

DIRECT TESTIMONY

of

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Accountant
Accounting Department
Financial Analysis Division
Illinois Commerce Commission

Aqua Illinois, Inc.

Proposed General Increase in Water Rates
For the Kankakee Division

Docket No. 10-0194

June 3, 2010

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Attachments

Attachment A	Plant Facilities Charge Adjustments per Aqua Response to Staff Data Request RWB-13.03
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1 Witness Identification

2 Q. Please state your name and business address.

3 A. My name is Richard W. Bridal II. My business address is 527 East Capitol
4 Avenue, Springfield, Illinois 62701.

5 Q. By whom are you employed and in what capacity?

6 A. I am currently employed as an Accountant in the Accounting Department of the
7 Financial Analysis Division of the Illinois Commerce Commission (“ICC” or
8 “Commission”).

9 Q. Please describe your professional background and affiliations.

10 A. I am a Certified Public Accountant with a Bachelor of Business in Accountancy
11 from Western Illinois University. Prior to joining the Commission Staff (“Staff”), I
12 was employed for 8 years as an auditor by the Medicare Part A Fiscal
13 Intermediary for Illinois.

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

15 A. Yes, I have testified before the Commission on several occasions.

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

17 A. I have reviewed and analyzed Aqua Illinois, Inc.’s (“Aqua” or “Company”) filings
18 for a proposed general increase in rates for its Kankakee Water Division, and the
19 underlying data.

20 The purpose of my testimony is to:

21 1. Present the Staff adjusted operating statements and rate base of
22 the Company;

- 23 2. Propose adjustments to Aqua’s Statement of Operating Income
24 concerning Industry & Association Dues, Charitable Contributions,
25 Promotional Items, Social & Service Club Dues, Advertising
26 Expense, Chemicals Expense, and Unaccounted-for Water;
27 3. Propose adjustments to Aqua’s Rate Base concerning Cash
28 Working Capital;
29 4. Present comments regarding Aqua’s calculation of the Allowance
30 for Funds Used During Construction;
31 5. Present comments regarding Aqua’s proposed Plant Facilities
32 Charge; and
33 6. Present comments regarding an Original Cost Determination.

34

35 Schedule Identification

36 Q. Are you sponsoring any schedules as part of ICC Staff Exhibit 1.0?

37 A. Yes. I am sponsoring the following schedules which show data as of, or for the
38 test year ending December 31, 2011:

39 Revenue Requirement Schedules

40 Schedule 1.1 Statement of Operating Income with Adjustments

41 Schedule 1.2 Adjustments to Operating Income

42 Schedule 1.3 Rate Base

43 Schedule 1.4 Adjustments to Rate Base

44 Schedule 1.5 Revenue Effect of Adjustments

45 Schedule 1.6 Interest Synchronization Adjustment

46	Schedule 1.7	Gross Revenue Conversion Factor
47		
48	<u>Adjustment Schedules</u>	
49	Schedule 1.8	Adjustment to Cash Working Capital
50	Schedule 1.9	Adjustment to Industry & Association Dues
51	Schedule 1.10	Adjustment to Charitable Contributions
52	Schedule 1.11	Adjustment to Promotional Items
53	Schedule 1.12	Adjustment to Social & Service Club Membership Dues
54	Schedule 1.13	Adjustment to Advertising Expense
55	Schedule 1.14	Adjustment to Chemicals Expense
56	Schedule 1.15	Adjustment to Production Cost of Unaccounted-for Water

57

58 Revenue Requirement Schedules

59 Q. Please describe Schedule 1.1, Statement of Operating Income with Adjustments.

60 A. Schedule 1.1 derives the required revenue at the Staff proposed Rate of Return.
61 Column (b) presents the Company's pro forma operating statement at present
62 rates for the test year as reflected on its Schedules C-1. Column (c) reflects the
63 total of all Staff adjustments shown on Schedules 1.2. Column (d) reflects the
64 pro forma operating statement at present rates per Staff. Column (e) presents
65 the Company's Proposed Increase to revenue. Column (f) adjusts revenue to
66 reflect Staff's Gross Revenue Conversion Factor. Column (g) is Staff's pro forma
67 operating statement inclusive of the Company's proposed revenue increase.
68 Column (h) is the necessary reduction from the Company's proposed revenues,

69 adjusted for Staff's Gross Revenue Conversion Factor, to arrive at Staff's
70 computed Revenue Requirement reflected in column (i). Net Operating Income
71 in column (i), line 32, is the product of Rate Base, line 33, and Rate of Return,
72 line 34. Column (i), line 35, presents the difference between the Company's
73 present revenues adjusted by Staff and Staff's proposed revenue requirement.
74 Column (i), line 36, presents this difference as a percentage of the Company's
75 adjusted present revenues shown in Column (d), line 3.

76 Q. Please describe Schedule 1.2, Adjustments to Operating Income.

77 A. Schedule 1.2 identifies Staff's adjustments to Operating Income. The source of
78 each adjustment is shown in the heading of each column. Column (i) from
79 Schedule 1.2, page 2, is carried forward to Schedule 1.1, column (c).

80 Q. Please describe Schedule 1.3, Rate Base.

81 A. Schedule 1.3 compiles Staff's Rate Base. Column (b) reflects the Company's
82 proposed Rate Base. Column (c) summarizes Staff's adjustments to Rate Base.
83 Column (d) is the net of columns (b) and (c), and reflects Staff's computed Rate
84 Base.

85 Q. Please describe Schedule 1.4, Adjustments to Rate Base.

86 A. Schedule 1.4 identifies Staff's adjustments to Rate Base. The source of each
87 adjustment is shown in the heading of each column. Column (i) is carried
88 forward to Schedule 1.3 column (c).

89

90 Revenue Effect of Adjustments

91 Q. Please describe Schedule 1.5, Revenue Effect of Adjustments.

92 A. Schedule 1.5 identifies the approximate effect of each Staff adjustment on the
93 Company's revenue requirement. Schedule 1.5 is not the development of Staff's
94 revenue requirement. Rather, it is an analysis that is intended to assist in
95 identifying the relative monetary significance of each Staff adjustment.

96

97 Interest Synchronization Adjustment

98 Q. Please describe Schedule 1.6, Interest Synchronization Adjustment.

99 A. Schedule 1.6 computes the interest component of Revenue Requirement. The
100 Interest Expense (component) is computed by multiplying the Rate Base by
101 Weighted Cost of Debt. The calculated Interest Expense is then compared
102 against the Interest Expense used by the Company in its computation of test year
103 Income Tax Expense. The tax effect of the difference in Interest Expense is the
104 adjustment for Interest Synchronization. The effect of this adjustment is to
105 ensure that the Revenue Requirement reflects the tax savings generated by the
106 interest component of Revenue Requirement.

107

108 Gross Revenue Conversion Factor

109 Q. Please describe Schedule 1.7, Gross Revenue Conversion Factor.

110 A. Schedule 1.7 presents the Gross Revenue Conversion Factor ("GRCF"). The
111 GRCF is applied to the operating income deficiency to derive the total amount of
112 revenue required for the income deficiency and the associated increase in
113 income tax expense and uncollectibles expense change. It is based upon the

114 applicable federal tax rate, state income tax rate, and uncollectibles rate for the
115 Kankakee water division.

116

117 Adjustment to Cash Working Capital

118 Q. Please describe Schedule 1.8, Adjustment to Cash Working Capital.

119 A. Schedule 1.8 presents my adjustment to calculate the Cash Working Capital
120 component of rate base after giving effect to Staff's adjustments to the 2011 test
121 year revenue requirement. My adjustment utilizes the same methodology as
122 reflected in the Company's Schedules B-2.3. At this time, I do not propose any
123 changes to the Company's cash working capital methodology. My adjustment
124 merely reflects the derivative impact of Staff's other adjustments on the cash
125 working capital calculation.

