

**Illinois-American Water Company**  
**Docket No. 09-0319**  
**AG Exhibit 1.2**  
**Copies of Applicant's Responses to Discovery Requests**  
**Referenced in the Direct Testimony of**  
**Ralph C. Smith**

**\*\*Confidential Information has been Redacted\*\***

<b>Discovery Request</b>	<b>Subject</b>	<b>Proprietary or Confidential</b>	<b>No. of Pages</b>	<b>Page No.</b>
	Staff Short-Term Debt calculation from Docket 07-0507; ICC Staff Exhibit 4.0 - Schedule 4.2	No	1	2
SK-1.05	Short-Term Debt - Actual for January - June 2009	No	2	3 - 4
IWC 2.2	Capital Expenditures	No	1	5
IWC 2.3	Capital Expenditures	No	1	6
AG 4.9	CPA Draft Report dated September 24, 2009 (with attachment excerpt showing \$8.876 million reduction to Utility Plant in Service)	No	3	7 - 9
DGK 9.01	Plant in Service - Corporate Study (with attachment b)	No	2	10 - 11
LHW 1.01	Lobbying Expenses (without attachments)	No	2	12 - 13
LHW 1.02	Lobbying Expenses (with attachment excerpt showing NAWC lobbying)	No	3	14 - 16
	California DRA May 31, 2009 Escalation Memorandum	No	3	17 - 19
LHW 5.01	Rate Case Expenses	No	6	20 - 25
LHW 3.04	Rate Case Expenses	Yes	2	26 - 27
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LHW 7.01	Rate Case Expenses incurred through August 31, 2009	No	2	31 - 32
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**Illinois-American Water Company**

Balance of Short-Term Debt  
 Average 2009

Line No.	Date (A)	Gross Short-term Debt Outstanding (B)	CWIP (C)	CWIP Accruing AFUDC (D)	Net Average Short-term Debt Outstanding (E)
1	Jun-09	\$ 37,883,807	\$ 77,121,541	\$ 28,462,377	\$ 23,902,458
2	May-09	38,891,023	84,530,947	27,972,127	26,021,599
3	Apr-09	43,531,364	78,340,869	25,856,877	29,163,574
4	Mar-09	32,344,960	72,150,791	23,741,627	21,701,667
5	Feb-09	24,081,594	65,960,713	21,626,377	16,186,021
6	Jan-09	22,692,697	59,770,636	19,511,127	15,285,045
7	Dec-08	40,934,046	88,551,136	46,162,351	19,594,830
8	Nov-08	63,362,581	116,574,611	71,852,067	24,308,345
9	Oct-08	63,080,312	107,747,399	67,904,261	23,326,016
10	Sep-08	62,422,423	97,696,848	63,677,762	21,736,154
11	Aug-08	63,047,221	87,617,745	58,914,438	20,654,078
12	Jul-08	61,990,938	77,200,320	54,194,754	18,473,196
<b>Average</b>					<b>\$ 21,696,082</b>

Notes: Column (E) = the greater of [Column (B) - Column (C)] or [Column (B) / Column (C) \* Column (D)]

**ILLINOIS-AMERICAN WATER COMPANY**  
**RESPONSE TO ILLINOIS COMMERCE COMMISSION**  
**DATA REQUEST NUMBER SK-1.05**

Witness Responsible:	<u>Scott Rungren</u>
Title:	<u>Financial Analyst III</u>
Phone No.:	<u>(314) 996-2454</u>
Date Received:	<u>June 29, 2009</u>
Docket No.:	<u>09-0319</u>

**SK-1.05**

Please provide the actual month-end balances of short-term debt, construction work in progress, and construction work in progress accruing AFUDC for the months of January 2009 through present, and provide monthly updates to Staff through the duration of the discovery phase of this Docket.

**RESPONSE**

Please see attached. Updates will be provided as they become available.

**Attached:**

[ICC SK-1.05-R1.xls](#)

**Date Response Provided:** August 5, 2009

**Illinois American Water Company**

	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09
Short-Term Debt	\$ 57,722,763	\$ 82,840,716	\$ 109,550,455	\$ 112,849,854	\$ 63,712,690	\$ 66,772,402
CWIP	\$ 24,033,462	\$ 17,612,517	\$ 17,874,235	\$ 18,895,090	\$ 20,391,712	\$ 18,363,773
CWIP Accruing AFUDC	\$ 17,020,404	\$ 8,105,751	\$ 8,073,725	\$ 9,866,983	\$ 11,351,384	\$ 12,913,136

**ILLINOIS-AMERICAN WATER COMPANY**  
**RESPONSE TO ILLINOIS INDUSTRIAL WATER CONSUMERS**  
**DATA REQUEST NUMBER IIWC 2-2**

Witness Responsible:	<u>Jeffrey T. Kaiser</u>
Title:	<u>Director of Engineering – Illinois American Water</u>
Phone No.:	<u>(618) 239-3231</u>
Date Received:	<u>September 11, 2009</u>
Docket No.:	<u>09-0319</u>

**IIWC 2-2**

Please provide the Company's 2009 capital investment budget variance through August 2009.

**RESPONSE**

Through the end of August 2009, the Company's 2009 capital budget spending, including developer funded projects, was approximately \$61,125,000. Actual capital spending through August 2009 has totaled approximately \$57,112,000 for a variance of approximately 6.6 percent.

Excluding developer funded projects, the Company's 2009 capital budget projected spending of approximately \$52,841,000 through the end of August 2009. Actual capital spending excluding developer funded projects through August 2009 has totaled approximately \$41,629,000 for a variance of approximately 21.2%.

