

Direct Testimony

Of

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Illinois Commerce Commission

Galena Territory Utilities, Inc.

Proposed General Increase in Sewer and Water Rates

Docket No. 10-0280

June 28, 2010

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SCHEDULES

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SCHEDULE 1.12 S and W	ADJUSTMENT TO DEPRECIATION EXPENSE
SCHEDULE 1.13 W	ADJUSTMENT FOR UNACCOUNTED-FOR WATER

1 **WITNESS IDENTIFICATION**

2 **Q. Please state your name and business address.**

3 A. My name is Mike Ostrander. My business address is 527 East Capitol
4 Avenue, Springfield, Illinois 62701.

5

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

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

10

11 **Q. Please describe your background and professional affiliations.**

12 A. I received a Bachelor of Business Administration in Accounting from the
13 University of Notre Dame. I am a Certified Public Accountant and a
14 Certified Internal Auditor. I joined the Commission staff ("Staff") in March
15 2006. Prior to joining the Commission, I was employed for three years as
16 a staff accountant in public accounting, seventeen years in private
17 industry with positions ranging from accounting manager to corporate
18 officer encompassing all areas of accounting and internal auditing, and
19 three years as controller of a law firm and software company.

20

21 **Q. Have you previously testified before a regulatory body?**

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

23

24 **Q. What are your responsibilities in this case?**

25 A. I have been assigned to this case by the Manager of the Accounting
26 Department of the Commission. I am to review the filing of Galena
27 Territory Utilities, Inc. (“Galena” or the “Company”), analyze the underlying
28 data, and propose adjustments when appropriate.

29

30 **Purpose of Testimony**

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

32 A. The purpose of my testimony is to:

- 33 1) Present Staff’s adjusted operating statement and rate base for
34 Galena;
35 2) Propose adjustments to the Company’s operating statement
36 and rate base concerning working capital, utility plant, accumulated
37 depreciation, accumulated deferred income taxes, accumulated
38 amortization of contributions in aid of construction, deferred
39 charges, depreciation expense, and maintenance expenses
40 (unaccounted-for water); and
41 3) Propose an Original Cost Determination for the Company.

42

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

44 A. Yes. I prepared the following schedules that reflect data as of, or for the
45 test year ending, December 31, 2008:

46

47 Revenue Requirement Schedules

48	Schedule 1.1 S and W	Statement of Operating Income with
49		Adjustments
50	Schedule 1.2 S and W	Adjustments to Operating Income
51	Schedule 1.3 S and W	Rate Base
52	Schedule 1.4 S and W	Adjustments to Rate Base
53	Schedule 1.5 S and W	Revenue Effect of Adjustments
54	Schedule 1.6 S and W	Interest Synchronization Adjustment
55	Schedule 1.7 S and W	Gross Revenue Conversion Factor

56

57 Adjustment Schedules

58	Schedule 1.8 S and W	Working Capital
59	Schedule 1.9 S and W	Utility Plant – Retired Equipment
60	Schedule 1.10 S and W	Adjustment to Other Rate Base
61		Components for the Company’s Pro
62		Forma Plant Additions Adjustment
63	Schedule 1.11 S and W	Deferred Charges
64	Schedule 1.12 S and W	Depreciation Expense
65	Schedule 1.13 W	Unaccounted-for Water

66

67 **Q. Please explain the S and W suffixes that appear with your schedule**
68 **numbers.**

69 A. Galena filed for rate increases for wastewater and water service. The “S”
70 suffix identifies a schedule that pertains to sewer service and the “W”
71 suffix identifies a schedule that pertains to water service.

72

73 **Revenue Requirement Schedules**

74 **Q. Please describe ICC Staff Exhibit 1.0, Schedules 1.1 S and W,**

75 **Statement of Operating Income with Adjustments.**

76 A. These schedules derive the required sewer and water revenues at the
77 Staff proposed rate of return. Column (b) presents the Company's pro
78 forma operating statement at present rates for the test year as reflected
79 on its Schedule B. Column (c) reflects the total of all Staff Adjustments
80 shown on ICC Staff exhibit 1.0, Schedules 1.2 S and W. Column (d)
81 reflects the pro forma operating statement at present rates per Staff.
82 Column (e) presents the Company's proposed increases to sewer and
83 water revenues. Column (f) adjusts the sewer and water revenues to
84 reflect Staff's gross revenue conversion factor. Column (g) is Staff's pro
85 forma operating statement inclusive of the Company's proposed sewer
86 and water revenue increases. Column (h) presents the necessary
87 change to the Company's proposed revenues to arrive at Staff's
88 proposed revenue requirement reflected in column (i). Line 24 is the
89 difference between current revenues and required revenues as
90 determined by Staff. Line 25 is Staff's calculated percentage change in
91 sewer and water revenues. Net Operating Income in column (i), line 21,
92 is the product of rate base, line 22, and rate of return, line 23.

93

94 **Q. Please describe Schedules 1.2 S and W, Adjustments to Operating**

95 **Income.**

96 A. These schedules identify Staff's adjustments to Operating Income. The
97 source of each adjustment is shown in the heading of each column.
98 Column (k) from page 2 is carried forward to ICC Staff Exhibit 1.0,
99 Schedules 1.1 S and W, column (c).

100

101 **Q. Please describe Schedules 1.3 S and W, Rate Base.**

102 A. These schedules compile Staff's rate base. Column (b) reflects the sewer
103 and water proposed rate base. Column (c) summarizes Staff's
104 adjustments to rate base. Column (d) is the net of columns (b) and (c)
105 and reflects Staff's computed rate base.

106

107 **Q. Please describe Schedules 1.4 S and W, Adjustments to Rate Base.**

108 A. These schedules identify Staff's adjustments to rate base. The source of
109 each adjustment is shown in the heading of each column. Column (k) is
110 carried forward to ICC Staff Exhibit 1.0, Schedules 1.3 S and W, column
111 (c).

112

113 **Revenue Effect of Adjustments**

114 **Q. Please describe Schedules 1.5 S and W, Revenue Effect of**
115 **Adjustments.**

116 A. These schedules identify the approximate effect of each Staff adjustment
117 on the Company's sewer and water revenue requirements. Schedule 1.5
118 is not the development of Staff's sewer and water revenue requirements.

119 Rather, it is an analysis that is intended to assist in identifying the relative
120 monetary significance of each Staff adjustment.

121

122 **Interest Synchronization**

123 **Q. Please describe Schedules 1.6 S and W, Interest Synchronization**
124 **Adjustment.**

125 A. These schedules compute the interest component of the sewer and water
126 revenue requirements. The interest expense (component) is computed by
127 multiplying the rate base by weighted cost of debt. The calculated interest
128 expense is then compared to the interest expense used by the Company
129 in its computation of test year income tax expense. The tax effect of the
130 difference in interest expense is the adjustment for interest
131 synchronization. The effect of this adjustment is to ensure that the sewer
132 and water revenue requirements reflect the tax savings generated by the
133 interest component of the revenue requirements.

134

135 **Gross Revenue Conversion Factor**

136 **Q. Please describe Schedules 1.7 S and W, Gross Revenue Conversion**
137 **Factor.**

138 A. These schedules present Staff's gross revenue conversion factor
139 ("GRCF"). The GRCF is multiplied by the income deficiency to determine
140 the total amount of sewer and water revenue required for the income

141 deficiency and the associated increase in income tax expense and
142 uncollectible expense.