126

127 Industry & Association Dues

128 Q. Please describe Schedule 1.9, Adjustment to Industry & Association Dues.

129 A. Schedule 1.9 presents my adjustment to remove certain industry association
130 dues attributable to lobbying activities.

131 Q. Please explain why you propose removing the portion of membership dues
132 related to lobbying efforts.

133 A. Section 9-224 of the Public Utilities Act ("Act") states that the Commission shall
134 not consider as an expense of any public utility company, for the purpose of
135 determining any rate or charge, any amount expended for political activity or
136 lobbying as defined in the "Lobbyist Registration Act." In responding to a Staff

137 data request, the Company provided the latest invoice for dues for its
138 membership in the National Association of Water Companies (NAW). This
139 invoice stated that 17% of the dues were for lobbying activities. The document
140 provided by the Company for the dues to American Water Works Association
141 (“AWWA”), the other industry association to which the Company pays dues, did
142 not state the percentage of dues related to lobbying activities. However, from
143 reviewing the website of the AWWA, it is apparent that this association also
144 engages in lobbying activities through its Government Affairs office.

145 Q. How did you determine the amount of your proposed adjustment?

146 A. I applied the 17% lobbying activities percentage identified on the NAW invoice to
147 total NAW and AWWA dues amounts, calculating an amount of lobbying-related
148 dues not recoverable in rates. The actual percentage for AWWA dues is not
149 readily available, but it is clear from the AWWA website that the appropriate
150 lobbying activities percentage is not 0%. I concluded it is reasonable to use the
151 same percentage as other industry associations for determining the amount of
152 dues related to lobbying activities. This approach is consistent with that
153 accepted in the Kankakee Division’s last rate case, Docket No. 06-0285.

154

155 Charitable Contributions

156 Q. Please describe Schedule 1.10, Adjustment to Charitable Contributions.

157 A. Schedule 1.10 presents my adjustment to remove from the revenue requirement
158 certain contributions to community and economic development organizations.

159 Q. Why should certain contributions to community and economic development
160 organizations be removed from the revenue requirement?

161 A. The amounts I removed are for items of a promotional, goodwill, institutional or
162 business membership nature that should be the responsibility of shareholders,
163 not ratepayers. Section 9-227 of the Act allows as an operating expense
164 donations made by a utility for the public welfare or for charitable scientific,
165 religious or educational purposes. Contributing to community and economic
166 development organizations is a promotional and goodwill practice. The Aqua
167 contributions to community and economic development organizations are not for
168 the public welfare or for charitable scientific, religious or educational purposes.
169 While perhaps such contributions may demonstrate good corporate citizenship,
170 they are not necessary in providing utility service. Consequently, the ratepayers
171 should not be burdened with the expense of the Company's contributions to
172 these community and economic development organizations, and the expense
173 should be removed from the Company's revenue requirement.

174 Q. Has the Commission previously excluded contributions to community and
175 economic organizations from operating expenses?

176 A. Yes. The Commission disallowed contributions to community and economic
177 organizations in the Kankakee Division's most recent rate order (06-0285), in
178 addition to the following dockets:

179 Docket No. 09-0306 – 09-0311 Ameren Illinois Utilities

180 Docket No. 08-0363 Northern Illinois Gas Company

181 Docket No. 03-0403 Consumers Illinois Water Company

182 Docket No. 03-0008 Central Illinois Public Service Company

183 Docket No. 02-0690 Illinois American Water Company

184

185 Promotional Items

186 Q. Please describe Schedule 1.11, Adjustment to Promotional Items.

187 A. Schedule 1.11 presents my adjustment to remove certain miscellaneous
188 expenses from the revenue requirement which are promotional in nature. The
189 disallowed expense consists of promotional items recorded to Company account
190 675825-0000 WT-Misc-A&G-Promotional Items.

191 Q. Please explain the reasoning for your adjustment.

192 A. Section 9-225 of the Act states that any direct or indirect expenditure for
193 promotional advertising shall not be considered for the purpose of determining
194 rates:

195 In any general rate increase requested by any gas, electric, water,
196 or sewer utility company under the provisions of this Act, the
197 Commission shall not consider, for the purpose of determining any
198 rate, charge or classification of costs, any direct or indirect
199 expenditures for promotional, political, institutional or goodwill
200 advertising, unless the Commission finds the advertising to be in
201 the best interest of the Consumer or authorized as provided
202 pursuant to subsection 3 of this Section.

203
204 (220 ILCS 5/9-225(2).)

205
206 Therefore, I recommend disallowing miscellaneous expenses that are of a
207 promotional nature.

208

209 Social & Service Club Membership Dues

210 Q. Please describe Schedule 1.12, Adjustment to Social & Service Club
211 Membership Dues.

212 A. Schedule 1.12 presents my adjustment to remove from Aqua's revenue
213 requirement certain social and service club membership dues.

214 Q. Why should social and service club membership dues be removed from the
215 revenue requirement?

216 A. The memberships and dues are for community and economic development
217 organizations. Participation in such groups is a promotional and goodwill
218 practice, which, while perhaps promoting good corporate citizenship and
219 enabling employees to keep in contact with other members of the business
220 community, is not necessary in providing utility service. Consequently, the
221 ratepayers should not be burdened with the expense of the Company taking part
222 in these community and business organizations. The costs should be removed
223 from the Company's revenue requirements completely.

224 Q. Has the Commission previously excluded social and service club membership
225 dues from operating expenses?

226 A. Yes. Social and service club membership dues were disallowed in the following
227 dockets:

228 Docket No. 09-0306 – 09-0311(Cons) Ameren Illinois Utilities

229 Docket No. 09-0167 Peoples Gas Light and Coke Company

230 Docket No. 09-0166 North Shore Gas Company

231 Docket No. 08-0363 Northern Illinois Gas Company

232 Docket No. 04-0779 Northern Illinois Gas Company

233 Docket No. 04-0442 Aqua Illinois, Inc.

234 Advertising

235 Q. Please describe Schedule 1.13, Adjustment to Advertising Expense.

236 A. Schedule 1.13 presents my adjustment to remove from the revenue requirement
237 non-recoverable advertising expense.

238 Q. Please explain the reasoning for your adjustment.

239 A. Section 9-225 of the Act states, in part:

240 In any general rate increase requested by any gas, electric, water,
241 or sewer utility company under the provisions of this Act, the
242 Commission shall not consider, for the purpose of determining any
243 rate, charge or classification of costs, any direct or indirect
244 expenditures for promotional, political, institutional or goodwill
245 advertising, unless the Commission finds the advertising to be in
246 the best interest of the Consumer or authorized as provided
247 pursuant to subsection 3 of this Section.

248
249 (220 ILCS 5/9-225(2).)

250
251 Further, Section 9-225 of the Act defines goodwill or institutional advertising as:

252 ... any advertising either on a local or national basis designed
253 primarily to bring the utility's name before the general public in such
254 a way as to improve the image of the utility or to promote
255 controversial issues for the utility or the industry.

256
257 (220 ILCS 5/9-225(1)(d).)

258
259 Therefore, I recommend disallowing advertising expenses that are of a
260 promotional, political, institutional, or goodwill nature. The disallowed advertising
261 consist of advertising that generally promotes the Company's image by
262 displaying the Company's name without including any of the allowable purposes
263 listed in 83 Ill. Adm. Code 295.30.

