142	(3)
5	Increase (Decrease) in Interest Expense	(10,135)	
6	Increase (Decrease) in State Income Tax Expense		
7	at 4.269%	$ 433	
8	Increase (Decrease) in Federal Income Tax Expense		
9	at 35.000%	$ 3,396	

(1) Source: Appendix A, Schedule 3-P, Column (d).
(2) Source: ICC Staff Exhibit 14.0, Schedule 14.6.
(3) Source: IAWC Exhibit 6.15.

Illinois-American Water Company
Gross Revenue Conversion Factor
For the Test Year Ending June 30, 2009
Pekin

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	1.0893%	0.010893	
3	State Taxable Income		0.989107	1.000000
4	State Income Tax	4.2690%	0.042225	0.042690
5	Federal Taxable Income		0.946882	0.957310
6	Federal Income Tax	35.0000%	0.331409	0.335059
7	Operating Income		0.615473	0.622251
8	Gross Revenue Conversion Factor Per Staff		1.624767	1.607069

Illinois-American Water Company
Pekin
Adjustment to Cash Working Capital
For the Test Year Ended June 30, 2009

Line No.	Item	Amount (1)	Average Daily Amount (C)/365	Expense (Lead)/Lag (2)	Cash Requirement (D)*(E)	Source
(A)	(B)	(C)	(D)	(E)	(F)	(G)
1	Revenue	$ 6,520,777				Appendix A, Sch. 7-P, page 2, line 3
2	Return on Equity	(531,125)				Appendix A, Sch. 7-P, page 2, line 19
3	Non-cash OPEB expenses	-				
4	Uncollectible Accounts	(71,996)				
5	Total Depr/Amortization	(1,187,346)				Appendix A, Sch. 7-P, page 2, line 13
6						
7	Net Revenues	$ 4,730,310	$ 12,960	42.31	$ 548,327	
8						
9	Labor	$ 755,983	$ 2,071	(12.00)	$ (24,854)	
10	Fuel and Power	188,384	516	(26.88)	(13,873)	
11	Chemicals	83,355	228	(49.30)	(11,259)	Appendix A, Sch. 7-P, page 2, line 9
12	Purchased Water	-	-		-	Co. Sch. C-2.9 First Revised, line 9
13	Waste Disposal	-	-		-	Lead days = avg. from Co. Workpaper WPB-8h
14	Service Company Charges	928,876	2,545	3.11	7,907	
15	Group Insurance	266,820	731	7.42	5,422	
16	OPEB's	-	-	(7.00)	-	
17	Pensions	66,383	182	(8.00)	(1,455)	
18	Insurance Other than Group	220,098	603	0.00	-	
19	Customer Accounting	83,938	230	(39.62)	(9,111)	
20	Rents	10,599	29	8.00	232	
21	General Office	157,830	432	(13.18)	(5,699)	
22	Maintenance	201,316	552	(18.14)	(10,005)	Appendix A, Sch. 7-P, page 2, line 16
23	Miscellaneous	278,032	762	(16.82)	(12,814)	
24						
25	Total O&M Expenses	$ 3,241,614			(75,510)	
26						
27	General Taxes	374,676	1,027	(115.02)	(118,069)	
28	Federal Income Tax - Current	344,411	944	(53.96)	(50,916)	
29	State Income Tax - Current	44,380	122	(53.96)	(6,561)	
30	Deferred Income Taxes	42,077	115	-	-	
31	Interest Expense	512,007	1,403	(90.00)	(126,248)	Appendix A, Sch. 5-P, line 3
32						
33	Subtotal Other Expenses	$ 1,317,551			(301,795)	
34						
35	Total Cash Working Capital Requirement				$ 171,022	Line 7+line 25+line 33
36						
37	Cash Working Capital per Staff	$ 171,022				Line 35
38	Cash Working Capital per Company	$ 173,848				IAWC Exhibit 6.13 Pekin District
39						
40	Staff Proposed adjustment	$ (2,826)				

Source:
(1) Appendix A, Sch. 1-P, except where noted.
(2) Co. Schedule B-8 First Revised, page 7, except where noted.