143

144 **Adjustment to Working Capital**

145 **Q. Please describe ICC Staff Exhibit 1.0, Schedules 1.8 S and W,**

146 **Adjustment to Working Capital.**

147 A. These schedules present my adjustments to working capital for the
148 removal of real estate taxes and incorporate the effects of other Staff-
149 proposed adjustments. The Company calculated its sewer and water
150 working capital requirements using the 1/8th method based on the
151 operating expenses presented in their filing. Staff has no objection to the
152 use of this method. However, Staff has removed real estate taxes where
153 payment is deferred for more than a year resulting in an extended
154 payment lag. In addition, Staff has proposed adjustments to operating
155 expense components of the sewer and water working capital proposed by
156 the Company. Therefore, each working capital has changed accordingly
157 as shown on Schedules 1.8 S and W to reflect Staff's proposed
158 adjustments to the applicable sewer and water expenses. These
159 adjustments should be updated to reflect the operating expenses
160 approved by the Commission.

161

162 **Adjustment to Utility Plant – Retired Equipment**

163 **Q. Please describe ICC Staff Exhibit 1.0, Schedules 1.9 S and W,**

164 **Adjustment for Utility Plant – Retired Equipment.**

165 A. These schedules present my adjustment to utility plant and the related
166 adjustments to accumulated depreciation, accumulated deferred income
167 taxes and depreciation expense for utility plant that has been retired, and
168 is no longer used and useful, but is included in the sewer and water gross
169 utility plant in the Company's filing.

170 **Q. What is the basis for your utility plant adjustments?**

171 A. My utility plant adjustments are based on the Company's response to staff
172 data request WRJ 1.03-3. The following equipment was replaced due to
173 being no longer used and useful for the provision of utility service: Lift
174 Station #4 (sewer), Eagle Ridge well pump assembly (water), and Resort
175 well pump and motor (water).

176

177 **Adjustment to Other Rate Base Components for the Company's Pro Forma**
178 **Plant Additions Adjustment**

179 **Q. Please describe ICC Staff Exhibit 1.0, Schedules 1.10 S and W,**

180 **Adjustment to Other Rate Base Components for the Company's Pro**
181 **Forma Plant Additions Adjustment.**

182 A. These schedules present my adjustments to reflect the changes in
183 accumulated depreciation, accumulated deferred income taxes, and

184 accumulated amortization of contributions in aid of construction through
185 the date of the Company's pro forma plant additions.

186

187 **Q. Please explain your rationale for adjusting accumulated**
188 **depreciation, accumulated deferred income taxes, and accumulated**
189 **amortization of contributions in aid of construction through the date**
190 **of the Company's pro forma plant additions.**

191 A. The Company's adjustment for pro forma plant additions did not include
192 the related changes in accumulated depreciation, accumulated deferred
193 income taxes, and accumulated amortization of contributions in aid of
194 construction through the date of the Company's pro forma plant additions.
195 The Company failed to include the known and measurable increases and
196 decreases that impact other rate base components due to the pro forma
197 utility plant investment known and measurable changes (plant additions)
198 that occurred from January 2009 through December 2009.

199

200 **Q. Please explain how your adjustments comply with the administrative**
201 **rule that governs pro forma adjustments to historical test year data.**

202 A. 83 Ill. Adm. Code 287.40 states that:

203 A utility may propose pro forma adjustments (estimated or
204 calculated adjustments made in the same context and
205 format in which the affected information was provided) to the
206 selected historical test year for all known and measurable
207 changes in the operating results of the test year. These
208 adjustments shall reflect changes affecting the ratepayers in
209 plant investment, operating revenues, expenses, and cost of

210 capital where such changes occurred during the selected
211 historical test year or are reasonably certain to occur
212 subsequent to the historical test year within 12 months after
213 the filing date of the tariffs and where the amounts of the
214 changes are determinable. Attrition or inflation factors shall
215 not be substituted for a specific study of individual capital,
216 revenue, and expense components. Any proposed known
217 and measurable adjustment to the test year shall be
218 individually identified and supported in the direct testimony
219 of the utility. Each adjustment shall be submitted according
220 to the standard information requirement schedules
221 prescribed in 83 Ill. Adm. Code 285.
222

223 In conjunction with the Company's pro forma plant additions adjustment
224 the changes to other rate base components should also be considered.
225 The changes to accumulated depreciation, accumulated deferred income
226 taxes, and accumulated amortization of contributions in aid of construction
227 that would occur between December 31, 2008 and December 31, 2009
228 are known and measurable and can be individually identified and
229 supported. The Company, through its pro forma plant additions
230 adjustment, has included the actual plant additions for 2009 and has
231 effectively restated its gross utility plant balance through December 31,
232 2009. However, gross utility plant should also be offset by the known
233 changes to accumulated depreciation, accumulated deferred income
234 taxes, and accumulated amortization of contributions in aid of construction
235 through December 31, 2009 that occur with the passage of time.
236

237 **Q. Do you have other rationale for why it is appropriate to restate**
238 **accumulated depreciation, accumulated deferred income taxes, and**

239 **accumulated amortization of contributions in aid of construction**
240 **through the date that plant additions are included in rate base?**

241 A. Yes. Gross utility plant represents the largest component of the
242 Company's rate base. To restate gross utility plant without also
243 recognizing its associated components that change due to the passage of
244 time does not represent the investment that existed at December 31,
245 2009 that was provided by shareholders. Ratepayers have provided the
246 funds to reduce that investment through rates that recover the associated
247 depreciation expense and the federal government has provided the
248 additional funding of reduced income taxes due to the tax timing
249 differences associated with accelerated depreciation.

250

251 **Q. Has the Commission previously approved adjustments to other rate**
252 **base components through the date of the Company's pro forma plant**
253 **additions?**

254 A. Yes. In its order in Docket No. 94-0270 (Inter-State Water Company)
255 entered April 19, 1995, the Commission approved adjustments to
256 accumulated depreciation, accumulated deferred income taxes,
257 contributions in aid of construction and other rate base components
258 through the date of pro forma plant additions. The Commission stated
259 "...the goal of the rate-making process (subject to the terms of the
260 Adjustment Rule) should be to establish rates which reflect as closely as
261 possible the levels of operating expense and investment in plant devoted

262 to public service which will exist during the period when the rates
263 approved by the Commission are in effect.” (Order, p. 7). The
264 Commission further concluded that “The Company’s proposed adjustment
265 to plant-in-service is necessary to reflect items of plant which will be in-
266 service when the rates established in this docket take effect. This
267 adjustment must be accompanied by an adjustment to the accumulated
268 depreciation reserve...” (*id.*) “The adjustments are also adjustments of a
269 type which the Commission has consistently approved in conjunction with
270 plant-in-service adjustments to historical test years in past cases.” (Order,
271 p. 14).

272 The Commission, in its order in Docket No. 83-0433 (Alton Water
273 Company) entered May 30, 1984, deemed that adjustments to
274 accumulated depreciation and accumulated deferred income taxes are
275 “appropriate and necessary to reflect changes which will occur in
276 Respondent’s rate base in 1984,” the date through which plant additions
277 were allowed. (Order, p. 12).

278 The Commission in Docket No. 85-0166 (Inter-State Water Company)
279 entered February 26, 1986 stated: “The Commission is of the opinion that
280 the Company should be allowed only that portion of additions for which
281 corresponding depreciation figures exist in the record.” (Order, p.5). The
282 Commission increased accumulated depreciation, contributions in aid of

283 construction, and accumulated deferred income taxes through the date
284 that plant additions were allowed.

285

286 **Q. How have you derived the balances in accumulated depreciation,**
287 **accumulated deferred income taxes, and accumulated amortization**
288 **of contributions in aid of construction at December 31, 2009?**

289 A. The change in accumulated depreciation is supported by the Company's
290 response to Staff data request JMO 1.01. The change to accumulated
291 deferred taxes is supported by the Company's response to Staff data
292 request JMO 2.07. The change to accumulated amortization of
293 contributions in aid of construction is supported by the Company's
294 response to Staff data request JMO 1.01.