264 Q. Please explain how you calculated the amount of your adjustment.

265 A. I requested and reviewed documentation in support of all advertising transactions
266 for the Kankakee Division for the calendar years 2008 and 2009. The advertising
267 transactions which I found non-allowable for 2008 are presented on Schedule
268 1.13, page 2. The advertising transactions which I found non-allowable for 2009
269 are presented on Schedule 1.13, page 3. On Schedule 1.13, Page 1, I use the
270 total advertising expenses for 2008 and 2009 combined with the non-allowable
271 advertising expenses as presented on Schedule 1.13 pages 2 and 3 to develop a
272 2-year non-recoverable advertising expense percentage. I then apply the non-
273 allowable advertising expense percentage to the 2011 forecast advertising
274 expense to determine the amount of non-recoverable advertising expense for
275 2011. This approach uses the most recent historical data for two full calendar
276 years to determine an average level of non-allowable advertising expense. This
277 approach leads to an accurate projection of non-allowable advertising expense
278 included in the 2011 test year, as it utilizes recent historical information, similar to
279 the Company's use of recent historical information in its development of test year
280 2011 expenses.¹

281

282 Chemicals Expense

283 Q. Please describe Schedule 1.14, Adjustment to Chemicals Expense.

¹ Aqua Ex. 2.2 describes the Company's use of recent historical information for projecting miscellaneous expenses to be incurred in 2010 and 2011. Advertising expense is included in Aqua's miscellaneous expenses.

284 A. Schedule 1.14 presents Staff's adjustment to reduce test year Chemicals
285 Expense to an amount based on actual data for the Kankakee Division rather
286 than using information for Aqua, Illinois Inc. as a whole.

287 Q. Why is an adjustment to chemicals expense necessary?

288 A. The Company's test year chemicals expense was calculated using a 5 year
289 "CAGR" - compounded average gross rate - for Aqua Illinois, Inc. (Company
290 responses to Staff Data Request RWB-8.02). The detail of the calculation shows
291 the CAGR is the average difference between 2006 actual chemicals expense
292 and the chemicals expense estimate for 2010. There are several problems with
293 this approach:

294 (1) The 6.7% CAGR appears much greater than the actual trend.

295 (2) The calculation does not consider the actual chemicals expense
296 amounts for years 2007, 2008, or 2009 which are known and readily
297 available. Instead, it skips those years, only comparing the actual
298 expense for 2006 to an estimate for 2010.

299 (3) The calculation is not based on data for the Kankakee Division, but
300 instead relies on data for Aqua Illinois in its entirety.

301 (4) The CAGR does not take into account the projected pumpage or
302 customer growth for the Kankakee Division.

303 Q. Please explain why Chemical Expense should be based upon the actual
304 experience of only the Kankakee Division rather than Aqua Illinois as a whole.

305 A. This rate case is for the Kankakee Division. When available, actual data for the
306 Kankakee Division should be used in determining future expenses unless it can

307 be definitively shown that the actual data somehow misrepresents what is
308 expected to occur in Kankakee in the future. I see no basis for concluding that
309 the CAGR methodology, which skips actual data from 2007 through 2009, and
310 uses estimated 2010 data for Aqua Illinois as a whole, holds more predictive
311 value for the 2011 test year than my methodology of using actual Kankakee data.

312 Q. Please explain why the 6.7% CAGR increase appears much greater than the
313 actual trend in expense from 2009 to the 2010 estimate (2.99% increase).²

314 A. The 6.7% CAGR is based on a comparison of actual 2006 data to 2010 projected
315 data. However, this comparison excludes actual data from 2007, 2008, and
316 2009. The trend in expense from 2009 to 2010 reflects Aqua's projection of 2010
317 costs, which is based on historical usage, contractual bids, and projected water
318 pumpage. My determination of 2011 chemicals expense also takes into account
319 historical usage, contractual bids, and projected water pumpage, while also
320 considering projected customer growth and the Company's own prediction of
321 cost increases from 2009 to 2010.

322

323 Q. Please explain how you determined the appropriate level of 2011 chemicals
324 expense.

325 A. In determining the appropriate level of 2011 chemicals expense, I considered the
326 6.7% CAGR utilized by the Company with several other measures, including:

327 1. Reviews of the Kankakee Division's previous and predicted experience in
328 chemical cost, pumpage, and customer growth (From 2007 through the
329 2010 estimate, chemical costs for the Kankakee area have actually

² Schedule 1.14, page 2, Line 9, Column (D).

- 330 decreased 1.40%,³ pumpage has decreased 10.66%,⁴ and customer
331 growth is predicted at 1.1%);⁵
332 2. Aqua's own predicted increase in chemicals expense for 2009-2010 of
333 2.99%;⁶
334 3. The Consumer Price Index (CPI) (Inflation for the period 2010 – 2014 is
335 predicted at 2.19%);⁷ and
336 4. The change in Producer Price Index (PPI) (The annual PPI for water
337 treating compounds increased by 8.43% from 2007 to 2008, and by 4.48%
338 from 2008 to 2009).⁸

339
340
341 Consideration of these measures led me to conclude the 2.99% increase
342 between actual 2009 chemicals expense and Aqua's 2010 estimate of chemicals
343 expense for the Kankakee Division is a more reasonable approximation of cost
344 escalation for use in determining 2011 chemicals expense. Per Aqua Ex. 2.2,
345 the 2010 chemicals expense amount was based on an analysis of historical
346 usage, contractual bids, and water pumpage. Support for Aqua's response to
347 Staff Data Request RWB-8.02 confirmed the aforementioned analysis was based
348 on data for the Kankakee service territory. Actual trends in chemical cost,
349 pumpage, and customer growth in the Kankakee service territory support
350 increasing 2011 test year costs over the 2010 levels by a factor less than the
351 Company-proposed 6.7% CAGR. Likewise, the CPI and PPI, although they are
352 not based in information specific to chemicals expense for the Kankakee service
353 territory, point to the need to use something less than the 6.7% CAGR proposed
354 by the Company.

³ Schedule 1.14, page 2, Line 11, Column (D).

⁴ Schedule 1.14, page 2, Line 11, Column (G).

⁵ Aqua response to Staff data request RWB-8.01.

⁶ Schedule 1.14, page 2, Line 9, Column (D).

⁷ Second Quarter Survey of Professional Forecasters, "Short-Run and Long-Run Projections for Inflation," accessed 5/27/10 at <http://philadelphiafed.org/research-and-data/real-time-center/survey-of-professional-forecasters/2010/spfq210.pdf>.

⁸ Bureau of Labor Statistics Producer Price Index – Other Miscellaneous Chemical Product Mfg. (Water Treating Compounds), Series ID PCU325998325998A, accessed at <http://data.bls.gov> on 5/27/10.

355

356 Production Cost of Unaccounted-for Water

357 Q. Please describe Schedule 1.15, Adjustment to Unaccounted-for Water

358 Production Cost.

359 A. Schedule 1.15 presents Staff's adjustment to reduce Unaccounted-for Water

360 Production Cost for the amounts of unaccounted-for water identified by Staff

361 witness Smith in ICC Staff Exhibit 5.0, Schedule 5.1. I sponsor the calculation of

362 the adjustment, while Mr. Smith provides the reasoning for the adjustment.

363 Q. Please describe the adjustment to reduce Production Cost of Unaccounted-for

364 Water.

365 A. As described in the Staff Exhibit 5.0, Aqua exceeds its allowable unaccounted-for

366 water amount by 2.73%. This adjustment applies the excess unaccounted-for

367 water percentage to the Company's proposed test year "Production Cost" to

368 determine the amounts by which those expenses should be reduced.

369 Q. What are the elements of "Production Cost," as used in this adjustment?

370 A. As it applies to this adjustment only, the elements of "Production Cost" are the

371 Purchased Power & Fuel expenses and Chemicals expenses. These elements

372 are directly related to the amount of water produced.

373 Q. Why is it appropriate to reduce "Production Cost" for the excess unaccounted-for

374 water?

375 A. Unaccounted-for water is the difference between the amount of water pumped

376 and sold by the Company. The maximum percentage unaccounted-for water

377 sets a limit on the amount of unaccounted-for water costs that may be recovered

378 by the Companies. When the actual unaccounted-for water percentage exceeds
379 the maximum unaccounted-for water percentage, the related "Production Cost" is
380 reduced by the excess unaccounted-for water percentage. Staff's adjustment
381 limits the costs ratepayers bear for unaccounted-for water to what is reflected in
382 the Company's tariffs.