The main drivers for this variance to date include delays in local permits impacting projects such as several fire flow projects, delays in permits from IEPA and the village of Homer Glen for the Chickasaw WWTP, (which was removed from rate base in the update filed August 24) as well as the impacts of wet weather on the initiation and completion of numerous smaller construction projects. The Company is currently finalizing its third quarter reforecast of 2009 capital spending which projects approximately the same annual total for 2009 as the original capital budget.

It is anticipated that the majority of the 2009 capital spending variance through August will be closed by completing the delayed projects in 2009 a month or two behind their original schedules. For projects such as the Rollins and Ridge Crest fire flow projects which have been delayed until 2010, a few projects planned for 2010 are being initiated ahead of schedule. This change in the timing of a few projects allows the Company's engineering staff to more closely maintain its planned workload as well as projected spending and not develop a significant backlog of projects which would be problematic to complete with our staffing levels.

**Date Response Provided:** September 17, 2009

**ILLINOIS-AMERICAN WATER COMPANY**  
**RESPONSE TO ILLINOIS INDUSTRIAL WATER CONSUMERS**  
**DATA REQUEST NUMBER IIWC 2-3**

Witness Responsible:	<u>Jeffrey T. Kaiser</u>
Title:	<u>Director of Engineering – Illinois American Water</u>
Phone No.:	<u>(618) 239-3231</u>
Date Received:	<u>September 11, 2009</u>
Docket No.:	<u>09-0319</u>

**IIWC 2-3**

Please explain the difference between the Company's pro forma capital investments contained in its rate filing and its historical capital investment levels for the period 2007-2008.

**RESPONSE**

The Company interprets the question to refer to the differences between the Company's actual and projected capital expenditures as follows:

2007 (actual): \$ 81,608,142  
2008 (actual): \$ 116,205,709  
2009 (forecast): \$101,820,020  
2010 (forecast): \$ 102,601,813

The Company prepares and executes capital budgets in response to its need to maintain regulatory compliance, meet customer demands, and provide adequate and reliable water and wastewater service. Yearly capital spending and plant additions may fluctuate as needed capital improvements increase or decrease in any given year. The year 2008 saw higher capital spending and plant additions in part due to the construction of the Champaign County Water Treatment Facility and Oak Valley WWTP, and in response to significant residential, commercial and industrial development.

The planned capital levels for 2009 and 2010 do not include a single large construction project (such as the Champaign facility) being placed in service during these years. Due to current economic conditions, including a significant decline in new residential and other development, the Company also anticipates that capital investment related to new development will be significantly lower in 2009 and 2010 as compared to prior years. As a result, the Company has not included significant capital investment related to growth in the projections of capital spending for 2009 and 2010. In addition, the Company has postponed two projects at the Chickasaw WWTP and Valley Marina WWTP which reduced plant additions by approximately \$12 million in 2010 (as discussed in IAWC Exhibit 3.00SUPP. pp 3-4). These wastewater plant improvement projects are now planned for completion in 2011.

**Date Response Provided:** September 23, 2009

**ILLINOIS-AMERICAN WATER COMPANY**  
**RESPONSE TO OFFICE OF THE ATTORNEY GENERAL**  
**DATA REQUEST NUMBER AG 4.9**

Witness Responsible:	<u>Richard Kerckhove</u>
Title:	<u>Manager, Rates</u>
Phone No.:	<u>(314) 996-2366</u>
Date Received:	<u>September 3, 2009</u>
Docket No.:	<u>09-0319</u>

**AG 4.9**

Re: IAWC Ex. 6.00 SUPP, at page 7. Provide the agreement, engagement letter, and all invoices to date from the CPA firm listed at lines 166-167. Provide all drafts of the CPA report that the Company has reviewed.

**RESPONSE**

Please see the attached.

The attached invoices are for work performed on the initial audit accompanying the original filing. To date, no invoices have been received for work performed on the updated audit report.

**Attachments:**

AG 4.9 R1 Update Engagement Letter.pdf  
AG 4.9 R2 Draft Audit Report.pdf  
AG 4.9 R3 Invoice 1.pdf  
AG 4.9 R3 Invoice 2.pdf  
AG 4.9 R4 Original Filing Engagement Letter.pdf

**Date Response Provided:** September 25, 2009

**FINANCIAL STATEMENTS  
AND  
INDEPENDENT ACCOUNTANTS' REPORT**

**ILLINOIS-AMERICAN WATER COMPANY**  
**(A wholly-owned subsidiary of  
American Water Works Company, Inc.)**

DRAFT

**ILLINOIS-AMERICAN WATER COMPANY**  
**(A wholly-owned subsidiary of American Water Works Company, Inc.)**

**Projected Schedule of Material Updates to Rate Base**  
**Under the Hypothetical Assumption in Note 3**  
**December 31, 2010**  
**(Dollars in thousands)**

	<u>Original</u>	<u>Adjustments</u>	<u>Update</u>
Gross utility plant in service at original costs	\$ 1,278,228	\$ (8,876)	\$ 1,269,352
Reserve for accumulated depreciation	441,903	460	442,363
Net utility plant in service	836,325	(9,336)	826,989
Plus: Working capital allowance	5,809	(161)	5,648
FAS 109 regulatory asset - net of liability	(5,092)	5,020	(72)
Less: Deferred federal income tax	34,209	(462)	33,747
Deferred state income tax	1,197	(86)	1,111

DRAFT

**ILLINOIS-AMERICAN WATER COMPANY**  
**RESPONSE TO ILLINOIS COMMERCE COMMISSION**  
**DATA REQUEST NUMBER DGK-9.01**

Witness Responsible:	<u>Jeffrey T. Kaiser</u>
Title:	<u>Director of Engineering – Illinois American Water</u>
Phone No.:	<u>(618) 239-3231</u>
Date Received:	<u>September 4, 2009</u>
Docket No.:	<u>09-0319</u>

**DGK-9.01**

In the supplemental direct testimony of Rich Kerckhove, Mr. Kerckhove states that fully depreciated comprehensive planning studies have been removed from schedule B-5 First Revised; however, “Other P/E - Comp. Planning” increased \$1,019,332 at Dec-2010 from \$3,900,367 in the initial filing to \$4,919,699 in the updated filing.