295

296 **Adjustment to Deferred Charges**

297 **Q. Please describe ICC Staff Exhibit 1.0, Schedules 1.11 S and W,**
298 **Adjustment to Deferred Charges.**

299 A. These schedules present my adjustments to remove deferred charges
300 from the sewer and water rate bases.

301

302 **Q. Please explain why you are removing deferred charges from the**
303 **sewer and water rate bases.**

304 A. I am removing deferred charges from rate base because the costs were
305 not incurred in the test year and the Commission did not authorize the

306 deferral as is required by 83 Ill. Adm. Code 605, the Uniform System of
307 Accounts in Illinois (“USOA”), Instructions to Account 186, Miscellaneous
308 Deferred Debits. The Company has deferred and amortized over various
309 periods the following costs incurred during various years: relocation
310 expenses, employee fees, and volatile organic compound testing
311 expenses.

312 I have not made an adjustment to remove the associated amortization of
313 the deferred charges from test year operating expenses because the level
314 reflects a normal level of prudently incurred expenses.

315 The Company maintains that these deferred costs should be included in
316 the sewer and water rate bases because these costs do not recur
317 regularly in one year or recur every several years and it is important to
318 match the costs incurred in the same period as the revenues are realized.
319 (Companies’ response to Staff data request JMO 2.11.)

320

321 **Q. Please elaborate on the Commission authorization that is required by**
322 **the USOA.**

323 A. The Instructions to Account 186, Miscellaneous Deferred Debits, state:

324 This account shall include all debits not elsewhere provided
325 for, such as miscellaneous work in progress, losses on
326 disposition of property net on income taxes, deferred by
327 authorization of the Commission, unusual or extraordinary
328 assets resulting from rate making actions, not included in
329 other accounts, which are in process of amortization, and
330 items the proper final disposition of which is uncertain.

331

332 The instructions cited require authorization from the Commission to defer
333 costs in Account 186. The Company did not request this authorization
334 from the Commission, thus the Company was not authorized to defer
335 these costs.

336

337 **Q. In your opinion, if the Company had requested Commission approval**
338 **to defer these costs, would the Commission have granted approval?**

339 A. No. The Commission has an established practice of not granting
340 Companies' requests for approval to defer costs. In Docket No. 98-0895
341 the Commission did not allow the deferral and amortization of Y2K
342 computer expenses. Similarly, in Docket No. 02-0609 the Commission
343 did not allow the deferral and amortization of enhanced security costs in
344 response to the events of September 11, 2001 and reverse osmosis
345 costs.

346 The Commission practice to disallow the deferral and amortization of
347 costs other than tank painting is based on court opinions. Court opinions
348 from *BPII*¹ in the Appellate Court – Third District, 3-04-0092 and *IAWC v.*
349 *ICC*, Slip Op. (July 13, 2005), pp. 17-18 have established and affirmed the
350 Commission's test year rule (only expenses incurred during the test year
351 can be used to offset revenue accrued during that year). The

¹. *Business and Professional People for the Public Interest v. Illinois Commerce Commission*, 146 Ill. 2d 175, 237-247 (1991) ("BPI II").

352 Commission has applied its test year rule and not allowed the deferral and
353 amortization of operating expenses. The Commission practice
354 established in Docket Nos. 98-0895 and 02-0690 has followed the court
355 opinions and has not allowed the deferral and amortization of costs other
356 than tank painting.

357

358 **Adjustment to Depreciation Expense**

359 **Q. Please describe ICC Staff Exhibit 1.0, Schedules 1.12 S and W,**
360 **Adjustment to Depreciation.**

361 A. These schedules present my adjustments to incorporate the depreciation
362 rates recommended by Staff witness William R. Johnson in ICC Staff
363 Exhibit 5.0.

364

365 **Adjustment for Unaccounted-for Water**

366 **Q. Please describe ICC Staff Exhibit 1.0, Schedule 1.13 W, Adjustment**
367 **for Unaccounted-for Water.**

368 A. This schedule presents my adjustment to decrease maintenance
369 expenses because the unaccounted-for water percentage exceeded the
370 maximum as defined by the Company's tariffs.

371

372 **Q. Please explain your rationale for decreasing maintenance expenses**
373 **due to the Company's excess unaccounted-for water percentages.**

374 A. Unaccounted-for water is the difference between the amount of water
375 pumped and sold by the Company. The maximum percentage of
376 unaccounted-for water sets a limit on the amount of unaccounted-for
377 water costs that may be recovered by the Company.² When the actual
378 unaccounted-for water percentage exceeds the maximum unaccounted-
379 for water percentage, the production or maintenance costs (purchased
380 power and chemicals) are reduced by the excess unaccounted-for water
381 percentage. My adjustment limits the costs ratepayers bear for
382 unaccounted-for water based on the maximum percentage that the
383 Commission has set forth as reasonable in the Company's tariff.

384

385 **Original Cost Determination**

386 **Q. Why is an Original Cost Determination finding necessary?**

387 A. Requirements for preservation of records are associated with an original
388 cost determination. 83 Ill. Adm. Code 615, The Preservation of Records
389 of Water Utilities, Appendix A, contains requirements for the preservation
390 of specific records. For example, journal vouchers and journal entries
391 which support plant accounts are to be maintained "7 years prior to date
392 as of which original cost of plant has been unconditionally determined or

² Galena Territory Utilities, Inc., ILL.C.C. No. 4, First Revised Sheet No. 38, effective March 19, 2007.

393 approved by this Commission in” an original cost determination
394 proceeding or a rate case.

395

396 **Q. What is your recommendation regarding an Original Cost**
397 **Determination in this proceeding?**

398 A. Having reviewed sewer and water plant additions since the last rate case
399 and having found no material errors, I recommend the Commission order
400 state:

401 **It is further ordered that the \$2,260,244 original cost of sewer plant in**
402 **service for the Company at December 31, 2008, as reflected on the**
403 **Company’s Schedule C, column Per Books net of Staff adjustments,**
404 **is unconditionally approved as the sewer original costs of plant.**

405 **It is further ordered that the \$7,020,117 original cost of water plant in**
406 **service for the Company at December 31, 2008, as reflected on the**
407 **Company’s Schedule C, column Per Books net of Staff adjustments,**
408 **is unconditionally approved as the water original costs of plant.**

409

410 **Conclusion**

411 **Q. Does this conclude your prepared direct testimony?**

412 A. Yes, it does.

Galena Territory Utilities, Inc. - Sewer Operations
Adjustments to Operating Income
 For the Test Year Ending December 31, 2008

Line No.	Description	Interest Synchronization (Sch. 1.6 S)	Retired Equipment (Sch. 1.9 S)	Depreciation Expense (Sch. 1.12 S)	Pro Forma Maintenance & General Expenses (Sch. 2.1 S)	Add-On Taxes (Sch. 2.2 S)	Rate Case Expense (Sch. 2.3 S)	Test Year Expenses (Sch. 2.4 S)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(j)	(k)
1	Sewer Service Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Miscellaneous Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenues	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	(1,102)	-	-	(4,038)	(5,140)
6	General Expenses	-	-	-	(853)	-	(9,240)	(2,582)	(12,675)
7	Depreciation	-	(669)	(3,284)	-	-	-	-	(3,953)
8	Amortization of CIAC	-	-	-	-	(294)	-	-	(294)
9	Taxes Other Than Income	-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	-	(669)	(3,284)	(1,955)	(294)	(9,240)	(6,620)	(22,062)
17	State Income Tax	124	49	240	143	21	675	483	1,735
18	Federal Income Tax	534	211	1,035	616	93	2,912	2,086	7,487
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expense:	658	(409)	(2,009)	(1,196)	(180)	(5,653)	(4,051)	(12,840)
21	NET OPERATING INCOME	\$ (658)	\$ 409	\$ 2,009	\$ 1,196	\$ 180	\$ 5,653	\$ 4,051	\$ 12,840

Galena Territory Utilities, Inc. - Sewer Operations
Adjustments to Operating Income
 For the Test Year Ending December 31, 2008