383

384 Allowance for Funds Used During Construction

385 Q. Do you have any comments regarding Aqua's calculations of Allowance for
386 Funds Used During Construction (AFUDC)?

387 A. Yes. At the time my direct testimony is being prepared, I am awaiting additional
388 data request responses from Aqua regarding AFUDC. I plan to provide
389 additional discussion on this issue and propose adjustments, if necessary, in
390 supplemental direct testimony.

391

392 Plant Facilities Charge

393 Q. Do you have any recommendations regarding the Plant Facilities Charge ("PFC")
394 proposed by the Company in this proceeding?

395 A. Yes, I do. As explained in the testimony of Staff witness Harden, ICC Staff
396 Exhibit 4.0, Staff recommends the Commission not approve the PFC. However,
397 in its response to Staff Data Request CLH-2.06, the Company states, in part:

398 If the PFC is approved, then the revenue requirement would be
399 reduced. This adjustment was inadvertently left out of the revenue
400 requirement.

401

402 If the Commission were to approve the PFC, adjustments to the operating
403 statement and rate base would need to be made. I have summarized those
404 adjustments in Attachment A. These adjustments were determined using Aqua's
405 response to Staff Data Request RWB-13.02.

406

407 Q. Does the Staff proposed revenue requirement attached to ICC Staff Exhibit 1.0
408 reflect the approval of the PFC?

409 A. No. Because Staff recommends the Commission not adopt the PFC, the
410 adjustments reflected in Attachment A have not been incorporated into the Staff
411 revenue requirement.

412

413 Rate Base - Original Cost Determination

414 Q. Why is an Original Cost Determination finding necessary?

415 A. Requirements for preservation of records are associated with an original cost
416 determination. Appendix A to 83 Ill. Adm. Code 615, The Preservation of
417 Records of Water Utilities, contains requirements for the preservation of specific
418 records. For example, journal vouchers and journal entries which support plant
419 accounts are to be maintained "7 years prior to date as of which original cost of
420 plant has been unconditionally determined or approved by the Commission in" an
421 original cost determination proceeding or a rate case.

422

423 Q. What is your recommendation regarding Original Cost Determination?

424 A. Having reviewed plant additions since the last rate case and having found no
425 material errors, I recommend, subject to any adjustments to plant subsequently
426 adopted by the Commission, whether proposed by the Parties or the Commission
427 itself, the Commission order state:

428 It is further ordered that the \$119,602,619 original cost of plant for
429 the Kankakee Division of Aqua Illinois, Inc. at December 31, 2008,
430 as reflected on the Company's Schedule B-5, Page 2 of 2, Line 49,
431 Column G, is unconditionally approved as the original cost of plant.
432

433 Conclusion

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

435 A. Yes.

Aqua Illinois, Inc. - Kankakee Water Division
Adjustments to Operating Income
 For the Test Year Ending December 31, 2011

Line No.	Description	Interest Synchronization (St. Ex. 1.0, Sch. 1.6)	Industry & Association Dues (St. Ex. 1.0, Sch. 1.9)	Charitable Contributions (St. Ex. 1.0, Sch. 1.10)	Promotional Items (St. Ex. 1.0, Sch. 1.11)	Social & Service Club Dues (St. Ex. 1.0, Sch. 1.12)	Advertising Expense (St. Ex. 1.0, Sch. 1.13)	Chemicals Expense (St. Ex. 1.0, Sch. 1.14)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(j)	(k)
1	Operating Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Other Revenue	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Salaries & Wages, Employees	-	-	-	-	-	-	-	-
6	Salaries & Wages, Officers	-	-	-	-	-	-	-	-
7	Employee Pensions & Benefits	-	-	-	-	-	-	-	-
8	Purchased Power & Fuel	-	-	-	-	-	-	-	-
9	Chemicals	-	-	-	-	-	-	(25,207)	(25,207)
10	Materials & Supplies	-	-	-	-	-	-	-	-
11	Contractual Services - Engineering	-	-	-	-	-	-	-	-
12	Contractual Services - Accounting	-	-	-	-	-	-	-	-
13	Contractual Services - Legal	-	-	-	-	-	-	-	-
14	Contractual Services - Management	-	-	-	-	-	-	-	-
15	Contractual Services - Other	-	-	-	-	-	-	-	-
16	Lease Expense	-	-	-	-	-	-	-	-
17	Transportation Expense	-	-	-	-	-	-	-	-
18	Insurance Expense	-	-	-	-	-	-	-	-
19	Regulatory Commission Exp. Amort.	-	-	-	-	-	-	-	-
20	Miscellaneous Expense	-	(2,999)	(22,150)	(1,539)	(594)	(5,117)	-	(32,399)
21	Depreciation	-	-	-	-	-	-	-	-
22	Amort. Of Utility Plant Acq. Adj.	-	-	-	-	-	-	-	-
23	Amortization Expense	-	-	-	-	-	-	-	-
24	NET OPERATING INCOME	-	-	-	-	-	-	-	-
25		-	-	-	-	-	-	-	-
26	Total Operating Expense								
27	Before Income Taxes	-	(2,999)	(22,150)	(1,539)	(594)	(5,117)	(25,207)	(57,606)
28	State Income Tax	(51)	219	1,617	112	43	374	1,840	4,154
29	Federal Income Tax	(225)	973	7,187	499	193	1,660	8,178	18,465
30	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
31	Total Operating Expenses	(276)	(1,807)	(13,346)	(928)	(358)	(3,083)	(15,189)	(34,987)
32	NET OPERATING INCOME	\$ 276	\$ 1,807	\$ 13,346	\$ 928	\$ 358	\$ 3,083	\$ 15,189	\$ 34,987

Aqua Illinois, Inc. - Kankakee Water Division
Adjustments to Operating Income
 For the Test Year Ending December 31, 2011

Line No.	Description	Subtotal Operating Statement Adjustments	Production	Incentive Compensation (St. Ex. 2.0, Sch. 2.1)	Employee Benefits (St. Ex. 2.0, Sch. 2.2)	Parent Co. Service Chgs. (St. Ex. 2.0, Sch. 2.3)	Rate Case Expense (St. Ex. 2.0, Sch. 2.4)	Total Operating Statement Adjustments	
			Cost of Unaccounted-for Water (St. Ex. 1.0, Sch. 1.15)						
	(a)	(b)	(c)	(d) (Source)	(e)	(f)	(g)	(i)	(k)
1	Operating Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Other Revenue	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Salaries & Wages, Employees	-	-	-	(123,199)	-	-	-	(123,199)
6	Salaries & Wages, Officers	-	-	-	-	-	-	-	-
7	Employee Pensions & Benefits	-	-	-	-	(37,254)	-	-	(37,254)
8	Purchased Power & Fuel	-	(20,957)	-	-	-	-	-	(20,957)
9	Chemicals	(25,207)	(19,103)	-	-	-	-	-	(44,310)
10	Materials & Supplies	-	-	-	-	-	-	-	-
11	Contractual Services - Engineering	-	-	-	-	-	-	-	-
12	Contractual Services - Accounting	-	-	-	-	-	-	-	-
13	Contractual Services - Legal	-	-	-	-	-	-	-	-
14	Contractual Services - Management	-	-	-	-	-	(75,309)	-	(75,309)
15	Contractual Services - Other	-	-	-	-	-	-	-	-
16	Lease Expense	-	-	-	-	-	-	-	-
17	Transportation Expense	-	-	-	-	-	-	-	-
18	Insurance Expense	-	-	-	-	-	-	-	-
19	Regulatory Commission Exp. Amort.	-	-	-	-	-	-	(1,625)	(1,625)
20	Miscellaneous Expense	(32,399)	-	-	-	-	-	-	(32,399)
21	Depreciation	-	-	-	-	-	-	-	-
22	Amort. Of Utility Plant Acq. Adj.	-	-	-	-	-	-	-	-
23	Amortization Expense	-	-	-	-	-	-	-	-
24	NET OPERATING INCOME	-	-	-	-	-	-	-	-
25		-	-	-	-	-	-	-	-
26	Total Operating Expense								
27	Before Income Taxes	(57,606)	(40,060)	-	(123,199)	(37,254)	(75,309)	(1,625)	(335,053)
28	State Income Tax	4,154	2,924	-	8,994	2,720	5,498	119	24,409
29	Federal Income Tax	18,465	12,997	-	39,972	12,087	24,434	527	108,482
30	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
31	Total Operating Expenses	(34,987)	(24,139)	-	(74,233)	(22,447)	(45,377)	(979)	(202,162)
32	NET OPERATING INCOME	\$ 34,987	\$ 24,139	\$ -	\$ 74,233	\$ 22,447	\$ 45,377	\$ 979	\$ 202,162