- a. Please identify the reason(s) for the \$1,019,332 increase in the updated filing.
- b. Provide a summary of the projects and/or planned projects that make up the “Other P/E - Comp. Planning” projected balance of \$4,919,699. Include a description, the cost or planned cost, and the completion date or planned completion date for each item.
- c. Provide a schedule of additions to-date to “Other P/E - Comp. Planning” during 2009.
- d. In regard to the Schedule B-5 First Revised, please provide any budgets for additions to “Other P/E - Comp. Planning” for the years 2007 through 2010.

**RESPONSE**

See attached for answers “a” through “c”.

The Company will send response to “d” at a later date.

**Attachment:**

[DGK-9.01.pdf](#)

**Date Response Provided:** September 18, 2009

In Service Date	Cost	Asset Location	Description
5/14/07	13,167	IL-Chicago Metro Water Not Classified (Specific)	Chicago Metro 2005 CPS Study Unitized under Work Order 50052001
5/14/07	12,482	IL-Chicago Metro Water Not Classified (Specific)	Chicago Metro 2004 Study assisted by Kurtz Engineering - Work Order 50052003
11/12/07	25,584	IL-Interurban Not Classified (Network)	2007 Study to prioritize needed Interurban main replacements under Work Order 50123475
7/30/07	38,146	IL-Pekin Intangibles	2007 Pekin Model Update to assist with the hydraulic effects due to the implementation of a new well - Work Order 50124907
10/31/07	33,449	East St. Louis - Interurban Office & Distribution	2007 Interurban Illinois IDSE (Initial Distribution System Evaluation) required by Stage 2 DBPR (Disinfection Byproducts Rule) - Work Order 50116632
6/27/07	170,616	East St. Louis - Interurban Office & Distribution	2006 Preliminary CPS Study Work by Black and Veatch for East St Louis - Work Order 50078809
11/1/07	4,666	East St. Louis - Interurban Office & Distribution	2007 Hydraulic Modeling by Black and Veatch for Richland Development Analysis within Interurban District - Work Order 50091092
9/5/07	41,248	IL-Champaign Intangibles	2007 Hydraulic Model Update of the Champaign Distribution System by Farnsworth Group - Work Order 50124906
11/30/07	14,421	Pekin - District Office	2007 Source of Supply Study for Pekin conducted by Kaskaska Engineering - Work Order 418967
6/27/08	30,819	Alton - Office & Distribution	2007 Alton Illinois IDSE (Initial Distribution System Evaluation) required by Stage 2 DBPR (Disinfection Byproducts Rule) - Work Order 426193
3/1/08	24,957	Alton - Office & Distribution	2007 Demand Analysis for Alton performed by Kaskaska - Work Order 416859
8/1/08	29,862	IL-Chicago Metro Water Intangibles	Survey work to develop existing plans for 8 well sites to assist with IEPA Permitting - Work Order 435204 - Work Performed during 2008
11/17/05	44,829	IL-Chicago Metro Water Intangibles	2004 Development of Hydraulic Model for CPS Study for Chicago Metro performed by Kurtz - Work Order 50052004
11/17/05	15,874	IL-Chicago Metro Water Intangibles	2004 Data Collection and Distribution Review for Chicago Metro CPS performed by Kurtz - Work Order 50052005
6/30/08	131,628	Alpine Heights Water - Well 1	2008 Development of Hydraulic Models for Alpine Hts, Arbury, Arrowhead, Liberty Ridge (East and West), Lombard, Moreland, Terra Cotta - Work Order 413662 - All internal charges for Chicago Metro Fire Flow Improvement Recommendations
5/30/08	51,374	Chicago Suburban Water - Well 1	2008 Development of Hydraulic Models for Chicago Suburban, Country Club, Valley Marina, Valley View and Waycinden - Work Order 413665 - Work Performed by Lowry and Associates for Chicago Metro Fire Flow Improvement Recommendations
8/1/08	463	Pontiac - WTF	preliminary design work for flood protection project 0944-6
8/1/08	14,833	Pontiac - WTF	preliminary design work for flood protection project
8/1/08	492	Pontiac - WTF	preliminary design work for flood protection project
8/1/08	225	Pontiac - WTF	preliminary design work for flood protection project
9/30/09	20,000	Champaign	Model update to aid in the preliminary design of a new booster station. This WO was opened in IP-0914-1 instead of RP-0914-S1
9/30/09	108,621	Alton	CPS performed for the entire system-Production, SOS, Distribution, and Customer & Demand Forecasts. Will now be completed by the end of October 2009
9/30/09	95,994	Streator	Slit evaluation of Streator's reservoir. This WO will be transferred out to maintenance.
3/3/09	3,106	Cairo	Carryover costs from an IDSE evaluation for the DBP rule from 2008 to 2009
9/30/09	124,609	Interurban	CPS performed for the entire system-Production, SOS, Distribution, and Customer & Demand Forecasts. Will now be completed by the end of October 2009
5/3/09	781	Pontiac	Carryover costs from an IDSE evaluation for the DBP rule from 2008 to 2009
9/30/09	118,534	Peoria	CPS performed for the entire system-Production, SOS, Distribution, and Customer & Demand Forecasts. Will now be completed by the end of October 2009
8/31/09	66,162	Chicago Water	CPS study for Bolingbrook/Santa Fe and Homer Township.
12/31/09	161,166	Corporate	CPS to be performed for the entire systems of Streator, Pekin and S. Beloit to begin in October 2009 and completed in 2010.
12/31/09	602,330	Corporate	Study to evaluate the utility and effectiveness of existing business processes
7/31/09	32,236	Chicago Water	IP-09860611 Woodridge Booster
8/31/09	1,796,415	Champaign	IP-09140408 Champaign Distribution Plant
12/31/10	5,650	Chicago Water	IP-09860611 Woodridge Booster
12/31/10	459,719	Corporate	Costs for the completion of the full CPS studies for Pekin, Streator, & S. Beloit in 2010 and the initiation of three new full CPS studies in Sept/Oct 2010 which have yet been identified.
12/31/10	625,240	Corporate	Study to evaluate the utility and effectiveness of existing business processes
	<b>4,919,698</b>	<b>Revised YTD 2010 Other P/E -Comp Planning</b>	