Line No.	Description	Subtotal (page 1)	Correct Allocation Factors (Sch. 2.5 S)	Operations & Customer Service Employee Expenses (Sch. 2.6 S)	Corporate Employee Expenses (Sch. 2.7 S)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(i)	(k)
1	Sewer Service Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Miscellaneous Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenues	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	(5,140)	-	(2,845)	-	-	-	-	(7,985)
6	General Expenses	(12,675)	(2,141)	(2,346)	(748)	-	-	-	(17,910)
7	Depreciation	(3,953)	-	-	-	-	-	-	(3,953)
8	Amortization of CIAC	(294)	-	-	-	-	-	-	(294)
9	Taxes Other Than Income	-	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	(22,062)	(2,141)	(5,191)	(748)	-	-	-	(30,142)
17	State Income Tax	1,735	156	379	55	-	-	-	2,325
18	Federal Income Tax	7,487	675	1,636	236	-	-	-	10,034
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expense:	(12,840)	(1,310)	(3,176)	(457)	-	-	-	(17,783)
21	NET OPERATING INCOME	\$ 12,840	\$ 1,310	\$ 3,176	\$ 457	\$ -	\$ -	\$ -	\$ 17,783

Galena Territory Utilities, Inc. - Sewer Operations
Rate Base
 For the Test Year Ending December 31, 2008

Line No.	Description	Company Pro Forma Rate Base (Co. Sch. C)	Staff Adjustments (Sch 1.4 S)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 2,309,271	\$ (23,147)	\$ 2,286,124
2	Less: Accumulated Depreciation	(670,469)	(32,272)	(702,741)
3		-	-	-
4	Net Plant	<u>1,638,802</u>	<u>(55,419)</u>	<u>1,583,383</u>
5	Additions to Rate Base			
6	Cash Working Capital	22,730	(3,648)	19,082
7	Adjustment to Rate Base Allocations	4,335	-	4,335
8	Deferred Charges	666	(666)	(0)
9		-	-	-
10		-	-	-
11		-	-	-
12		-	-	-
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(1,071,217)	24,567	(1,046,650)
18	Accumulated Deferred Income Taxes	(118,255)	(9,146)	(127,401)
19		-	-	-
20		-	-	-
21		-	-	-
22		-	-	-
23	Rate Base	<u>\$ 477,061</u>	<u>\$ (44,313)</u>	<u>\$ 432,748</u>

Galena Territory Utilities, Inc. - Sewer Operations
Adjustments to Rate Base
 For the Test Year Ending December 31, 2008

Line No.	Description	Working Capital (Sch. 1.8 S)	Retired Equipment (Sch. 1.9 S)	Other Rate Base Components (Sch. 1.10 S)	Deferred Charges (Sch. 1.11 S)	Correct Allocation Factors (Sch. 2.5 S)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(k)
1	Gross Plant in Service	\$ -	\$ (18,743)	\$ -	\$ -	\$ (4,404)	\$ -	\$ -	\$ (23,147)
2	Less: Accumulated Depreciation	-	18,743	(51,015)	-	-	-	-	(32,272)
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	(51,015)	-	(4,404)	-	-	(55,419)
5	Additions to Rate Base								-
6	Working Capital	(3,648)	-	-	-	-	-	-	(3,648)
7	Adjustment to Rate Base Allocations	-	-	-	-	-	-	-	-
8	Deferred Charges	-	-	-	(666)	-	-	-	(666)
9		-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base								-
17	Contributions in Aid of Construction	-	-	24,567	-	-	-	-	24,567
18	Accumulated Deferred Income Taxes	-	76	(9,222)	-	-	-	-	(9,146)
19		-	-	-	-	-	-	-	-
20	Deferred Federal Income Taxes	-	-	-	-	-	-	-	-
21	Deferred State Income Taxes	-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (3,648)	\$ 76	\$ (35,670)	\$ (666)	\$ (4,404)	\$ -	\$ -	\$ (44,313)

Galena Territory Utilities, Inc. - Sewer Operations
Revenue Effect of Adjustments
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Per Company (b)	Staff Adjustments (c)	Per Staff (d)
1	Present Revenues	\$ 207,218 ⁽¹⁾	\$ -	\$ 207,218 ⁽²⁾
2	Proposed Increase	<u>69,970 ⁽³⁾</u>	<u>(44,304) ⁽⁴⁾</u>	<u>25,666 ⁽⁵⁾</u>
3	Proposed Revenues	<u>\$ 277,188</u>	<u>\$ (44,304)</u>	<u>\$ 232,884</u>
4	% Increase	33.77%		12.39%
5	Staff Adjustments:			
6	Rate of Return (Applied to Company Rate Base)		\$ (9,437)	
7	Rate Case Expense	Staff Ex. 2.0, Sch. 2.3 S	(9,264)	
8	Test Year Expenses	Staff Ex. 2.0, Sch. 2.4 S	(6,638)	
9	Operations & Customer Service Employee Expenses	Staff Ex. 2.0, Sch. 2.6 S	(5,205)	
10	Depreciation Expense	Staff Ex. 1.0, Sch. 1.9 S + Sch. 1.12 S	(3,962)	
11	Other Rate Base Components	Staff Ex. 1.0, Sch. 1.10 S	(3,766)	
12	Correct Allocation Factors	Staff Ex. 2.0, Sch. 2.5 S	(2,612)	
13	Pro Forma Maintenance & General Expenses	Staff Ex. 2.0, Sch. 2.1 S	(1,960)	
14	Corporate Employee Expenses	Staff Ex. 2.0, Sch. 2.7 S	(749)	
15	Working Capital	Staff Ex. 1.0, Sch. 1.8 S	(385)	
16	Add-On Taxes	Staff Ex. 2.0, Sch. 2.2 S	(295)	
17	Deferred Charges	Staff Ex. 1.0, Sch. 1.11 S	(70)	
18	Gross Revenue Conversion Factor	Staff Ex. 1.0, Sch. 1.1 S	(68)	
19	Interest Synchronization	Staff Ex. 1.0, Sch. 1.6 S	100	
20	Retired Equipment		8	
21	Rounding		<u>(1)</u>	
22	Total Revenue Effect of Staff Adjustments		<u>\$ (44,304)</u>	

Sources:

- (1) ICC Staff Exhibit 1.0, Schedule 1.1 S, column (b), line 3
- (2) ICC Staff Exhibit 1.0, Schedule 1.1 S, column (d), line 3
- (3) ICC Staff Exhibit 1.0, Schedule 1.1 S, column (e), line 3
- (4) ICC Staff Exhibit 1.0, Schedule 1.1 S, columns (f) + (h), line 3
- (5) ICC Staff Exhibit 1.0, Schedule 1.1 S, column (i), line 24

Galena Territory Utilities, Inc. - Sewer Operations
Interest Synchronization Adjustment
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)
1	Rate Base	\$ 432,748 (1)
2	Weighted Cost of Deb	3.47% (2)
3	Synchronized Interest Per Staff (Line 1 x Line 2)	15,016
4	Company Interest Expense	<u>16,710</u> (3)
5	Increase (Decrease) in Interest Expense (Line 3 - Line 4)	<u>(1,694)</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 7.300%	<u>\$ 124</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 34.000%	<u>\$ 534</u>

(1) Source: ICC Staff Exhibit 1.0, Schedule 1.3 S, column (d), line 23.

(2) Source: ICC Staff Exhibit 3.0, Schedule 3.1.