Aqua Illinois, Inc. - Kankakee Water Division
Rate Base
 For the Test Year Ending December 31, 2011

Line No.	Description	Company Pro Forma Rate Base (Co. Sch. B-1)	Staff Adjustments (St. Ex. 1.0 Sch. 1.4)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Utility Plant In Service	\$ 126,086,073	\$ -	\$ 126,086,073
2	Less: Reserve for Accum Depreciation	(30,942,014)	-	(30,942,014)
3		-	-	-
4	Net Plant	95,144,059	-	95,144,059
5	Additions to Rate Base			
6	Property Held for Future Use	-	-	-
7	Deferred Charges	1,016,886	-	1,016,886
8	Materials & Supplies	628,814	-	628,814
9	Cash Working Capital	1,182,761	(41,678)	1,141,083
10	Amort. Of Contributions in Aid of Construction	4,151,032	-	4,151,032
11		-	-	-
12		-	-	-
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base			
17	FAS 87 Pension	(1,007,036)	-	(1,007,036)
18	FAS 106 OPEB	(160,176)	-	(160,176)
19	Customer Advances	(391,112)	-	(391,112)
20	Contributions in Aid of Construction	(20,711,943)	-	(20,711,943)
21	Deferred Income Taxes - Total	(8,119,530)	-	(8,119,530)
22		-	-	-
23	Rate Base	<u>\$ 71,733,755</u>	<u>\$ (41,678)</u>	<u>\$ 71,692,077</u>

Aqua Illinois, Inc. - Kankakee Water Division
 Revenue Effect of Adjustments
 For the Test Year Ending December 31, 2011

Line No.	Description (a)	Per Company (b)	Staff Adjustments (c)	Per Staff (d)
1	Present Revenues	\$ 18,457,750 ⁽¹⁾	\$ -	\$ 18,457,750 ⁽²⁾
2	Proposed Increase	<u>\$ 4,349,127 ⁽³⁾</u>	<u>\$ (1,377,596) ⁽⁴⁾</u>	<u>\$ 2,971,531 ⁽⁵⁾</u>
3	Proposed Revenues	<u>\$ 22,806,877</u>	<u>\$ (1,377,596)</u>	<u>\$ 21,429,281</u>
4	% Increase	23.56%		16.10%
5	Staff Adjustments			
6	Rate of Return (Applied to Company Rate Base)		\$ (1,031,872)	
7	Incentive Compensation	St. Ex. 2.0, Sch. 2.1	(124,834)	
8	Parent Co. Service Chgs.	St. Ex. 2.0, Sch. 2.3	(76,308)	
9	Production Cost of Unaccounted-for Water	St. Ex. 1.0, Sch. 1.15	(40,593)	
10	Employee Benefits	St. Ex. 2.0, Sch. 2.2	(37,748)	
11	Chemicals Expense	St. Ex. 1.0, Sch. 1.14	(25,543)	
12	Charitable Contributions	St. Ex. 1.0, Sch. 1.10	(22,443)	
13	Cash Working Capital	St. Ex. 1.0, Sch. 1.8	(4,900)	
14	Advertising Expense	St. Ex. 1.0, Sch. 1.13	(5,185)	
15	Industry & Association Dues	St. Ex. 1.0, Sch. 1.9	(3,039)	
16	Rate Case Expense	St. Ex. 2.0, Sch. 2.4	(1,646)	
17	Promotional Items	St. Ex. 1.0, Sch. 1.11	(1,561)	
18	Interest Synchronization	St. Ex. 1.0, Sch. 1.6	(1,325)	
19	Social & Service Club Dues	St. Ex. 1.0, Sch. 1.12	(602)	
20	Gross Revenue Conversion Factor	St. Ex. 1.0, Sch. 1.1	<u>3</u>	
21	Total Revenue Effect of Staff Adjustments		<u>\$ (1,377,596)</u>	

Sources:

- (1) Source: ICC Staff Ex. 1.0, Schedule 1.1, column (b), line 3
- (2) Source: ICC Staff Ex. 1.0, Schedule 1.1, column (d), line 3
- (3) Source: ICC Staff Ex. 1.0, Schedule 1.1, column (e), line 3
- (4) Source: ICC Staff Ex. 1.0, Schedule 1.1, columns (f) + (h), line 3
- (5) Source: ICC Staff Ex. 1.0, Schedule 1.1, column (i), line 35

Aqua Illinois, Inc. - Kankakee Water Division
 Interest Synchronization Adjustment
 For the Test Year Ending December 31, 2011

Line No.	Description (a)	Amount (b)
1	Rate Base	\$ 71,692,077 (1)
2	Weighted Cost of Debt	3.09% (2)
3	Synchronized Interest Per Staff	2,215,285
4	Company Interest Expense	<u>2,214,591</u> (3)
5	Increase (Decrease) in Interest Expense	<u>694</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 7.300%	<u>\$ (51)</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 35.000%	<u>\$ (225)</u>

(1) Source: ICC Staff Ex. 1.0, Schedule 1.3, Column (d).
 (2) Source: ICC Staff Exhibit 3.0, Schedule 3.01.
 (3) Source: Company Schedule C-5.4, Line 17.

Aqua Illinois, Inc. - Kankakee Water Division
 Gross Revenue Conversion Factor
 For the Test Year Ending December 31, 2011

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	1.3106%	<u>0.013106</u>	
3	State Taxable Income		0.986894	1.000000
4	State Income Tax	7.3000%	<u>0.072043</u>	<u>0.073000</u>
5	Federal Taxable Income		0.914851	0.927000
6	Federal Income Tax	35.0000%	<u>0.320198</u>	<u>0.324450</u>
7	Operating Income		<u>0.594653</u>	<u>0.602550</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.681653</u>	<u>1.659613</u>

Aqua Illinois, Inc. - Kankakee Water Division
 Adjustment to Cash Working Capital
 For the Test Year Ending December 31, 2011

Line No.	Description	Amount	Source
(a)	(b)	(c)	(d)
1	Total Operating Expenses Before Income Taxes	\$ 13,175,454	ICC Staff Ex. 1.0, Schedule 1.1, Line 27, Col (i)
	Less:		
2	Uncollectible Accounts Expense	(280,844)	ICC Staff Ex. 1.0, Schedule 1.1, Line 4, Col (i)
3	Annual Amortization of Rate Case Expense	(122,477)	ICC Staff Ex. 1.0, Schedule 1.1, Line 19, Col (i)
4	Depreciation Expense	(3,465,496)	ICC Staff Ex. 1.0, Schedule 1.1, Line 21, Col (i)
5	Real Estate Tax Expense	<u>(177,974)</u>	Company Schedule B-8, Line 6, Col. (B)
6	Total Cash Operating Expenses	9,128,663	
7	45 (lag days) / 360 (30 day month year)	<u>12.50%</u>	45 / 360
8	Cash Working Capital Per Staff	\$ 1,141,083	Line 6 x Line 7
9	Cash Working Capital per Company	<u>1,182,761</u>	Company Schedule B-1, Line 14, Col. (E)
10	Adjustment to Working Capital	<u>\$ (41,678)</u>	Line 8 less Line 9