**ILLINOIS-AMERICAN WATER COMPANY**  
**RESPONSE TO ILLINOIS COMMERCE COMMISSION**  
**DATA REQUEST NUMBER LHW 1.01**

Witness Responsible:	<u>Tyler Bernsen</u>
Title:	<u>Financial Analyst II</u>
Phone No.:	<u>(314) 996-2274</u>
Date Received:	<u>June 30, 2009</u>
Docket No.:	<u>09-0319</u>

**LHW 1.01**

For 2007 and/or 2008, on the Illinois Secretary of State Website, [http://www.cyberdriveillinois.com/departments/index/lobbyist\\_search.html](http://www.cyberdriveillinois.com/departments/index/lobbyist_search.html), the following individuals and entities are listed in the Lobbyist Database as having performed lobbying activities on behalf of the Illinois-American Water Company:

- VINCE BUTLER
  - JAMES L. FLETCHER
  - TERRY L. GLORIOD
  - MICHAEL J. KASPER
  - TIMOTHY J. LEAHY
  - WALTER DAVIS LUNDY
  - DEANNA S. MOOL
  - COURTNEY C. NOTTAGE
  - TIMOTHY J. O'BRIEN
  - KARLA OLSON TEASLEY
  - CLIVE M. TOPOL
  - FLETCHER, TOPOL, O'BRIEN & KASPER, P.C.
  - MOOL LAW FIRM, LLC
  - THE MORIAH GROUP
- a. For fiscal years 2007 and 2008, for each person and entity listed above, provide the amount of time expended and all related costs for lobbying; demonstrate and explain how these amounts were derived; explain how these costs were accounted for in IAWC's accounting system; and explain the methodology used in allocating these costs to the various service areas. Provide estimates of the same information for fiscal years 2009 and 2010; include detailed explanations for any significant variances from actual data.
  - b. If the total lobbying expenses for each year as derived in the previous step does not equal the amount reported for the corresponding year on IAWC Schedule C-21, Miscellaneous General Expenses, Page 2 of 5, Line 25, please provide a reconciliation explaining the differences.
  - c. Indicate, for each person and entity above, the amounts, if any, for time and related costs of lobbying that were removed from test year operating expenses as set forth on the Company's Schedule C-1, and identify the line item on the Schedule C-1 from which these amounts were removed.

**ILLINOIS-AMERICAN WATER COMPANY  
RESPONSE TO ILLINOIS COMMERCE COMMISSION  
DATA REQUEST NUMBER ICC LHW 1.01  
PAGE 2**

- d. If the Company contends it is inappropriate to remove amounts for time and related costs of lobbying from test year operating expenses, please fully explain the bases for this position.
- e. Provide the amounts, if any, for time and related costs of lobbying that are included in test year operating expenses as set forth on IAWC's Schedule C-1; provide an explanation and demonstration of how these amounts were derived; and identify the line item on Schedule C-1 in which each of these amounts are included.

Provide all supporting calculations and work papers. To the extent applicable, all documents and work papers should be provided in Excel format with working formulas.

**RESPONSE**

- a) See attached for expenses incurred for lobbying and hours spent by Illinois-American employees and the listed third-parties on Lobbying in 2007 and 2008. The expenses for lobbying were recorded to account 575660. Expenses were expensed to the Corporate business unit and allocated to each tariff group by customer count for rate making purposes. Estimated hours for the test year 2010 are assumed to be similar to historical year 2008. There are no significant variances from historical years to the current or test year.
- b) Not applicable.
- c) No amounts for lobbying were removed from C-1 for the test year. Pursuant to 220 ILCS 5/9-224, lobbying expenses should have been removed from the test year operating expenses shown on schedule C-1. These lobbying expenses were not removed due to an oversight. The Company has removed these expenses from its test year operating expenses on schedule C-1 and filed a revised Schedule C-1 in conjunction with its update filing in accordance with the scheduling set in this proceeding.
- d) See (c) above.
- e) The company included \$112,750 in its test year operating expenses. This amount is included in the operating and maintenance expense shown on line 2 of schedule C-1. As discussed in (c) above, this amount will be removed.

**Attachment**

[ICC LHW-1.01-R1 lobbying expense.xls](#)

**Date Response Provided:** August 25, 2009

**ILLINOIS-AMERICAN WATER COMPANY**  
**RESPONSE TO ILLINOIS COMMERCE COMMISSION**  
**DATA REQUEST NUMBER LHW 1.02**

Witness Responsible:	<u>Tyler Bernsen</u>
Title:	<u>Financial Analyst II</u>
Phone No.:	<u>(314) 996-2274</u>
Date Received:	<u>June 30, 2009</u>
Docket No.:	<u>09-0319</u>

**LHW 1.02**

Is Illinois-American Water Company a member of the National Association of Water Companies (NAWC) or the American Water Works Association (AWWA)? If yes:

- a. Are the costs/dues associated with membership reflected in the Company's filing?
- b. How much of the costs/dues are allocated to lobbying activity?
- c. How was the allocation of costs/dues to lobbying activity calculated?
- d. Provide the amounts, if any, for membership costs/dues allocable to lobbying that are included in test year operating expenses as set forth on IAWC's Schedule C-1; provide an explanation and demonstration of how these amounts were derived; and identify the line item on the Schedule C-1 in which each of these amounts are included.
- e. Provide copies of dues/membership invoices from the NAWC and the AWWA for fiscal years 2007, 2008, and 2009.