(3) Source: Company Schedule B, page 3 of 4, column "Pro Forma Proposed", line "Interest on Debt"

Galena Territory Utilities, Inc. - Sewer Operations
Gross Revenue Conversion Factor
 For the Test Year Ending December 31, 2008

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	0.2601%	<u>0.002601</u>	
3	State Taxable Income		0.997399	1.000000
4	State Income Tax	7.3000%	<u>0.072810</u>	<u>0.073000</u>
5	Federal Taxable Income		0.924589	0.927000
6	Federal Income Tax	34.0000%	<u>0.314360</u>	<u>0.315180</u>
7	Operating Income		<u>0.610229</u>	<u>0.611820</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.638729</u>	<u>1.634468</u>

Galena Territory Utilities, Inc. - Sewer Operations
Adjustment to Working Capital
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Source (c)
1	Maintenance Expenses	\$ 94,775	Schedule 1.1 S, column (d), line 5
2	General Expense	50,925	Schedule 1.1 S, column (d), line 6
3	Taxes Other Than Income	10,247	Schedule 1.1 S, column (d), line 9
4	Less Real Estate Taxes	<u>(3,291)</u>	Company response to Staff data request JMO 1.01, tab "Linked TB", Account # 7555
5	Operating Expenses Subject to Working Capital Allowance	152,656	Sum of Line 1 through Line 4
6	Divisor (1/8)	<u>0.125</u>	
7	Working Capital Allowance Per Staff	19,082	Line 5 x Line 6
8	Working Capital Allowance Per Company	<u>22,730</u>	Company Schedule C, page 3 of 4, column "As Adjusted", line 5
9	Staff Adjustment	<u>\$ (3,648)</u>	Line 7 - Line 8

Galena Territory Utilities, Inc. - Sewer Operations
Adjustment to Utility Plant - Retired Equipment
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Gross Utility Plant (b)	Accumulated Depreciation (c)	Depreciation Expense (d)	Accumulated Deferred Income Taxes (e)
1	Amount per Staff	\$ -	\$ -	\$ -	\$ -
2	Amount per Company	<u>18,743</u>	<u>(18,743)</u>	<u>669</u>	<u>(76)</u>
3	Staff Proposed Adjustment (Line 1 - Line 2)	<u>\$ (18,743)</u>	<u>\$ 18,743</u>	<u>\$ (669)</u>	<u>\$ 76</u>

Sources:

Columns (b), (c), and (d): ICC Staff Exhibit 1.0, Schedule 1.9 S, page 2 of 2.

Galena Territory Utilities, Inc. - Sewer Operations
Adjustment to Utility Plant - Retired Equipment
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Depreciation Expense (c)
1	Depreciation Expense per Staff		\$ -
2	Retired Lift Station	\$ 18,743	(1)
3	Sewage Treatment Plant - Test Year Depreciation Rate (A/C# 3804005)	<u>3.57%</u>	(2)
4	Depreciation Expense per Company (Line 2 x Line 3)		<u>669</u>
5	Staff Adjustment (Line 1 - Line 4)		<u>\$ (669)</u>

Sources:

- (1) Company response to Staff data request WRJ 1.03-3
- (2) Company response to Staff data request JMO 1.01, tab "wp - r7(s) - 2008"

Galena Territory Utilities, Inc. - Sewer Operations
Adjustment to Utility Plant - Retired Equipment
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount	Deferred Tax Adjustment (b)	Sources (c)
1	Pro Forma Gross Utility Plant		\$ 2,283,391	Company Schedule C - Sewer Operations, page 3, column "Per Books", line 2
2	Retired utility plant included in gross utility plant in service at 12/31/08		\$ 18,743	Company response to Staff data request WRJ 1.03-3
3	% of retired utility plant in gross utility plant in service at 12/31/08		0.82%	Line 1 / line 2
4	Total 2008 Deferred Income Tax Expense	\$ 34,155		Company response to Staff data request JMO 2.07 - ADIT 2008, tab "SE3", line 61 + line 62
5	Water Allocation Percentage	<u>27%</u>		Company response to Staff data request JMO 1.01, tab "Linked TB"
6	Amount per Staff		<u>9,222</u>	Line 4 x Line 5
7	Staff Adjustment		<u>\$ 76</u>	Line 3 x Line 6

Galena Territory Utilities, Inc. - Sewer Operations
Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment
For the Test Year Ending December 31, 2008

Line No.	Description (a)	Accumulated Depreciation (b)	Accumulated Deferred Income Taxes (c)	Contributions in Aid of Construction (d)
1	Amount per Staff	\$ (51,015)	\$ (9,222)	\$ 24,567
2	Amount per Company	-	-	-
3	Staff Proposed Adjustment (Line 1 + Line 2)	<u>\$ (51,015)</u>	<u>\$ (9,222)</u>	<u>\$ 24,567</u>

Sources:

Column (b): Staff Exhibit 1.0, Schedule 1.10 S, page 2

Column (c): Staff Exhibit 1.0, Schedule 1.10 S, page 3

Column (d): Staff Exhibit 1.0, Schedule 1.10 S, page 4

Galena Territory Utilities, Inc. - Sewer Operations
Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Accumulated Depreciation (c)	Adjustment (d)	Sources (e)
1	Amount per Company			\$ -	Company Schedule C - Sewer Operations, page 3, column "Pro Forma Adjustments", line 3
2	Gross Utility Plant	\$ 2,283,391			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
3	Retired Equipment Proposed Adjustment	(18,743)			ICC Staff Exhibit 1.0, Schedule 1.9 S, page 1 of 2, column (b), line 3
4	Land	(404)			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
5	Vehicles	(32,929)			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
6	Computers	(72,817)			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
7		<u>(124,893)</u>			Sum of Line 3 through Line 6
8	Net Gross Utility Plant	2,158,498			Line 2 - Line 7
9	Depreciation Rate	<u>1.50%</u>			Company response to Staff data request JMO 1.01, tab "wp - r7(s) - 2008", current depreciation rate
10	Addition to Accumulated Depreciation		\$ 32,377		Line 8 x Line 9
11	Vehicles	\$ 32,929			ICC Staff Exhibit 1.0, Schedule 1.10 S, page 2 of 4, column (b), line 5
12	Depreciation Rate	<u>25.00%</u>			Company response to Staff data request JMO 1.01, tab "wp - f - depr"
13	Addition to Accumulated Depreciation		8,232		Line 11 x Line 12
14	Computers	\$ 72,817			ICC Staff Exhibit 1.0, Schedule 1.10 S, page 2 of 4, column (b), line 6
15	Depreciation Rate	<u>14.29%</u>			Company response to Staff data request JMO 1.01, tab "wp - f"
16	Addition to Accumulated Depreciation		<u>10,406</u>		Line 14 x Line 15
17	Total Addition to Accumulated Depreciation for Pro Forma Period ending December 31, 2009			<u>51,015</u>	Sum of Line 10 + Line 13 + Line 16
18	Staff Adjustment			<u>\$ (51,015)</u>	Line 1 - Line 17

Galena Territory Utilities, Inc. - Sewer Operations
Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Deferred Tax Adjustment (c)	Sources (d)
1	Amount per Company		\$ -	Company Schedule C - Sewer Operations, page 3, column "Pro Forma Adjustments", line 7
2	Total 2008 Deferred Income Tax Expense	\$ 34,155		Company response to Staff data request JMO 2.07 - ADIT 2008, tab "SE3", line 61 + line 62
3	Sewer Allocation Percentage	<u>27%</u>		Company response to Staff data request JMO 1.01, tab "Linked TB"
4	Amount per Staff		<u>9,222</u>	Line 2 x Line 3
5	Staff Adjustment		<u>\$ (9,222)</u>	Line 1 - Line 4

Galena Territory Utilities, Inc. - Sewer Operations
Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Contributions in Aid of Construction Adjustment (b)	Sources (c)
1	Amount per Company	\$ -	Company Schedule C - Sewer Operations, page 3, column "Pro Forma Adjustments", line 6
2	Amount per Staff	<u>(24,567)</u>	Company response to Staff data request JMO 1.01, tab "wp - r7(s) - 2008", current amortization rate of 1.5%
3	Staff Adjustments	<u>\$ 24,567</u>	Line 1 - Line 2