Illinois-American Water Company
Pekin
Adjustment to Cash Working Capital
For the Test Year Ended June 30, 2009

Line No.	Item	Amount	Source
(A)	(B)	(C)	(D)
1	Total operating revenue	$ 6,520,777	Appendix A, Sch. 1-P, line 3, column (i)
2	Surcharge revenue	-	Not applicable
3	Total revenue	$ 6,520,777	
4	Chemical expense CWC per Co.	$ (7,308)	Co. Sch. B-8 First Revised, page 2, line 11
5	Avg. daily chemical expense per Co.	$ 228	Co. Sch. B-8 First Revised, page 2, line 11
6	Chemical expense lead days per Co.	(32.05)	Line 4 / Line 5
7	Billing lag days	(2.00)	Co. Workpapers WPB-8e, WPB-8g, WPB-8h
8	Service period midpoint	(15.25)	Co. Workpapers WPB-8e, WPB-8g, WPB-8h
9	Chemical expense lead days per Staff	(49.30)	Sum of lines 6 through 8
10	Depr/amortization per Income Statement	$ 1,144,246	Appendix A, Sch. 1-P, line 19, column (i)
11	Amortization of rate case expense	23,626	Appendix A, Sch. 1-P, line 12, column (i)
12	Amortization of tank painting	19,474	Staff Ex. 12.0-C, Sch. 12.1-P(Corrected), line 4
13	Total depr/amortization for CWC	$ 1,187,346	Sum of lines 10 through 12
14	Maintenance-other per Income Statement	$ 220,790	Appendix A, Sch. 1-P, line 17, column (i)
15	Reclassify amortization of tank painting	(19,474)	Line 12
16	Total Maintenance-other for CWC	$ 201,316	
17	Total Return on Rate Base	$ 1,214,277	Appendix A, Sch. 1-P, line 27, column (i)
18	Equity component of capital structure	43.74%	Staff Ex. 14.0, Sch. 14.6
19	Return on equity deduction from revenue	$ 531,125	

Illinois-American Water Company
Lincoln
Statement of Operating Income with Adjustments
For the Test Year Ending June 30, 2009

Line No.	Description	Company Rebuttal Pro Forma Present (IAWC Ex. 6.11)	Staff Adjustments (Appendix A Sch. 2-L)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Decrease (Company Schedule C-1	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	See Note 1: Adjustment To Proposed Increase	See Note 1: Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	$ 3,246,775	$ -	$ 3,246,775	$ (24,822)	$ -	$ 3,221,953	$ 211,058	$ 3,433,011
2	Miscellaneous Revenue	10,177	(5,000)	5,177	-	-	5,177	-	5,177
3	Total Operating Revenue	3,256,952	(5,000)	3,251,952	(24,822)	-	3,227,130	211,058	3,438,188
4	Uncollectible Accounts Expense	36,018	-	36,018	(271)	1	35,748	2,299	38,047
5	Labor	403,749	(32,227)	371,522	-	-	371,522	-	371,522
6	Fuel & Power	185,183	-	185,183	-	-	185,183	-	185,183
7	Chemicals	46,659	-	46,659	-	-	46,659	-	46,659
8	Waste Disposal	34,510	-	34,510	-	-	34,510	-	34,510
9	Management Fees	377,043	-	377,043	-	-	377,043	-	377,043
10	Group Insurance	132,930	-	132,930	-	-	132,930	-	132,930
11	Pensions	33,795	-	33,795	-	-	33,795	-	33,795
12	Regulatory Expense	9,589	-	9,589	-	-	9,589	-	9,589
13	Insurance - other	89,341	-	89,341	-	-	89,341	-	89,341
14	Customer Accounting	34,200	-	34,200	-	-	34,200	-	34,200
15	Rents	18,658	-	18,658	-	-	18,658	-	18,658
16	General Office Expense	53,865	-	53,865	-	-	53,865	-	53,865
17	Maintenance - other	137,985	-	137,985		-	137,985	-	137,985
18	Miscellaneous	118,400	-	118,400	-	-	118,400	-	118,400
19	Depreciation & Amortization	723,823	-	723,823	-	-	723,823	-	723,823
20	Taxes other than Income	164,897	(2,465)	162,432	-	-	162,432	-	162,432
21	Total Operating Expense								
22	Before Income Taxes	2,600,645	(34,692)	2,565,953	(271)	1	2,565,683	2,299	2,567,982
23	State Income Tax	13,009	1,344	14,353	(1,048)	-	13,305	8,912	22,217
24	Federal Income Tax	105,216	10,546	115,762	(8,226)	-	107,536	69,947	177,483
25	Deferred Taxes and ITCs Net	23,499	-	23,499	-	-	23,499	-	23,499
26	Total Operating Expenses	2,742,369	(22,802)	2,719,567	(9,545)	1	2,710,023	81,158	2,791,181
27	NET OPERATING INCOME	$ 514,583	$ 17,802	$ 532,385	$ (15,277)	$ (1)	$ 517,107	$ 129,900	$ 647,007
28	Staff Rate Base (Appendix A, Schedule 3-L, Column (d))								$ 8,242,135
29	Staff Overall Rate of Return (ICC Staff Exhibit 14.0, Schedule 14.6)								7.85%
30	Resulting Return on Rate Base (Col. (g) Line 27 divided by Col. (i) Line 28)						6.27%		
31	Revenue Change (Col. (g) Line 3 minus Col. (d), Line 3)						$ (24,822)		
32	Percentage Revenue Change (Col. (g), Line 31 divided by Col. (d), Line 3)						-0.76%		