Aqua Illinois, Inc. - Kankakee Water Division
 Adjustment to Industry & Association Dues
 For the Test Year Ending December 31, 2011

<u>Line</u> (A)	<u>Description</u> (B)	<u>Amount</u> (C)	<u>Amount</u> (D)	<u>Source</u> (D)
1	Industry Association Dues per Company		17,644	Co. Schedule C-6.1, p. 2, Line 10, Column (D)
2	Percentage of Dues Used for Lobbying Purposes		<u>17.00%</u>	Co. Response to RWB-4.01 (Bates # AQUA 000703)
3	Lobbying Portion of Dues -- Staff Adjustment		<u>\$ (2,999)</u>	Line 1 x Line 2

Aqua Illinois, Inc. - Kankakee Water Division
 Adjustment to Charitable Contributions
 For the Test Year Ending December 31, 2011

Line (A)	Description (B)	Amount (C)	Source (D)
1	Daily Journal	1,000	Co. Schedule C-7, p. 5
2	Home Builders Association	2,500	Co. Schedule C-7, p. 5
3	Kankakee Community Development Center	1,000	Co. Schedule C-7, p. 5
4	Kankakee Development	1,000	Co. Schedule C-7, p. 5
5	Kankakee River Valley Metro Agency	1,000	Co. Schedule C-7, p. 5
6	Kankakee Valley Symphony	4,000	Co. Schedule C-7, p. 5
7	Manteno Chamber of Commerce	1,500	Co. Schedule C-7, p. 5
8	NAACP	4,000	Co. Schedule C-7, p. 5
9	Rotary Club	1,000	Co. Schedule C-7, p. 5
10	Two Rivers Festival	1,000	Co. Schedule C-7, p. 5
11	Village of Bourbonnais	1,000	Co. Schedule C-7, p. 5
12	East Side Christmas Party	500	Co. Response to RWB-2.05 (Bates # AQUA 000248)
13	Kankakee County Economic Development	500	Co. Response to RWB-2.05 (Bates # AQUA 000248)
14	Manteno Chamber of Commerce	500	Co. Response to RWB-2.05 (Bates # AQUA 000248)
15	Northern Illinois Anglers Association	650	Co. Response to RWB-2.05 (Bates # AQUA 000248)
16	Downtown Kankakee Summerfest Extravaganza	500	Co. Response to RWB-2.05 (Bates # AQUA 000248)
17	Village of Bourbonnais	<u>500</u>	Co. Response to RWB-2.05 (Bates # AQUA 000248)
18	Total Non-Recoverable Contributions - Staff Adjustment	<u>(22,150)</u>	Sum of Lines 1 - 17

Aqua Illinois, Inc. - Kankakee Water Division
 Adjustment to Promotional Expense
 For the Test Year Ending December 31, 2011

Line (A)	Description (B)	Amount (C)	Source (D)
1	Non-Recoverable 2009 Promotional Expense Amount	(1,450)	ICC Staff Ex. 1.0, Schedule 1.11, p. 2, Line 9, Col. (I)
2	Inflation Factor - Other Expense	<u>3%</u>	Aqua Ex. 2.2
3	Non-Recoverable 2010 Promotional Expense Amount per Staff	(1,494)	Line 1 + (Line 1 x Line 2)
4	Inflation Factor - Other Expense	<u>3%</u>	Aqua Ex. 2.2
5	Non-Recoverable 2011 Promotional Expense - Staff Adjustment	<u><u>(1,539)</u></u>	Line 3 + (Line 3 x Line 4)

Aqua Illinois, Inc. - Kankakee Water Division
 Adjustment to Promotional Items
 For the Test Year Ending December 31, 2011

ACCOUNT-2	ACCOUNT-DESC-2	POSTING DATE	TRANSACTION DATE	DESCRIPTION	JOURNAL	ENT/SC	GLT-DEBIT-AMT	GLT-CREDIT-AMT	
(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	
675825	WT-Misc-A&G-Promotional Items	6/30/2009	6/15/2006	11252LEE WAYNE C	I	2 AD	437.00		
675825	WT-Misc-A&G-Promotional Items	6/30/2009	6/11/2009	11168XTREME PROM	I	2 AD	898.43		
675825	WT-Misc-A&G-Promotional Items	6/30/2009	6/8/2009	TARGET 000089	I	3 XL	2.53		
675825	WT-Misc-A&G-Promotional Items	6/30/2009	6/15/2009	WM EZPAY	I	3 XL		376.00	
675825	WT-Misc-A&G-Promotional Items	9/30/2009	10/9/2009	Reclassify PCard Ent	N	71 JE	102.33		
675825	WT-Misc-A&G-Promotional Items	9/30/2009	10/9/2009	Reclassify PCard Ent	N	71 JE	376.00		
675825	WT-Misc-A&G-Promotional Items	6/30/2009	5/30/2009	33813RODNEY D PH	N	3 AD	10.00		
Totals								1,826.29	376.00
								<hr/>	
								2009 Promotional Expense Amount	
								<u>1,450.29</u>	

Aqua Illinois, Inc. - Kankakee Water Division
 Adjustment to Social & Service Club Membership Dues
 For the Test Year Ending December 31, 2011

Line	Description	Amount	Source
(A)	(B)	(C)	(D)
1	Non-Recoverable 2009 Social & Service Club Dues Amount	(560)	ICC Staff Ex. 1.0, Schedule 1.12, p. 2, Line 5, Col. (I)
2	Inflation Factor - Other Expense	<u>3%</u>	Aqua Ex. 2.2
3	Non-Recoverable 2010 Social & Service Club Dues Amount per Staff	(577)	Line 1 + (Line 1 x Line 2)
4	Inflation Factor - Other Expense	<u>3%</u>	Aqua Ex. 2.2
5	Non-Recoverable 2011 Social & Service Club Dues - Staff Adjustment	<u>(594)</u>	Line 3 + (Line 3 x Line 4)

Aqua Illinois, Inc. - Kankakee Water Division
 Adjustment to Social & Service Club Membership Dues
 For the Test Year Ending December 31, 2011

ACCOUNT-2	ACCOUNT-DESC-2	POSTING DATE	TRANSACTION DATE	DESCRIPTION	JOURNAL	ENT/SC	GLT-DEBIT- AMT	GLT-CREDIT- AMT	
(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	
675816	WT-Misc-A&G-CONTRIB	4/30/2009	4/1/2009	505ROTARY CLUB	N	2 AD	140.00		
675824	WT-Misc-A&G-DUES	1/31/2009	1/7/2009	505ROTARY CLUB	I	1 AD	140.00		
675824	WT-Misc-A&G-DUES	5/31/2009	4/8/2009	505ROTARY CLUB	N	6 AD	140.00		
675824	WT-Misc-A&G-DUES	8/31/2009	7/31/2009	505ROTARY CLUB	I	1 AD	140.00		
Total Social & Service Club Membership Dues								<u>560.00</u>	

Aqua Illinois, Inc. - Kankakee Water Division
 Adjustment to Advertising Expense
 For the Test Year Ending December 31, 2011