Galena Territory Utilities, Inc. - Sewer Operations
Adjustment to Deferred Charges
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Sources (c)
1	Amount per Staff	\$ (0)	ICC Staff Exhibit 1.0, Schedule 1.11 S, page 2 of 2, column (c), line 6
2	Amount per Company	<u>666</u>	ICC Staff Exhibit 1.0, Schedule 1.11 S, page 2 of 2, column (c), line 1
3	Staff Proposed Adjustment	<u><u>\$ (666)</u></u>	Line 1 - Line 2

Galena Territory Utilities, Inc. - Sewer Operations
Adjustment to Deferred Charges
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Deferred Charges Adjustment (b)	Deferred Charges (c)	Sources (d)
1	Deferred Charges per Company		\$ 666	Company Schedule C, page 3 of 4, column "Per Books", line 13
2	Relocation Expenses	\$ (27)		Company response to Staff data request JMO 2.11
3	Employee Fees	(70)		Company response to Staff data request JMO 2.11
4	Volatile Organic Compound Testing	<u>(570)</u>		Company response to Staff data request JMO 2.11
5	Deferred Charges Adjustment	<u>\$ (666)</u>	<u>(666)</u>	Sum of Line 2 through Line 4
6	Deferred Charges per Staff		<u>\$ (0)</u>	Line 1 + Line 5

Galena Territory Utilities, Inc. - Sewer Operations
Adjustment to Depreciation Expense
For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Sources (c)
1	Amount per Staff	\$ 60,523	ICC Staff Exhibit 5.0, Schedule 5.2
2	Amount per Company	<u>63,807</u>	Company response to Staff data request JMO 1.01, tab "wp - f - depr"
3	Staff Proposed Adjustment	<u>\$ (3,284)</u>	Line 1 - Line 2

Galena Territory Utilities, Inc. - Water Operations
Adjustments to Operating Income
 For the Test Year Ending December 31, 2008

Line No.	Description	Interest Synchronization (Sch. 1.6 W)	Retired Equipment (Sch. 1.9 W)	Depreciation Expense (Sch. 1.12 W)	Unaccounted-for Water (Sch. 1.13 W)	Pro Forma Maintenance & General Expenses (Sch. 2.1 W)	Add-On Taxes (Sch. 2.2 W)	Rate Case Expense (Sch. 2.3 W)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(j)	(k)
1	Water Service Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Miscellaneous Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenues	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	-	-	-	(3,060)	(3,303)	-	-	(6,363)
6	General Expenses	-	-	-	-	(2,353)	-	(25,485)	(27,838)
7	Depreciation	-	(714)	(1,085)	-	-	-	-	(1,799)
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	-	-	-	-	-	(1,002)	-	(1,002)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense	-	(714)	(1,085)	(3,060)	(5,656)	(1,002)	(25,485)	(37,002)
16	Before Income Taxes	-	(714)	(1,085)	(3,060)	(5,656)	(1,002)	(25,485)	(37,002)
17	State Income Tax	473	52	79	223	413	73	1,860	3,173
18	Federal Income Tax	2,042	225	342	964	1,783	316	8,032	13,704
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expense:	2,515	(437)	(664)	(1,873)	(3,460)	(613)	(15,593)	(20,125)
21	NET OPERATING INCOME	\$ (2,515)	\$ 437	\$ 664	\$ 1,873	\$ 3,460	\$ 613	\$ 15,593	\$ 20,125

Galena Territory Utilities, Inc. - Water Operations
Adjustments to Operating Income
 For the Test Year Ending December 31, 2008

Line No.	Description	Subtotal (page 1)	Test Year Expenses (Sch. 2.4 W)	Correct Allocation Factors (Sch. 2.5 W)	Operations & Customer Service Employee Expenses (Sch. 2.6 W)	Corporate Employee Expenses (Sch. 2.7 W)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(j)	(k)
1	Water Service Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Miscellaneous Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenues	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Maintenance Expenses	(6,363)	(7,171)	-	(7,838)	-	-	-	(21,372)
6	General Expenses	(27,838)	(6,889)	(5,903)	(6,469)	(2,056)	-	-	(49,155)
7	Depreciation	(1,799)	-	-	-	-	-	-	(1,799)
8	Amortization of CIAC	-	-	-	-	-	-	-	-
9	Taxes Other Than Income	(1,002)	-	-	-	-	-	-	(1,002)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	Total Operating Expense								
16	Before Income Taxes	(37,002)	(14,060)	(5,903)	(14,307)	(2,056)	-	-	(73,328)
17	State Income Tax	3,173	1,026	431	1,044	150	-	-	5,824
18	Federal Income Tax	13,704	4,431	1,861	4,509	648	-	-	25,153
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
20	Total Operating Expenses	(20,125)	(8,603)	(3,611)	(8,754)	(1,258)	-	-	(42,351)
21	NET OPERATING INCOME	\$ 20,125	\$ 8,603	\$ 3,611	\$ 8,754	\$ 1,258	\$ -	\$ -	\$ 42,351

Galena Territory Utilities, Inc. - Water Operations
Rate Base
 For the Test Year Ending December 31, 2008

Line No.	Description	Company Pro Forma Rate Base (Co. Sch. C)	Staff Adjustments (Sch 1.4 W)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 7,094,476	\$ (34,963)	\$ 7,059,513
2	Less: Accumulated Depreciation	(1,690,541)	(129,533)	(1,820,074)
3		-	-	-
4	Net Plant	5,403,935	(164,496)	5,239,439
5	Additions to Rate Base			
6	Cash Working Capital	51,422	(10,075)	41,347
7	Adjustment to Rate Base Allocations	11,956	-	11,956
8	Deferred Charges	1,837	(1,837)	0
9		-	-	-
10		-	-	-
11		-	-	-
12		-	-	-
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base			
17	Contributions in Aid of Construction	(1,753,839)	46,407	(1,707,432)
18	Accumulated Deferred Income Taxes	(341,134)	(24,853)	(365,987)
19		-	-	-
20		-	-	-
21		-	-	-
22		-	-	-
23	Rate Base	<u>\$ 3,374,177</u>	<u>\$ (154,854)</u>	<u>\$ 3,219,323</u>

Galena Territory Utilities, Inc. - Water Operations
Adjustments to Rate Base
 For the Test Year Ending December 31, 2008

Line No.	Description	Working Capital (Sch. 1.8 W)	Retired Equipment (Sch. 1.9 W)	Other Rate Base Components (Sch. 1.10 W)	Deferred Charges (Sch. 1.11 W)	Correct Allocation Factors (Sch. 2.5 W)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(k)
1	Gross Plant in Service	\$ -	\$ (22,817)		\$ -	\$ (12,146)	\$ -	\$ -	\$ (34,963)
2	Less: Accumulated Depreciation	-	22,817	(152,350)	-	-	-	-	(129,533)
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	(152,350)	-	(12,146)	-	-	(164,496)
5	Additions to Rate Base								-
6	Cash Working Capital	(10,075)	-	-	-	-	-	-	(10,075)
7	Adjustment to Rate Base Allocations	-	-	-	-	-	-	-	-
8	Deferred Charges	-	-	-	(1,837)	-	-	-	(1,837)
9		-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	Contributions in Aid of Construction	-	-	46,407	-	-	-	-	46,407
18	Accumulated Deferred Income Taxes	-	81	(24,933)	-	-	-	-	(24,853)
19		-	-	-	-	-	-	-	-
20	Deferred Federal Income Taxes	-	-	-	-	-	-	-	-
21	Deferred State Income Taxes	-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (10,075)	\$ 81	\$ (130,876)	\$ (1,837)	\$ (12,146)	\$ -	\$ -	\$ (154,854)