Note 1: The Company should be granted the $24,822 decrease requested as explained in ICC Exhibit 11.0, page 4, lines 60-67.

Illinois-American Water Company
Adjustments to Operating Income
For the Test Year Ending June 30, 2009
Lincoln

Line No.	Description	Interest Synchronization (Appendix A Sch. 5-P)	COMPANY ACCEPTED Utility Plant-in-Service (Staff Ex. 1.0 Sch. 1.7-L)	COMPANY ACCEPTED Depreciation Expense (Staff Ex. 1.0 Sch. 1.8-L)	Deferred Tank Painting (Not Applicable)	COMPANY ACCEPTED Advertising Expense (Staff Ex. 2.0 Sch. 2.2-L)	Incentive Compensation (Staff Ex. 13.0 Sch. 13.1-L)	Revenue Adjustment (Staff Ex. 11.0 Sch. 11.8-L)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenue	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Miscellaneous Revenue	-	-	-	-	-	-	(5,000)	(5,000)
3	Total Operating Revenue	-	-	-	-	-	-	(5,000)	(5,000)
4	Uncollectible Accounts Expense	-	-	-	-	-	-	-	-
5	Labor	-	-	-	-	-	(32,227)	-	(32,227)
6	Fuel & Power	-	-	-	-	-	-	-	-
7	Chemicals	-	-	-	-	-	-	-	-
8	Waste Disposal	-	-	-	-	-	-	-	-
9	Management Fees	-	-	-	-	-	-	-	-
10	Group Insurance	-	-	-	-	-	-	-	-
11	Pensions	-	-	-	-	-	-	-	-
12	Regulatory Expense	-	-	-	-	-	-	-	-
13	Insurance - other	-	-	-	-	-	-	-	-
14	Customer Accounting	-	-	-	-	-	-	-	-
15	Rents	-	-	-	-	-	-	-	-
16	General Office Expense	-	-	-	-	-	-	-	-
17	Maintenance - other	-	-	-	-	-	-	-	-
18	Miscellaneous	-	-	-	-	-	-	-	-
19	Depreciation & Amortization	-	-	-	-	-	-	-	-
20	Taxes other than Income	-	-	-	-	-	(2,465)	-	(2,465)
21	Total Operating Expense								
22	Before Income Taxes	-	-	-	-	-	(34,692)	-	(34,692)
23	State Income Tax	76	-	-	-	-	1,481	(213)	1,344
24	Federal Income Tax	597	-	-	-	-	11,624	(1,675)	10,546
25	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
26	Total Operating Expenses	673	-	-	-	-	(21,587)	(1,888)	(22,802)
27	NET OPERATING INCOME	$ (673)	$ -	$ -	$ -	$ -	$ 21,587	$ (3,112)	$ 17,802

Illinois-American Water Company
Lincoln
Rate Base
For the Test Year Ending June 30, 2009

Line No.	Description		Company Rebuttal Pro Forma Rate Base (IAWC Ex. 6.13)	Staff Adjustments (Appendix A Sch 4-L)	Staff Pro Forma Rate Base (Col. b+c)
	(a)		(b)	(c)	(d)
1	Gross Utility Plant in Service		$ 19,645,778	$ -	$ 19,645,778
2	Less: Accumulated Depreciation		(9,592,825)	-	(9,592,825)
3	Net Utility Plant in Service		10,052,953	-	10,052,953
4	Construction Work in Progress		$ -	$ -	$ -
5	Utility Plant Acquisition Adj. - DuPage		-	-	-
6	Additions to Rate Base				
7	Cash Working Capital		252,730	(4,027)	248,703
8	Materials & Supplies		48,598	-	48,598
9	Deferred Charges - Tank Painting		23,826	-	23,826
10	FAS 109 Reg. Asset-Net of Liability		6,762	-	6,762
11		-	-	-	-
12		-	-	-	-
13		-	-	-	-
14		-	-	-	-
15		-	-	-	-
16	Deductions From Rate Base		-		
17	Customer Advances		(1,005,326)	-	(1,005,326)
18	Pension Liability		(93,851)	-	(93,851)
19	OPEB Liability		(42,746)	-	(42,746)
20	Contributions in Aid of Construction		(694,637)	-	(694,637)
21	Accum. Depr. On CIAC		200,359	-	200,359
22	Budget Payment Plan		-	-	-
23	Deferred Federal Income Taxes		(461,306)	-	(461,306)
24	Deferred State Income Taxes		(41,047)	-	(41,047)
25	Investment Tax Credit - pre 1971		(153)	-	(153)
26	Rate Base		$ 8,246,162	$ (4,027)	$ 8,242,135