Provide all supporting calculations and work papers. To the extent applicable, all documents and work papers should be provided in Excel format with working formulas.

**RESPONSE**

Illinois-American Water Company is a member of both the National Association of Water Companies (NAWC) and the American Water Works Association (AWWA).

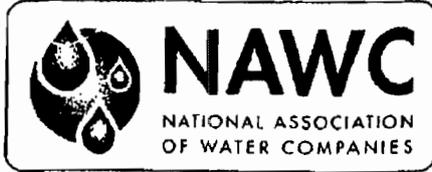
- a) Costs and Memberships for AWWA and NAWC dues are expensed in accounts 575240, 575242, 575244, and 575245. These amounts can be found in Schedule C-6.1 and C-21 page 1 lines 20-23. These accounts contain other expenses as well.
- b) None of the costs/dues are allocated to lobbying in the filing
- c) See (b) above.
- d) See the Company's response to LHW 1.01 (c) for lobbying costs in the test year. Note that the company has removed these amount in it's update filing.
- e) See attached.

**Attachments:**

[ICC LHW 1.02\(e\)-R1 dues and memberships.xls](#)

[ICC LHW 1.02\(e\)-R2 invoice copies.pdf](#)

**Date Response Provided:** August 25, 2009



PETER L. COOK, EXECUTIVE DIRECTOR

V# 17002041 @

A17ANA14  
 030408

Company Name: Illinois-American Water  
 Company Address: 100 North Water Works Drive  
 Belleville, IL 62223-9040  
 Official Representative: Karla Teasley  
 Local Representative:  
 Telephone: 618-239-3247  
 Fax: 618-277-7498

Received  
 MAR 04 2008  
 Shared Services Center

Questionnaire Form

Parent or Holding Company: American Water  
 Zip Codes Served: Same as 2007  
 2007 Gross Water Revenues: \$162,565,999 No. of Customers (12/31/07): 275,166  
 2008 NAWC Dues: \$98,009 Population Served (12/31/07): 963,081  
 No. of Employees (12/31/07): 473

2008 Dues Schedule

Gross Water Revenues	2008 NAWC Dues
Under \$50,000.....	\$47.25
\$50,000-\$999,999.....	0.18%
\$1,000,000-\$2,000,000.....	\$2,025 Plus \$1.05 per 1,000 in excess of \$1,000,000
\$2,000,000-\$3,000,000.....	\$3,089 Plus \$0.78 per 1,000 in excess of \$2,000,000
\$3,000,000 or more.....	\$3,865 Plus \$0.59 per 1,000 in excess of \$3,000,000

Under the Omnibus Budget Reconciliation Act of 1993, expenditures paid or incurred in connection with "Lobbying" activities no longer qualify as deductible business expenses for tax purposes. NAWC is required to provide you with an estimate of that portion of your 2008 NAWC dues that will not be deductible because of the new law. That figure is 17% of your 2008 dues.

\*Contributions or gifts to NAWC are not tax deductible as charitable contributions for income tax purposes. However, they may be tax deductible as ordinary and necessary business expenses subject to restrictions imposed as a result of the association's lobbying activities.



State of California

Public Utilities Commission  
San Francisco

**MEMORANDUM**

Date : May 31, 2009

To : Division of Ratepayer Advocates and Water Division

From : M. G. Lyons, Program and Project Supervisor  
A. D. Fest, Regulatory Analyst  
DRA Energy Cost of Service Branch

File No.: S-2559

Subject: Division of Ratepayer Advocates: Estimates of Non-labor and Wage Escalation Rates for 2009 through 2013 from the May 2009 IHS Global Insight U.S. Economic Outlook

The purpose of the monthly Escalation Memorandum is to inform division management of the trends in the general price level of utility non-labor expenses and wage contracts. Data are provided for 13 years, which include eight historic years, the estimated current year, and four forecasted years.

The following table summarizes the major changes in forecasted labor and non-labor inflation for years 2009 through 2013. Data for 2008 are provided as benchmarks. The factors for April 2009 are presented for comparison. Near-term, lagged CPI (Labor) is expected to run over 3.8% in 2009 due to sharp petroleum price increases in 2008. Non-labor inflation for 2009-13 is effectively checked by the 2008-09 recession and continued structural changes in the economy such as globalization and improved operating efficiencies. The rise of non-labor rates for 2008 is the result of temporary price increases in chemicals, metals, and the spike in 2008 refined oil prices. Labor escalation is constrained from 2010-2012 by changes in the labor market due to the 2008-09 recession, corporate structural change, outsourcing, and a rise in operating productivity.

FORECASTED INFLATION

	Labor		Non-labor	
	<u>04/09</u>	<u>05/09</u>	<u>04/09</u>	<u>05/09</u>
2008	2.9%	2.9%	6.3%	6.2%
2009	3.8%	3.8%	(6.5)%	(5.5)%
2010	(1.4)%	(1.2)%	(0.8)%	(0.1)%
2011	1.6%	1.5%	2.5%	2.0%
2012	2.1%	2.4%	2.8%	2.7%
2013	2.3%	2.3%	2.8%	2.5%
Compounded	11.8%	12.2%	6.8%	7.7%

A more extensive explanation of the derivation and use of the above factors and a complete presentation of the escalation factors from 2001 through 2013 are provided in the attached appendix.