Galena Territory Utilities, Inc. - Water Operations
Revenue Effect of Adjustments
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Per Company (b)	Staff Adjustments (c)	Per Staff (d)
1	Present Revenues	\$ 538,881 ⁽¹⁾	\$ -	\$ 538,881 ⁽²⁾
2	Proposed Increase	<u>444,057 ⁽³⁾</u>	<u>(156,499) ⁽⁴⁾</u>	<u>287,558 ⁽⁵⁾</u>
3	Proposed Revenues	<u>\$ 982,938</u>	<u>\$ (156,499)</u>	<u>\$ 826,439</u>
4	% Increase	82.40%		53.36%
5	Staff Adjustments:			
6	Rate of Return (Applied to Company Rate Base)		\$ (66,716)	
7	Rate Case Expense	Staff Ex. 2.0, Sch. 2.3 W	(25,550)	
8	Operations & Customer Service Employee Expenses	Staff Ex. 2.0, Sch. 2.6 W	(14,344)	
9	Test Year Expenses	Staff Ex. 2.0, Sch. 2.4 W	(14,097)	
10	Other Rate Base Components	Staff Ex. 1.0, Sch. 1.10 W	(13,817)	
11	Correct Allocation Factors	Staff Ex. 2.0, Sch. 2.5 W	(7,199)	
12	Pro Forma Maintenance & General Expenses	Staff Ex. 2.0, Sch. 2.1 W	(5,669)	
13	Unaccounted-for Water	Staff Ex. 1.0, Sch. 1.13 W	(3,069)	
14	Corporate Employee Expenses	Staff Ex. 2.0, Sch. 2.7 W	(2,061)	
15	Depreciation Expense	Staff Ex. 1.0, Sch. 1.9 W + Sch. 1.12 W	(1,804)	
16	Working Capital	Staff Ex. 1.0, Sch. 1.8 W	(1,064)	
17	Add-On Taxes	Staff Ex. 2.0, Sch. 2.2 W	(1,004)	
18	Gross Revenue Conversion Factor	Staff Ex. 1.0, Sch. 1.1 W	(624)	
19	Deferred Charges	Staff Ex. 1.0, Sch. 1.11 W	(194)	
20	Interest Synchronization	Staff Ex. 1.0, Sch. 1.6 W	703	
21	Retired Equipment	Staff Ex. 1.0, Sch. 1.9 W	9	
22	Rounding		<u>1</u>	
23	Total Revenue Effect of Staff Adjustments		<u>\$ (156,499)</u>	

Sources:

- (1) ICC Staff Exhibit 1.0, Schedule 1.1 W, column (b), line 3
- (2) ICC Staff Exhibit 1.0, Schedule 1.1 W, column (d), line 3
- (3) ICC Staff Exhibit 1.0, Schedule 1.1 W, column (e), line 3
- (4) ICC Staff Exhibit 1.0, Schedule 1.1 W, columns (f) + (h), line 3
- (5) ICC Staff Exhibit 1.0, Schedule 1.1 W, column (i), line 24

Galena Territory Utilities, Inc. - Water Operations
Interest Synchronization Adjustment
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)
1	Rate Base	\$ 3,219,323 (1)
2	Weighted Cost of Debt	3.47% (2)
3	Synchronized Interest Per Staff (Line 1 x Line 2)	111,711
4	Company Interest Expense	<u>118,189</u> (3)
5	Increase (Decrease) in Interest Expense (Line 3 - Line 4)	<u>(6,478)</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 7.300%	<u>\$ 473</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 34.000%	<u>\$ 2,042</u>

(1) Source: ICC Staff Exhibit 1.0, Schedule 1.3 W, Column (d), line 23.

(2) Source: ICC Staff Exhibit 3.0, Schedule 3.1.

(3) Source: Company Schedule B, page 2 of 4, column "Pro Forma Proposed", line "Interest on Debt"

Galena Territory Utilities, Inc. - Water Operations
Gross Revenue Conversion Factor
 For the Test Year Ending December 31, 2008

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	0.2504%	<u>0.002504</u>	
3	State Taxable Income		0.997496	1.000000
4	State Income Tax	7.3000%	<u>0.072817</u>	<u>0.073000</u>
5	Federal Taxable Income		0.924679	0.927000
6	Federal Income Tax	34.0000%	<u>0.314391</u>	<u>0.315180</u>
7	Operating Income		<u>0.610288</u>	<u>0.611820</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.638571</u>	<u>1.634468</u>

Galena Territory Utilities, Inc. - Water Operations
Adjustment to Working Capital
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Source (c)
1	Maintenance Expenses	\$ 171,979	Schedule 1.1 W, column (d), line 5
2	General Expense	140,673	Schedule 1.1 W, column (d), line 6
3	Taxes Other Than Income	27,197	Schedule 1.1 W, column (d), line 9
4	Less Real Estate Taxes	<u>(9,075)</u>	Company response to Staff data request JMO 1.01, tab "Linked TB", Account # 7555
5	Operating Expenses Subject to Working Capital Allowance	330,774	Sum of Line 1 through Line 4
6	Divisor (1/8)	<u>0.125</u>	
7	Working Capital Allowance Per Staff	41,347	Line 5 x Line 6
8	Working Capital Allowance Per Company	<u>51,422</u>	Company Schedule C, page 2 of 4, column "As Adjusted", line 5
9	Staff Adjustment	<u>\$ (10,075)</u>	Line 7 - line 8

Galena Territory Utilities, Inc. - Water Operations
Adjustment to Utility Plant - Retired Equipment
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Gross Utility Plant (b)	Accumulated Depreciation (c)	Depreciation Expense (d)	Accumulated Deferred Income Taxes (e)
1	Amount per Staff	\$ -	\$ -	\$ -	\$ -
2	Amount per Company	<u>22,817</u>	<u>(22,817)</u>	<u>714</u>	<u>(81)</u>
3	Staff Adjustment (Line 1 - Line 2)	<u>\$ (22,817)</u>	<u>\$ 22,817</u>	<u>\$ (714)</u>	<u>\$ 81</u>

Sources:

Columns (b), (c), and (d): ICC Staff Exhibit 1.0, Schedule 1.9 W, page 2 of 2.

Galena Territory Utilities, Inc. - Water Operations
Adjustment to Utility Plant - Retired Equipment
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Depreciation Expense (c)
1	Depreciation Expense per Staff		\$ -
2	Retired Pump Assembly - Eagle Ridge Well	\$ 11,775	(1)
3	Retired Pump and Motor - Resort Well	<u>11,042</u>	(1)
4	Total Retired Equipment (Line 2 + Line 3)	22,817	
5	Electric Pumping Equipment - Test Year Depreciation Rate (A/C# 3113025)	<u>3.13%</u>	(2)
6	Depreciation Expense per Company (Line 4 x Line 5)		<u>714</u>
7	Staff Adjustment (Line 1 - Line 6)		<u>\$ (714)</u>

Sources:

(1) Company response to Staff data request WRJ 1.03-3

(2) Company response to Staff data request JMO 1.01, tab "wp - r7(s) - 2008", current

Galena Territory Utilities, Inc. - Water Operations
Adjustment to Utility Plant - Retired Equipment
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount	Deferred Tax Adjustment (b)	Sources (c)
1	Gross Utility Plant		\$ 7,055,080	Company Schedule C - Water Operations, page 2, column "Per Books", line 2
2	Retired utility plant included in gross utility plant in service at 12/31/08		\$ 22,817	Company response to Staff data request WRJ 1.03-3
3	% of retired utility plant in gross utility plant in service at 12/31/08		0.32%	Line 1 / line 2
4	Total 2008 Deferred Income Tax Expense	\$ 34,155		Company response to Staff data request JMO 2.07 - ADIT 2008, tab "SE3", line 61 + line 62
5	Water Allocation Percentage	<u>73%</u>		Company response to Staff data request JMO 1.01, tab "Linked TB"
6	Amount per Staff		<u>24,933</u>	Line 4 x Line 5
7	Staff Adjustment		<u>\$ 81</u>	Line 3 x Line 6