Illinois-American Water Company
Adjustments to Rate Base
For the Test Year Ending June 30, 2009
Lincoln

Line No.	Description	COMPANY ACCEPTED Utility Plant-in-Service (Staff Ex. 1.0 Sch. 1.7-L)	COMPANY ACCEPTED Depreciation Expense (Staff Ex. 1.0 Sch. 1.8-L)	Deferred Tank Painting (Not Applicable)	Cash Working Capital (Appendix A Sch. 7-L)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(f)	(g)	(g)	(h)	(i)
1	Gross Utility Plant in Service	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Less: Accumulated Depreciation	-	-	-	-	-	-	-	-
3	Net Utility Plant in Service	-	-	-	-	-	-	-	-
4	Construction Work in Progress	-	-	-	-	-	-	-	-
5	Utility Plant Acquisition Adj. - DuPage	-	-	-	-	-	-	-	-
6	Additions to Rate Base								
7	Cash Working Capital	-	-	-	(4,027)	-	-	-	(4,027)
8	Materials & Supplies	-	-	-	-	-	-	-	-
9	Deferred Charges - Tank Painting	-	-	-	-	-	-	-	-
10	FAS 109 Reg. Asset-Net of Liability	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-
16	Deductions From Rate Base								
17	Customer Advances	-	-	-	-	-	-	-	-
18	Pension Liability	-	-	-	-	-	-	-	-
19	Contributions in Aid of Construction	-	-	-	-	-	-	-	-
20	Accum. Depr. On CIAC	-	-	-	-	-	-	-	-
21	Budget Payment Plan	-	-	-	-	-	-	-	-
22	Deferred Federal Income Taxes	-	-	-	-	-	-	-	-
23	Deferred State Income Taxes	-	-	-	-	-	-	-	-
24	Investment Tax Credit - pre 1971	-	-	-	-	-	-	-	-
25	Rate Base	$ -	$ -	$ -	$ (4,027)	$ -	$ -	$ -	$ (4,027)

Illinois-American Water Company
Interest Synchronization Adjustment
For the Test Year Ending June 30, 2009
Lincoln

Line No.	Description	Amount	
	(a)	(b)	
1	Gross Utility Plant in Service	$ 8,242,135	(1)
2	Weighted Cost of Debt	3.31%	(2)
3	Synchronized Interest Per Staff	272,815	
4	Company Interest Expense	274,597	(3)
5	Increase (Decrease) in Interest Expense	(1,782)	
6	Increase (Decrease) in State Income Tax Expense		
7	at 4.269%	$ 76	
8	Increase (Decrease) in Federal Income Tax Expense		
9	at 35.000%	$ 597	

(1) Source: Appendix A, Schedule 3-L, Column (d).
(2) Source: ICC Staff Exhibit 14.0, Schedule 14.6.
(3) Source: IAWC Exhibit 6.15.

Illinois-American Water Company

Gross Revenue Conversion Factor

For the Test Year Ending June 30, 2009

Lincoln

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	1.0893%	0.010893	
3	State Taxable Income		0.989107	1.000000
4	State Income Tax	4.2690%	0.042225	0.042690
5	Federal Taxable Income		0.946882	0.957310
6	Federal Income Tax	35.0000%	0.331409	0.335059
7	Operating Income		0.615473	0.622251
8	Gross Revenue Conversion Factor Per Staff		1.624767	1.607069

Illinois-American Water Company
Lincoln
Adjustment to Cash Working Capital
For the Test Year Ended June 30, 2009