#### APPENDIX: EXPLANATION OF ESCALATION RATES

The recommended NON-LABOR ESCALATION RATES for 2009 through 2013 are presented in Table A. The values for 2001 through 2008 are provided for comparison.

TABLE A

<u>Year</u>	<u>Non-Labor* Inflation Rate</u>
2001	(0.1)%
2002	(0.2)%
2003	2.5%
2004	5.8%
2005	5.5%
2006	5.5%
2007	3.0%
2008	6.2%
2009	(5.5)%
2010	(0.1)%
2011	2.0%
2012	2.7%
2013	2.5%

\* Revised 07/17/97 based on 1995 re-weighted purchases. [Source: BLS, Supplement to Producer Price Indexes, 1995, Table 12]

These escalation rates represent the calendar year average, or alternatively stated, the 12-month-ended spot rate at mid-year. These price factors have not been adjusted for real growth of expensed materials and services. The escalation factors are generated from a composite index of 10 Wholesale Price Indexes (WPI) for materials and supplies expenses and the CPI-U weighted 5% for services and consumer-related items. **These non-labor rates are not applicable to plant, contracted services, loans, insurance, rents, and pensions and other utility employee benefits. Escalation of these expenses is addressed on pages 10-15 of D.04-06-018/R.03-09-005 (Water Rate Case Plan).**

The WAGE ESCALATION RATES in Table B are based on recorded utility labor settlements for 2001 through 2008 and Global Insight projections of the U.S. CPI for All Urban Consumers (CPI-U) for 2009 through 2013.

TABLE B

<u>Year</u>	<u>Wage Increases 1/ 2/</u>	
2001	3.00%/3.50%/3.00%- PG&E/SCE/SoCal	
2002	3.00%/3.50%/3.00%- PG&E/SCE/SoCal	
2003	4.00%/3.25%/3.00%- PG&E/SCE/SoCal	
2004	4.00%/3.50%/3.50%- PG&E/SCE/SoCal	
2005	4.00%/3.50% /3.50%-PG&E/SCE/SoCal	
2006	3.75%/3.75%/3.50% -PG&E/SCE/SoCal	
2007	3.75%/3.50%/3.75% -PG&E/SCE/SoCal	
2008	3.75%/4.00%/3.75% -PG&E/SCE/SoCal	
2009	3.8%	-CPI <u>3/</u>
2010	(1.2)%	-CPI <u>3/</u>
2011	1.5%	-CPI <u>3/</u>
2012	2.4%	-CPI <u>3/</u>
2013	2.3%	-CPI <u>3/</u>

1/ Wage increases are not adjusted for changes in hours worked or the number of employees. The labor requirement is a separate issue related to the calculation of total payroll.

2/ If the proposed increase is reasonable, witnesses should use the particular utility's actual settlement on the date it becomes effective. The above recorded wage increases are for benchmark purposes only.

3/ CPI-U lagged one year to be consistent with union contracts.

The generally accepted method in labor contracts is to peg a wage increase to the rate of increase in the CPI-U for the previous year. Consequently, these wage escalation rates are based on the previous year's CPI escalation. If the utility is using an index other than U.S. CPI-U, please contact me for directions. The witnesses should familiarize themselves with the actual wage contracts for 2001 through 2013 to ascertain the correct wage formulas, reasonableness, and the effective date of increase for the particular proceeding. The annualized wage increase should reflect the percentage changes in wages weighted by the number of months individual wage rates were in effect.

Other non-labor and labor indices may be used if a witness has more specific knowledge of any particular account. **Those individuals who plan to use their own inflation factors are expressly requested to contact me for approval and direction.** These forecasts are updated monthly. Please call me if you have any questions relating to these projections. **All above data are provided on a limited, as-needed basis to recipients.**

cc: M. Pocta                      D. Sanchez              F. Curry  
       M. Kanter                     R. Kahlon

**ILLINOIS-AMERICAN WATER COMPANY**  
**RESPONSE TO ILLINOIS COMMERCE COMMISSION**  
**DATA REQUEST NUMBER LHW 5.01**

Witness Responsible:	<u>Tyler Bernsen</u>
Title:	<u>Financial Analyst II</u>
Phone No.:	<u>(314) 996-2366</u>
Date Received:	<u>July 21, 2009</u>
Docket No.:	<u>09-0319</u>

**LHW 5.01**

Referring to Section 9-229 of the Public Utilities Act, which states:  
(220 ILCS 5/9-229 new) Sec. 9-229. Consideration of attorney and expert compensation as an expense. The Commission shall specifically assess the justness and reasonableness of any amount expended by a public utility to compensate attorneys or technical experts to prepare and litigate a general rate case filing. This issue shall be expressly addressed in the Commission's final order.

Please answer the following:

- a) Does IAWC contend that each amount set forth in Schedule C-10 is a just and reasonable expense? If so, provide all facts, information, data, analyses and assessments supporting the contention that the amounts set forth in Schedule C-10 are just and reasonable amounts to prepare and litigate the current general rate case;
- b) For the items set forth in the Company's Schedule C-10, provide the amount actually incurred for each item as of June 30, 2009 and, to the extent not otherwise provided in response to part a) of this data request, provide a specific assessment of why the Commission should find that each of the amounts actually incurred is a just and reasonable amount to prepare and litigate the current general rate case. This response should be updated to reflect additional rate case expense actually incurred each subsequent month as documentation such as invoices becomes available;
- c) To the extent that any overtime to compensate any attorney or technical expert employed or retained by IAWC to prepare and litigate this general rate case is included in the test year revenue requirement proposed by the Company, identify the amounts so included and, to the extent not otherwise provided in response to parts a) and b) of this data request, provide a specific assessment of why the Commission should find that each of the amounts is a just and reasonable amount to prepare and litigate the current general rate case; and
- d) To the extent that IAWC has actually incurred expenses including overtime to compensate any attorney or technical expert employed or retained by the Company to prepare and litigate this general rate case, provide the amount of overtime expenses actually incurred to date and provide a specific assessment of why the Commission should find that the amount of overtime expense actually incurred is a just and reasonable amount to prepare and litigate the current general rate case.