Line (A)	Description (B)	Amount (C)	Source (D)
1	2008 Non-Recoverable Advertising Expense Percentage	4,988	ICC Staff Ex. 1.0, Schedule 1.13, p. 2, Line 27, Col. (K)
2	2009 Non-Recoverable Advertising Expense Percentage	<u>1,228</u>	ICC Staff Ex. 1.0, Schedule 1.13, p. 3, Line 7, Col. (K)
3	Total 2008 - 2009 Non-Recoverable Advertising Expense	6,216	Line 1 + Line 2
4	2008 Total Advertising Expense	15,496	Aqua Response to Staff data request RWB-2.01
5	2009 Total Advertising Expense	<u>5,225</u>	Aqua Response to Staff data request RWB-2.01
6	Total 2008 - 2009 Advertising Expense	20,721	Line 4 + Line 5
7	2008 - 2009 Non-Recoverable Advertising Expense Percentage	-30%	Line 3 divided by Line 6
8	2011 Forecast Advertising Expense	<u>17,057</u>	Aqua Schedule C-8, Line 1, Col. (E)
9	2011 Non-Recoverable Advertising Expense - Staff Adjustment	<u><u>(5,117)</u></u>	Line 7 x line 8

Aqua Illinois, Inc. - Kankakee Water Division
Adjustment to Advertising Expense
 For the Test Year Ending December 31, 2011

2008 Non-Recoverable Advertising Expenses

Line	Item #	ACCOUNT-2	ACCOUNT-DESC-2	POSTING DATE	TRANSACTION DATE	DESCRIPTION	JOURNAL	ENTRY	SC	GLT-DEBIT-AMT	GLT-CREDIT-AMT
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
1	2	660800	WT-Advertising-A & G	1/31/2008	12/30/2007	19026WVLITHEVAI1AD	I	1	AD	300.00	
2	3	660800	WT-Advertising-A & G	1/31/2008	12/30/2007	27468WIVR/RIVERI1AD	I	1	AD	200.00	
3	5	660800	WT-Advertising-A & G	1/31/2008	12/31/2007	10108WKAN-RADIOI1AD	I	1	AD	200.00	
4	6	660800	WT-Advertising-A & G	1/31/2008	12/31/2007	10108WKAN-RADIOI1AD	I	1	AD	200.00	
5	7	660800	WT-Advertising-A & G	1/31/2008	12/31/2007	10427THEDAILYJI1AD	I	1	AD	155.00	
6	8	660800	WT-Advertising-A & G	1/31/2008	12/31/2007	10427THEDAILYJI1AD	I	1	AD	240.00	
7	12	660800	WT-Advertising-A & G	2/29/2008	1/31/2008	10427THEDAILYJI2AD	I	2	AD	95.00	
8	13	660800	WT-Advertising-A & G	2/29/2008	1/15/2008	35422THE JOHN R.	I	3	AD	125.00	
9	17	660800	WT-Advertising-A & G	3/31/2008	12/14/2007	10690TAYLORPUBLI1AD	I	1	AD	500.00	
10	25	660800	WT-Advertising-A & G	4/30/2008	4/4/2008	1896BISHOPMCNAN10AD	N	10	AD	450.00	
11	31	660800	WT-Advertising-A & G	5/31/2008	5/6/2008	1684B&BPUBLISHN9AD	N	9	AD	159.00	
12	32	660800	WT-Advertising-A & G	5/31/2008	5/15/2008	10690TAYLORPUBLN9AD	N	9	AD	500.00	
13	33	660801	WT-Advertising-A & G	5/31/2008	5/19/2008	21007KANKAKEE CO	N	9	AD	189.00	
14	37	660800	WT-Advertising-A & G	6/30/2008	5/31/2008	10427THEDAILYJI2AD	I	2	AD	95.00	
15	39	660800	WT-Advertising-A & G	6/30/2008	6/10/2008	1684B&BPUBLISHN6AD	N	6	AD	50.00	
16	45	660800	WT-Advertising-A & G	8/31/2008	7/29/2008	1684B&BPUBLISHI1AD	I	1	AD	132.50	
17	49	660800	WT-Advertising-A & G	8/31/2008	7/31/2008	10108WKAN-RADION8AD	N	8	AD	148.25	
18	50	660800	WT-Advertising-A & G	8/31/2008	7/31/2008	10108WKAN-RADION8AD	N	8	AD	148.75	
19	51	660800	WT-Advertising-A & G	8/31/2008	7/31/2008	10427THEDAILYJN8AD	N	8	AD	95.00	
20	53	660800	WT-Advertising-A & G	9/30/2008	7/8/2008	10690TAYLORPUBLN5AD	N	5	AD	500.00	
21	57	660800	WT-Advertising-A & G	9/30/2008	1/15/2008	35422THE JOHN R.	N	10	AD	125.00	
22	58	660800	WT-Advertising-A & G	9/30/2008	8/31/2008	10427THEDAILYJN10AD	N	10	AD	95.00	
23	61	660800	WT-Advertising-A & G	9/30/2008	9/15/2008	30417KCTC FOUNDA	N	10	AD	75.00	
24	65	660800	WT-Advertising-A & G	10/31/2008	10/1/2008	36427KANKAKEECOI2AD	I	2	AD	100.00	
25	66	660800	WT-Advertising-A & G	10/31/2008	10/15/2008	36428MANTENOSHOI2AD	I	2	AD	75.00	
26	68	660800	WT-Advertising-A & G	11/30/2008	10/28/2008	1684B&BPUBLISHN3AD	N	3	AD	35.00	
27						2008 Nonrecoverable Advertising Expenses per Staff				4,987.50	
28						2008 Total Advertising Expense				#####	
29						2008 Nonrecoverable Advertising Expense Percentage				32%	

Aqua Illinois, Inc. - Kankakee Water Division
 Adjustment to Advertising Expense
 For the Test Year Ending December 31, 2011

2009 Non-Recoverable Advertising Expenses

Line	Item #	ACCOUNT-2	ACCOUNT-DESC-2	POSTING DATE	TRANSACTION DATE	DESCRIPTION	JOURNAL	ENTRY	SC	GLT- DEBIT- AMT	GLT- CREDIT- AMT
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)	(L)
1	5	660800	WT-Advertising-A & G	1/31/2009	12/28/2008	19026WVLITHEVA	I	1	AD	300.00	
2	6	660800	WT-Advertising-A & G	1/31/2009	12/28/2008	19026WVLITHEVA	I	1	AD	200.00	
3	13	660800	WT-Advertising-A & G	3/31/2009	12/28/2008	27468WIVR/RIVERI	I	1	AD	200.00	
4	14	660800	WT-Advertising-A & G	3/31/2009	3/1/2009	1896BiISHOP MCNA	I	1	AD	450.00	
5	20	660800	WT-Advertising-A & G	6/30/2009	2/28/2009	10427THEDAILYJ	I	1	AD	28.00	
6	22	660800	WT-Advertising-A & G	6/30/2009	6/9/2009	1684B&BPUBLISH	N	3	AD	50.00	
7						2009 Nonrecoverable Advertising Expenses per Staff				1,228.00	
8						2009 Total Advertising Expense				5,225.12	
9						2009 Nonrecoverable Advertising Expense Percentage				24%	

Source: Company response to Staff data request RWB-2.01 (Bates # AQUA 000958 - 000960)

Aqua Illinois, Inc. - Kankakee Water Division
 Adjustment to Chemicals Expense
 For the Test Year Ending December 31, 2011

Line (A)	Description (B)	Amount (C)	Source (D)
1	2010 Chemicals Expense per Company	679,438	Aqua Schedule C-4, p. 3, Line 6, Column (H)
2	2011 Escalation Factor per Staff	<u>2.99%</u>	ICC Staff Ex. 1.0, Schedule 1.14, p. 2, Line 9, Col. (D)
3	2011 Escalation Amount per Staff	20,315	Line 1 x Line 2
4	2011 Chemicals Expense per Staff	699,753	Line 1 + Line 3
5	2011 Chemicals Expense per Company	<u>724,960</u>	Aqua Schedule C-4, p. 3, Line 6, Column (K)
6	Staff Adjustment	<u><u>(25,207)</u></u>	Line 4 - Line 5

