

DIRECT TESTIMONY

of

BURMA C. JONES

Accountant  
Accounting Department  
Financial Analysis Division  
Illinois Commerce Commission

Aqua Illinois, Inc.

Proposed General Increase in Water and Sewer Rates

Docket No. 11-0436

August 4, 2011

Table of Contents

**Witness Identification** ..... 1

**Schedule Identification** ..... 2

**Revenue Requirement Schedules** ..... 5

**Interest Synchronization** ..... 7

**Gross Revenue Conversion Factor** ..... 7

**Revenue Effect of Adjustments** ..... 8

**Adjustment to Cash Working Capital** ..... 8

**Incentive Compensation** ..... 9

**Corporate Management Fees** ..... 17

**Accumulated Deferred Income Tax – Change in State Income Tax Rate** ..... 20

**Accumulated Deferred Income Tax – Bonus Depreciation** ..... 22

**Rate Case Expense** ..... 23

**Conclusion** ..... 24

1        **Witness Identification**

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

3        A.     My name is Burma C. Jones. 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           (“Commission”).

10

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

12       A.     I am a licensed Certified Public Accountant with a Bachelor of Arts in  
13           Accountancy from Sangamon State University, which is now known as the  
14           University of Illinois at Springfield. I joined the Staff of the Illinois  
15           Commerce Commission (“Staff”) in October 1999. My prior accounting  
16           experience includes five years as the Assistant Controller for a mid-size  
17           retail business and two and one-half years on the accounting staff of the  
18           Illinois Office of the Comptroller.

19

20       **Q.     Have you previously testified before any regulatory bodies?**

21       A.     Yes, I have testified on several occasions before the Illinois Commerce

22 Commission.

23

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

25 A. I have reviewed and analyzed Aqua Illinois, Inc.'s ("Aqua" or "Company")  
26 filing, and the underlying data. The purpose of my testimony is to present  
27 the Commission Staff's adjusted Operating Statements and Rate Base for  
28 Aqua and to propose adjustments to the Company's respective rate base  
29 and operating statement for each rate area in this proceeding concerning  
30 cash working capital, incentive compensation, corporate management  
31 fees, effect of the change in the state income tax ("SIT") rate on  
32 accumulated deferred income taxes ("ADIT"), and the effect of federal  
33 bonus depreciation on ADIT.

34

35 **Schedule Identification**

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

37 A. Yes, I prepared the following schedules for the Company, which show  
38 data as of, or for the test year ended, December 31, 2012:

39 **REVENUE REQUIREMENT SCHEDULES**

40 Schedule 1.01 - Statement of Operating Income with Adjustments

41 Schedule 1.02 - Adjustments to Operating Income

42 Schedule 1.03 - Rate Base

- 43 Schedule 1.04 - Adjustments to Rate Base
- 44 Schedule 1.05 - Interest Synchronization Adjustment
- 45 Schedule 1.06 - Gross Revenue Conversion Factor
- 46 Schedule 1.07 – Revenue Effect of Adjustments

47

48 ADJUSTMENT SCHEDULES

- 49 Schedule 1.08 – Cash Working Capital Adjustment
- 50 Schedule 1.09 – Incentive Compensation Adjustment
- 51 Schedule 1.10 – Management Fees Expense Adjustment
- 52 Schedule 1.11 - ADIT Adjustment - Change in State Income Tax Rate
- 53 Schedule 1.12 – ADIT Adjustment - Bonus Depreciation

54

55 **Q. Please explain the purpose of the letters that follow the schedule**  
56 **numbers.**

57 A. The instant proceeding encompasses rate changes for several different  
58 water and sewer divisions. The letters that follow the schedule numbers  
59 identify the respective divisions as follow:

60 CW - Consolidated Water

61 CS – Consolidated Sewer

62 FE – Fairhaven Estates Water

63 UP – University Park Water

64 V - Ivanhoe Water

65 Thus, Schedule 1.01 CW provides information for the Consolidated Water  
66 Division. The rate area designation is meant to ease identification of  
67 which rate areas are affected by specific adjustments. Lack of a rate area  
68 designation means the adjustment is applicable to more than one rate  
69 area.

70

71 **Q. Please identify the individual systems included in Staff's proposed**  
72 **Consolidated Water Division.**

73 A. The Consolidated Water Division, as proposed by Staff, consists of the  
74 Willowbrook, Candlewick, Oak Run, Vermilion, Hawthorn Woods and  
75 Ravenna water systems.