Provide all supporting calculations and workpapers. To the extent applicable, all documents and workpapers should be provided in Excel format with working formulas.

**ILLINOIS-AMERICAN WATER COMPANY  
RESPONSE TO ILLINOIS COMMERCE COMMISSION  
DATA REQUEST NUMBER ICC LHW 5.01  
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**RESPONSE**

IAWC objects to this request as calling for a legal conclusion. IAWC further objects to this request as overly broad and unduly burdensome. Subject to and without waiving these objections IAWC responds as follows.

- a) Each of the amounts shown on Schedule C-10 is a just and reasonable expense. The following addresses each of the expense components of Rate Case Expense as shown on Schedule C-10 (First Revised):

**Legal Fees and Expenses**

The amount of Legal Fees and Expenses is reasonable because it is based on a projection of legal fees and expense for this rate case by the Company's legal service providers that reflects those providers' past experience representing Illinois water utilities in rate proceedings, including IAWC's prior rate case, Docket 07-0507. Mr. Springer has 30 years of experience representing Illinois public utilities before the Commission and Jones Day has represented Illinois water utilities in numerous Commission rate proceedings. The legal fees and expense amount is based on hourly rates for Jones Day attorneys and Mr. Springer (as shown on AG 1.17-R1) that are consistent with or below the market rates for law partners and associates in the Midwest region (particularly Chicago and St. Louis) as shown on IAWC Exhibit 11.01 (Service Company Cost Study), Schedules 4, 4.2, 4.3 and 4.4. The amount shown on Schedule C-10 (First Revised) also represents a lower amount of legal fees and expenses than the amount actually incurred in Docket 07-0507, as shown on Schedule C-10.1. In addition, as set forth in LHW 3.04 and AG 1.17, the legal fees of Jones Day and Mr. Springer include a "not-to-exceed" amount, which is intended in part to ensure that the projection of legal expense is reliable and that the amounts actually incurred for legal expense are consistent with the projection. As shown on the attachment to LHW 3.04(c), over 43% of the projected legal fees and expenses amount has already been incurred, despite the fact that significant work (review of testimony, hearing and briefing) remains to be done in the case.

**Revenue Requirement**

The Company notes that it does not consider the costs under "Revenue Requirement" on Schedule C-10 to be "attorney and expert compensation" as set forth in Section 9-229 of the Public Utilities Act. The costs under "Revenue Requirement" represent the cost of IAWC, Service Company, and temporary personnel to prepare the rate case filing. The costs estimated for Revenue Requirement include the preparation of the revenue requirement and all testimonies, preparation of responses to data requests, participation in hearings, providing analyses during the case, and preparation of final tariffs. The amount for Revenue Requirement was determined by estimating the number of hours expected to be expended by Company personnel and multiplying the hours by the respective employee rate including overheads. The Revenue Requirement estimate represents a 34% decrease from the amount included in the prior rate case.

**ILLINOIS-AMERICAN WATER COMPANY  
RESPONSE TO ILLINOIS COMMERCE COMMISSION  
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**CPA Review**

The amount for CPA Review is reasonable because it is set as a flat fee. The flat fee level is nearly 32% less than the actual cost incurred for CPA Review in the prior case, as shown on Schedule C-10.1. The firm retained to perform the CPA Review and audit of IAWC's forecast has performed the audit for IAWC's prior rate case and has experience working with IAWC personnel and Illinois regulatory matters.

**Rate of Return Consultant**

The amount for rate of return consultant is reasonable because it is consistent with the actual expense incurred for the rate of return consultant in the prior case, Docket 07-0507, as shown in Schedule C-10.1. The rate of return consultant, Ms. Ahern, has significant experience performing rate of return analyses for regulated utilities. In addition, the amount for the rate of return consultant is based on hourly rates (set forth in AG 1.17-R1) that are consistent with the market rates for accounting services as shown on IAWC Exhibit 11.01 (Service Company Cost Study), Schedule 1 and are substantially lower than the market rates for cost of equity consultants shown on IAWC Exhibit 11.01, Schedule 5.2.

**Demand Study**

Preparation of a demand study was required by the Commission in its Order in Docket 07-0507. The increase reflects the differences between the two studies as described in LHW 4.06. See also response to PL 3.01. The difference in scope between the prior demand study in 07-0507 and the current case results from the fact that the demand study in the present case is the product of a methodology that was, as discussed by Mr. Grubb (IAWC Exhibit 5.00, pp. 12-15), developed in coordination with the parties in Docket 08-0463 and approved by the Commission in that Docket. The approved demand study methodology was intended, in part, to address concerns raised in docket 07-0507 about the demand study utilized in that case. As indicated in the response to those concerns, the demand study consultant was selected due to his expertise and prior experience in the preparation of water demand studies. In addition, the amount for the demand study is based in part on an hourly rate (set forth in AG 1.17-R1) that is consistent with the market rate for consultants as shown on IAWC Exhibit 11.01 (Service Company Cost Study), Schedule 5.

**Cost of Service Study**

Preparation of the cost of service study ("COSS") was required by the Commission in its Order in Docket 07-0507. The amount for the cost of service study is reasonable because the COSS consultant was selected as a result of a competitive bid (see LHW 4.06). The COSS consultant's bid was the low bid. In addition, the COSS consultant, Mr. Herbert, has substantial experience performing COSS for regulated utilities. The amount for the cost of service study is based on hourly rates for a principal and associate (set forth in AG 1.17-R1) that are consistent with the market rates for similar positions in the management consulting services area shown in Exhibit 11.01 (Service Company Cost Study), Schedules 5 and 5.2.