Galena Territory Utilities, Inc. - Water Operations
Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment
For the Test Year Ending December 31, 2008

Line No.	Description (a)	Accumulated Depreciation (b)	Accumulated Deferred Income Taxes (c)	Contributions in Aid of Construction (d)
1	Amount per Staff	\$ (152,350)	\$ (24,933)	\$ 46,407
2	Amount per Company	-	-	-
3	Staff Proposed Adjustment (Line 1 + Line 2)	<u>\$ (152,350)</u>	<u>\$ (24,933)</u>	<u>\$ 46,407</u>

Sources:

Column (b): Staff Exhibit 1.0, Schedule 1.10 W, page 2

Column (c): Staff Exhibit 1.0, Schedule 1.10 W, page 3

Column (d): Staff Exhibit 1.0, Schedule 1.10 W, page 4

Galena Territory Utilities, Inc. - Water Operations
Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Accumulated Depreciation (c)	Adjustment (d)	Sources (e)
1	Amount per Company			\$ -	Company Schedule C - Water Operations, page 3, column "Pro Forma Adjustments", line 3
2	Gross Utility Plant	\$ 7,055,080			Company response to Staff data request JMO 1.01, tab "wp - f"
3	Retired Equipment Proposed Adjustment	(22,817)			ICC Staff Exhibit 1.0, Schedule 1.9 W, page 1 of 2, column (b), line 3
4	Land	(10,495)			Company response to Staff data request JMO 1.01, tab "wp - f"
5	Vehicles	(90,809)			Company response to Staff data request JMO 1.01, tab "wp - f"
6	Computers	(200,809)			Company response to Staff data request JMO 1.01, tab "wp - f"
7		<u>(324,930)</u>			Sum of Line 3 through Line 6
8	Net Gross Utility Plant	6,730,150			Line 2 - Line 7
9	Depreciation Rate	<u>1.50%</u>			Company response to Staff data request JMO 1.01, tab "wp - r7(w) - 2008", current depreciation rate
10	Addition to Accumulated Depreciation		\$ 100,952		Line 8 x Line 9
11	Vehicles	\$ 90,809			ICC Staff Exhibit 1.0, Schedule 1.10 W, page 2 of 4, column (b), line 5
12	Depreciation Rate	<u>25.00%</u>			Company response to Staff data request JMO 1.01, tab "wp - f"
13	Addition to Accumulated Depreciation		22,702		Line 11 x Line 12
14	Computers	\$ 200,809			ICC Staff Exhibit 1.0, Schedule 1.10 W, page 2 of 4, column (b), line 6
15	Depreciation Rate	<u>14.29%</u>			Company response to Staff data request JMO 1.01, tab "wp - f"
16	Addition to Accumulated Depreciation		<u>28,696</u>		Line 14 x Line 15
17	Total Addition to Accumulated Depreciation for Pro Forma Period ending December 31, 2009			<u>152,350</u>	Sum of Line 10 + Line 13 + Line 16

Galena Territory Utilities, Inc. - Water Operations
Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Deferred Tax Adjustment (c)	Sources (d)
1	Amount per Company		\$ -	Company Schedule C - Water Operations, page 2, column "Pro Forma Adjustments", line 7
2	Total 2008 Deferred Income Tax Expense	\$ 34,155		Company response to Staff data request JMO 2.07 - ADIT 2008, tab "SE3", line 61 + line 62
3	Water Allocation Percentage	<u>73%</u>		Company response to Staff data request JMO 1.01, tab "Linked TB"
4	Amount per Staff		<u>24,933</u>	Line 2 x Line 3
5	Staff Adjustment		<u>\$ (24,933)</u>	Line 1 - Line 4

Galena Territory Utilities, Inc. - Water Operations
Adjustment to Other Rate Base Components for the Company's Pro Forma Plant Additions Adjustment
For the Test Year Ending December 31, 2008

Line No.	Description (a)	Contributions in Aid of Construction (b)	Sources (c)
1	Amount per Company	\$ -	Company response to Staff data request JMO 1.01, tab "wp - f - depr"
2	Amount per Staff	<u>(46,407)</u>	Company response to Staff data request JMO 1.01, tab "wp - r7(w) - 2008", current amortization rate of 1.5%
3	Staff Adjustments	<u>\$ 46,407</u>	Line 1 - Line 2

Galena Territory Utilities, Inc. - Water Operations
Adjustment to Deferred Charges
For the Test Year Ending December 31, 2008

<u>Line No.</u>	<u>Description</u> (a)	<u>Amount</u> (b)	<u>Sources</u> (c)
1	Amount per Staff	\$ 0	ICC Staff Exhibit 1.0, Schedule 1.11 W, page 2 of 2, column (c), line 6
2	Amount per Company	<u>1,837</u>	ICC Staff Exhibit 1.0, Schedule 1.11 W, page 2 of 2, column (c), line 1
3	Staff Proposed Adjustment	<u>\$ (1,837)</u>	Line 1 - Line 2

Galena Territory Utilities, Inc. - Water Operations
Adjustment to Deferred Charges
 For the Test Year Ending December 31, 2008

Line No.	Description (a)	Deferred Charges Adjustment (b)	Deferred Charges (c)	Sources (d)
1	Deferred Charges per Company		\$ 1,837	Company Schedule C, page 2 of 4, column "Per Books", line 10
2	Relocation Expenses	\$ (75)		Company response to Staff data request JMO 2.11
3	Employee Fees	(192)		Company response to Staff data request JMO 2.11
4	Volatile Organic Compound Testing	<u>(1,571)</u>		Company response to Staff data request JMO 2.11
5	Deferred Charges Adjustment	<u>\$ (1,837)</u>	<u>(1,837)</u>	Sum of Line 2 through Line 4
6	Deferred Charges per Staff		<u>\$ 0</u>	Line 1 + Line 5

Galena Territory Utilities, Inc. - Water Operations
Adjustment to Depreciation Expense
For the Test Year Ending December 31, 2008

Line No.	Description (a)	Amount (b)	Sources (c)
1	Amount per Staff	\$ 175,401	ICC Staff Exhibit 5.0, Schedule 5.2
2	Amount per Company	<u>176,486</u>	Company response to Staff data request JMO 1.01, tab "wp - f - depr"
3	Staff Proposed Adjustment	<u>\$ (1,085)</u>	Line 1 - Line 2

Galena Territory Utilities, Inc. - Water Operations
Adjustment for Unaccounted-for Water
 For the Test Year Ending December 31, 2008

Line No.	Description	Unaccounted-for Water Percentage	Unaccounted-for Water Adjustment
1	Total Water Pumped (gallons)	94,759,800	(1)
2	Total Water Sold (gallons)	<u>61,092,617</u>	(1)
3	Line 1 - Line 2	33,667,183	
4	Estimate of usage to flush system (gallons)	1,139,500	(1)
5	Main Breaks	<u>3,215,800</u>	(1)
6	Unaccounted-for Water (gallons) (Line 3 - Line 4 - Line 5)	29,311,883	
7	Unaccounted-for Water Percentage (Line 6 divided by Line 1)	30.93%	
8	Maximum Percentage per Tariff	<u>25.00%</u>	(2)
9	Excess Unaccounted-for Water Percentage (Line 8 - Line 7)	<u><u>-5.93%</u></u>	-5.93%
10	Maintenance Expenses		(3) <u>\$ 51,576</u>
11	Staff Adjustment - Disallowed Maintenance Expenses (Line 9 x Line 10)		<u><u>\$ (3,060)</u></u>

Sources:

(1) 2008 Form 22 ILCC, page 20W

(2) ILL. C.C. No. 4, First Revised Sheet No. 38, effective March 19, 2007

(3) Company Schedule B, page 2 of 4, column "Per Books", Purchased Power (\$41,385) plus Chemicals (\$10,191)