Line No.	Item	Amount [1]	Average Daily Amount (C)/365	Expense (Lead)/Lag [2]	Cash Requirement (D)*(E)	Source
(A)	(B)	(C)	(D)	(E)	(F)	(G)
1	Revenue	$ 3,438,188				Appendix A, Sch. 7-L, page 2, line 3
2	Return on Equity	(283,001)				Appendix A, Sch. 7-L, page 2, line 19
3	Non-cash OPEB expenses	-				
4	Uncollectible Accounts	(38,047)				
5	Total Depr/Amortization	(747,135)				Appendix A, Sch. 7-L page 2, line 13
6						
7	Net Revenues	$ 2,370,005	$ 6,493	66.91	$ 434,458	
8						
9	Labor	$ 371,522	$ 1,018	(12.00)	$ (12,214)	
10	Fuel and Power	185,183	507	(25.06)	(12,714)	
11	Chemicals	46,659	128	(47.71)	(6,099)	Appendix A, Sch. 7-L, page 2, line 9
12	Purchased Water	-	-		-	Co. Sch. C-2.9 First Revised, line 9
13	Waste Disposal	34,510	95	39.70	3,754	Lead days = avg. from Co. Workpaper WPB-8h
14	Service Company Charges	377,043	1,033	3.11	3,210	
15	Group Insurance	132,930	364	7.42	2,701	
16	OPEB's	-	-	(7.00)	-	
17	Pensions	33,795	93	(8.00)	(741)	
18	Insurance Other than Group	89,341	245	0.00	-	
19	Customer Accounting	34,200	94	(47.88)	(4,486)	
20	Rents	18,658	51	8.00	409	
21	General Office	53,865	148	(18.40)	(2,715)	
22	Maintenance	124,352	341	(31.31)	(10,667)	Appendix A, Sch. 7-L page 2, line 16
23	Miscellaneous	118,400	324	(16.82)	(5,457)	
24						
25	Total O&M Expenses	$ 1,620,458			(45,021)	
26						
27	General Taxes	162,432	445	(98.74)	(43,941)	
28	Federal Income Tax - Current	177,483	486	(53.96)	(26,238)	
29	State Income Tax - Current	22,217	61	(53.96)	(3,284)	
30	Deferred Income Taxes	23,499	64	-	-	
31	Interest Expense	272,815	747	(90.00)	(67,269)	Appendix A, Sch. 5-L, line 3
32						
33	Subtotal Other Expenses	$ 658,446			(140,733)	
34						
35	Total Cash Working Capital Requirement				$ 248,703	Line 7+line 25+line 33
36						
37	Cash Working Capital per Staff	$ 248,703				Line 35
38	Cash Working Capital per Company	$ 252,730				IAWC Exhibit 6.13 Lincoln District
39						
40	Staff Proposed adjustment	$ (4,027)				

Source:
(1) Appendix A, Sch. 1-L, except where noted.
(2) Co. Schedule B-8 First Revised, page 8, except where noted.

Illinois-American Water Company
Lincoln
Adjustment to Cash Working Capital
For the Test Year Ended June 30, 2009

Line No.	Item		Amount	Source
(A)	(B)		(C)	(D)
1	Total operating revenue	$	3,438,188	Appendix A, Sch. 1-L, line 3, column (i)
2	Surcharge revenue		-	Not applicable
3	Total revenue	$	3,438,188	
4	Chemical expense CWC per Co.	$	(3,899)	Co. Sch. B-8 First Revised, page 2, line 11
5	Avg. daily chemical expense per Co.	$	128	Co. Sch. B-8 First Revised, page 2, line 11
6	Chemical expense lead days per Co.		(30.46)	Line 4 / Line 5
7	Billing lag days		(2.00)	Co. Workpapers WPB-8e, WPB-8g, WPB-8h
8	Service period midpoint		(15.25)	Co. Workpapers WPB-8e, WPB-8g, WPB-8h
9	Chemical expense lead days per Staff		(47.71)	Sum of lines 6 through 8
10	Depr/amortization per Income Statement	$	723,823	Appendix A, Sch. 1-L, line 19, column (i)
11	Amortization of rate case expense		9,589	Appendix A, Sch. 1-L, line 12, column (i)
12	Amortization of tank painting		13,723	Co. Sch. B-10, page 9
13	Total depr/amortization for CWC	$	747,135	Sum of lines 10 through 12
14	Maintenance-other per Income Statement	$	138,075	Appendix A, Sch. 1-L, line 17, column (i)
15	Reclassify amortization of tank painting		(13,723)	Line 12
16	Total Maintenance-other for CWC	$	124,352	
17	Total Return on Rate Base	$	647,007	Appendix A, Sch. 1-L, line 27, column (i)
18	Equity component of capital structure		43.74%	Staff Ex. 14.0, Sch. 14.6
19	Return on equity deduction from revenue	$	283,001	