**ILLINOIS-AMERICAN WATER COMPANY  
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**Other**

The Company notes that it does not consider the costs under “Other” on Schedule C-10 to be “attorney and expert compensation” as set forth in Section 9-229 of the Public Utilities Act. Other rate case expense includes amounts estimated for mailing to customers rate case-related information and legal notices as required under the Public Utilities Act and Commission rules, postage, and additional communications needs during the course of the rate case including estimated costs to be incurred for public meetings. The amount of Other rate case expense represents a 17% increase from the actual amount of this expense incurred in Docket 07-0507. The 17% increase is reasonable because it reflects a postal rate increase that took effect subsequent to the last rate case and includes a projected level of costs related to additional public forums, over and above the one public forum that was held in Champaign in the last rate case.

**Service Company Study**

The Commission’s Final Order in Docket 07-0507, Section IV.B.6.d, required IAWC to “...conduct a study comparing the cost of each service obtained from the Service Company to the costs of such services had they been obtained through competitive bidding on the open market. As part of the study, IAWC must also provide an analysis of the services provided by the Service Company to all of IAWC’s affiliates. The analysis must provide details on the specific services provided to IAWC and how costs are allocated among affiliates of IAWC. IAWC shall include the study in its next rate filing.” As Mr. Uffelman explains (IAWC Ex. 10.00, p. 4-5) the Service Fee Study is part of the testimony and exhibits presented by IAWC in response to the requirements of the Commission’s Order in Docket 07-0507. The amount on Schedule C-10 for the service company study is reasonable because the service company study consultant was selected as a result of a competitive bid (see LHW 4.06). The service company study consultant’s bid was the low bid. In addition, Mr. Uffelman, one of the service company study consultants, has extensive experience working in the Illinois regulatory field (and worked for the Commission at one time), and had recently worked on IAWC’s Municipal Rate Study in Docket 07-0507. The service company study consultant was also selected due to the fact that the service company study consultant had superior expertise and experience related to the scope of the service company study and the service company study consultant (both Deloitte & Touche and Mr. Uffelman) had the necessary resources to perform the service company study in the Company’s time frame. In addition, as set forth in LHW 3.04 and AG 1.17, the cost to prepare the service company study and direct testimony included a “not-to-exceed” amount, which is intended in part to ensure that the projection of the expense is reliable and that the amounts actually incurred for the service company study are consistent with the projection.

- b) The amounts actually incurred to date for Legal Fees and Expenses rate case expense were provided in response to LHW 3.04. The amounts actually incurred to date for the other items in Schedule C-10 are shown on the attached. An assessment of the reasonableness of the cost for each item is provided in (a).
- c) No overtime compensation was provided to any attorney or technical expert employed or retained by IAWC to prepare and litigate this general rate case.

**ILLINOIS-AMERICAN WATER COMPANY  
RESPONSE TO ILLINOIS COMMERCE COMMISSION  
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d) See (c).

**Attached:** [ICC LHW 5.01 \(b\) rate case expense.xls](#)

**Date Response Provided:** September 2, 2009

Illinois-American Water Company  
ICC LHW 5.01 (b)

Rate Case expense as of June 30, 2009

Legal Fees and Expenses	330,760
Revenue Requirement	267,628
CPA Review	41,283
Rate of Return Consultant	12,800
Demand Study	34,953
Cost of Service Study	38,324
Other	84,142
Service Company Study	348,871
Total	\$ 1,158,760

**PAGES 26-30 ARE  
CONFIDENTIAL AND HAVE  
BEEN REDACTED**

**ILLINOIS-AMERICAN WATER COMPANY**  
**RESPONSE TO ILLINOIS COMMERCE COMMISSION**  
**DATA REQUEST NUMBER LHW 7.01**

Witness Responsible:	Tyler Bernsen
Title:	Financial Analyst II
Phone No.:	(314) 996-2274
Date Received:	September 3, 2009
Docket No.:	09-0319

**LHW 7.01**

This request is a follow up to the Company's response to Staff data request LHW 5.01 b). On the attached Excel spreadsheet, Rate Case Expense, please provide the amount of expense actually incurred for each item as of August 31, 2009, by completing Column D, Lines 1 through 9. Also, if there are reasons to adjust the original estimates from Schedule C-10 (for example, the final cost of the Demand Study is known and measureable), please complete Column E, lines 1 through 9.

**RESPONSE**

See Attached.

**Attachment:**  
**ICC LHW 7 01-R1.xls**

**Date Response Provided:** September 17, 2009

Illinois-American Water Company  
 Rate Case Expense  
 LHW 7.01

Line No.	Rate Case Expense Estimated - From Schedule C-10 (B)	From LHW 5.01 b) Rate Case Expense incurred As of June 30, 2009 (C)	Rate Case Expense incurred As of August 31, 2009 (D)	Rate Case Expense Revised Estimate (E)
1	Legal Fees and Expenses	\$930,000	\$330,760	\$516,430
2	Revenue Requirement	329,494	267,628	340,752
3	CPA Review	48,700	41,283	41,283
4	Rate of Return Consultant	52,760	12,800	13,275
5	Demand Study (1)	143,000	34,953	144,283
6	Cost of Service Study	106,540	38,324	57,689
7	Other	306,102	84,142	104,288
8	Service Company Study	422,900	348,871	348,871
9	Total	\$2,339,496	\$1,158,760	\$1,566,871

(1) Note: Demand Study amount in Column (D) reflects costs previously incurred by the Company, but inadvertently recorded to the incorrect account. The amount not included in 5.01 b) for Demand Study expense as of June 30 was \$97,050. The total as of June 30 was actually \$132,003.