Aqua Illinois, Inc. - Kankakee Water Division
Adjustment to Chemicals Expense
 For the Test Year Ending December 31, 2011

<u>Line</u>	<u>Column (C) Source</u>	<u>Year</u>	<u>Chemical Cost</u>	<u>% Change from PY</u>	<u>Column (F) Source</u>	<u>Pumpage Gallons</u>	<u>% Change from PY</u>
(A)	(E)	(B)	(C)	(D)	(H)	(F)	(G)
1	(a)	2002	\$ 311,967.00	~		n/a	n/a
2	(a)	2003	334,235.00	7.14%		n/a	n/a
3	(a)	2004	378,979.00	13.39%		n/a	n/a
4	(b)	2005	423,384.26	11.72%	(e)	4,328,774,964	n/a
5	(b)	2006	529,102.30	24.97%	(e)	4,021,635,498	-7.10%
6	(b)	2007	689,057.66	30.23%	(e)	4,576,656,701	13.80%
7	(b)	2008	654,520.19	-5.01%	(e)	4,534,930,399	-0.91%
8	(b)	2009	659,683.53	0.79%	(e)	4,257,977,448	-6.11%
9	(c)	2010	679,438.00	2.99%	(e), (projected)	4,088,839,320	-3.97%
10	(c), (d)	2011	724,960.00	6.70%			
11			2007-2010 change	-1.40%	(f)	2007-2010 change	-10.66% (g)
12			Kankakee-only 5 year "CAGR"	5.129%	(h)		

- 13 (a) 06-0285 Schedule C-4
- 14 (b) Company response to RWB-8.02, Compiled
- 15 (c) 10-0194 Schedule C-4, p. 3, Line 6, Columns (H) & (K)
- 16 (d) Projected using 2006-2010 Aqua Inc. "CAGR"
- 17 (e) Source is response to RWB 8.02. 2010 projected using 3 months actual x 4 to calculate total
- 18 (f) [Line 9, Col. (C) minus Line 6, Col. (C)] divided by Line 6, Col. (C)
- 19 (g) [Line 9, Col. (F) minus Line 6, Col. (F)] divided by Line 6, Col. (F)
- 20 (h) [[Line 9, Col. (D) divided by Line 5, Col. (D)] to the 1/5 power]-1

Aqua Illinois, Inc. - Kankakee Water Division
 Adjustment for Unaccounted For Water
 For the Test Year Ending December 31, 2011

Line (A)	Description (B)	Amount (C)	Source (D)
1	Purchased Power & Fuel Expense per Staff	746,690	ICC Staff Ex. 1.0, Schedule 1.15, p. 2, Line 4, Col. (C)
2	Purchased Power & Fuel Expense per Company	<u>767,647</u>	Co. Schedul C-4, p. 3, Line 5, Col (K)
3	Staff Adjustment	<u>(20,957)</u>	Line 1 - Line 2
4	Chemicals Expense per Staff	680,650	ICC Staff Ex. 1.0, Schedule 1.15, p. 2, Line 7, Col. (C)
5	Chemicals Expense per Previous Staff Adjustment	<u>699,753</u>	ICC Staff Ex. 1.0, Schedule 1.14, Line 4, Column (C)
6	Staff Adjustment	<u>(19,103)</u>	Line 4 - Line 5

Aqua Illinois, Inc. - Kankakee Water Division
 Adjustment for Unaccounted For Water
 For the Test Year Ending December 31, 2011

Line (A)	Description (B)	Amount (C)	Source (D)
1	Excess Accounted for Water Percentage per Staff	2.73%	ICC Staff Ex. 5.0, Schedule 5.1, Line 12
2	Purchased Power & Fuel Expense per Company	<u>767,647</u>	Co. Schedul C-4, p. 3, Line 5, Col (K)
3	Excess Purchased Power & Fuel Expense	20,957	Line 1 x Line 2
4	Purchased Power & Fuel Expense per Staff	<u><u>746,690</u></u>	Line 2 - Line 3
5	Chemicals Expense per Previous Staff Adjustment	<u>699,753</u>	ICC Staff Ex. 1.0, Schedule 1.14, Line 4, Column (C)
6	Excess Chemicals Expense	19,103	Line 1 x Line 5
7	Chemicals Expense per Staff	<u><u>680,650</u></u>	Line 5 - Line 6

Income Statement Category (A)	Future Year 2011 (Original) (B)	Future Year 2011 (RWB-13.02) (C)	Adjustment (D)
Operating Revenues	\$ 22,806,877	\$ 22,802,983	\$ (3,894)
Salaries & Wages, Employees	2,124,021	2,124,021	-
Salaries & Wages, Officers	123,199	123,199	-
Employee Pensions & Benefits	972,676	972,676	-
Purchased Power & Fuel for Power Prod.	767,647	767,647	-
Chemicals	724,960	724,960	-
Materials & Supplies	267,147	267,147	-
Contractual Services - Engineering	-	-	-
Contractual Services - Accounting	44,339	44,339	-
Contractual Services - Legal	14,832	14,832	-
Contractual Services - Management	750,969	750,969	-
Contractual Services - Other	1,509,012	1,509,012	-
Lease Expense	6,056	6,056	-
Transportation Expense	264,253	264,253	-
Insurance Expense	262,254	262,254	-
Regulatory Commission Exp. Amortization	124,102	124,102	-
Bad Debt Expense	298,897	298,846	(51)
Miscellaneous Expense	729,881	729,881	-
SUB-TOTAL O&M	8,984,245	8,984,194	(51)
Depreciation	3,465,496	3,465,002	(494)
Amortization of Utility Plant Acquisition Adjust.	(50,472)	(50,472)	-
Amortization Expense	154,148	154,148	-
Taxes Other Than Income	975,143	975,143	-
TOTAL EXPENSES (Excluding Income Tax)	\$ 13,528,559	\$ 13,528,015	\$ (545)
Income Taxes Federal	2,294,470	2,293,641	(829)
State	516,247	516,060	(187)
Amort. of ITC	(42,520)	(42,520)	-
TOTAL EXPENSES (Including Income Tax)	\$ 16,296,757	\$ 16,295,196	\$ (1,561)
Net Operating income	\$ 6,510,120	\$ 6,507,787	\$ (2,333)
Non-operating Income - Net	157,846	157,846	-
Non-operating Income Taxes	-	-	-
Interest Expense -	2,214,591	2,213,798	(3,894)
Net Income	\$ 4,453,375	\$ 4,451,836	\$ (1,540)

Note: Adjustments presented on this schedule were determined from Aqua response to RWB-13.03

Rate Base Component (A)	Adjusted Ave. Future Test Year (Original) (B)	Adjusted Ave. Future Test Year (Per RWB-13.03) (C)	Adjustment (D)
Utility Plant in Service	\$ 126,086,072	\$ 126,086,072	\$ 0
Less: Reserve for Accum. Depreciation	30,942,014	30,942,014	-
Net Utility Plant	95,144,058	95,144,058	0
Additions			
Property Held For Future Use	-	-	-
Deferred Charges	1,016,886	1,016,886	-
Materials & Supplies	628,814	628,814	-
Cash Working Capital	1,182,761	1,182,761	-
Amort. of Contributions In Aid of Const.	4,151,032	4,151,279	247
Deductions			
FAS 87 Pension	1,007,036	1,007,036	-
FAS 106 OPEB	160,176	160,176	-
Customer Advances	391,112	391,112	-
Contributions In Aid of Construction	20,711,943	20,738,051	26,108
Deferred Income Taxes - Total	8,119,530	8,119,628	98
Original Cost Rate Base	\$ 71,733,755	\$ 71,707,796	\$ (25,959)

Note: Adjustments presented on this schedule were determined from Aqua response to RWB-13.03