76

77 **Q. Please identify the individual systems included in the proposed**  
78 **Consolidated Sewer Division.**

79 A. The Consolidated Sewer Division, as proposed by the Company, consists  
80 of the Willowbrook, Candlewick, Hawthorn Woods, University Park,  
81 Ellwood Greens and Ivanhoe sewer systems. However, it is my  
82 understanding that Staff witness Christopher Boggs is withholding until  
83 rebuttal testimony his recommendation on whether the proposed  
84 Consolidated Sewer Division should be adopted. As such, Staff's direct

85 testimony adjustments to the Consolidated Sewer Division revenue  
86 requirement, operating statement, and rate base may require revision and  
87 separation into individual operating divisions in Staff's rebuttal testimony.

88

89 **Revenue Requirement Schedules**

90 **Q. Please describe Schedules 1.01, Statement of Operating Income with**  
91 **Adjustments.**

92 A. Schedule 1.01 for each area derives the required revenue at Staff's  
93 proposed Rate of Return. Column (b) presents the Company's pro forma  
94 operating statement at present rates for the test year as reflected on its  
95 Schedule C-2 First Revised. Column (c) reflects the total of all Staff  
96 adjustments shown on Schedule 1.02. Column (d) reflects the Company's  
97 operating statement at present rates per Staff. Column (e) presents the  
98 Company's proposed increase/(decrease) to revenue. Column (f) adjusts  
99 revenue to reflect Staff's Gross Revenue Conversion Factor. Column (g)  
100 is Staff's operating statement inclusive of the Company's proposed  
101 revenue change. Column (h) is the necessary change to the Company's  
102 proposed revenues, adjusted for Staff's Gross Revenue Conversion  
103 Factor, to arrive at Staff's computed revenue requirement as reflected in  
104 Column (i). Column (j) is the difference between current revenues and  
105 Staff's proposed revenue requirement. Column (k) is Staff's calculated

106 percentage change in revenues. Net operating income in column (i), line  
107 21, is the product of rate base, line 22, and rate of return, line 23.

108

109 **Q. Please describe Schedule 1.02, Adjustments to Operating Income.**

110 A. Schedule 1.02 for each area identifies Staff's adjustments to Operating  
111 Income. The source of each adjustment is shown in the heading of each  
112 column. The final column of each Schedule 1.02 is carried forward to  
113 Schedule 1.01, column (c).

114

115 **Q. Please describe Schedules 1.03, Rate Base.**

116 A. Schedule 1.03 for each rate area compiles Staff's Rate Base. Column (b)  
117 reflects the Company's proposed Rate Base. Column (c) summarizes  
118 Staff's adjustments to Rate Base. Column (d) is the net of Columns (b)  
119 and (c) and reflects Staff's proposed Rate Base.

120

121 **Q. Please describe Schedules 1.04, Adjustments to Rate Base.**

122 A. Schedule 1.04 for each rate area identifies Staff's adjustments to Rate  
123 Base. The source of each adjustment is shown in the heading of each  
124 column. The final column of each Schedule is carried forward to  
125 Schedule 1.03, Column (c).

126

127 **Interest Synchronization**

128 **Q. Please explain Schedule 1.05 for each rate area, Interest**  
129 **Synchronization Adjustment.**

130 A. Schedule 1.05 for each rate area computes the interest component of the  
131 Revenue Requirement. The interest expense (component) is computed  
132 by multiplying the Rate Base by Weighted Cost of Debt. The calculated  
133 Interest Expense is then compared against the Interest Expense used by  
134 the Company in its computation of test year Income Tax Expense. The  
135 tax effect of the difference in Interest Expense is the adjustment for  
136 Interest Synchronization. The effect of this adjustment is to ensure that  
137 the Revenue Requirement reflects the tax savings generated by the  
138 interest component of the revenue requirement.

139

140 **Gross Revenue Conversion Factor**

141 **Q. Please describe Schedules 1.06, Gross Revenue Conversion Factor.**

142 A. Schedule 1.06 for each rate area presents Staff's proposed Gross  
143 Revenue Conversion Factor ("GRCF"). It is based upon the applicable  
144 federal tax rate, state income tax rate, and uncollectible rate. The GRCF  
145 is applied to the operating income deficiency to determine the total  
146 amount of revenue required for the income deficiency and the associated  
147 increase in income tax expense and uncollectible expense change. The

148 GRCF is used in the calculation of the Revenue Requirement in Columns  
149 (f) through (j) of Schedule 1.01.

150

151 **Revenue Effect of Adjustments**

152 **Q. Please describe Schedules 1.07, Revenue Effect of Adjustments.**

153 A. Schedule 1.07 for each rate area identifies the approximate effect of each  
154 Staff adjustment on the Company's revenue requirement. Schedule 1.07  
155 is not the development of Staff's revenue requirement. Rather, it is an  
156 analysis that is intended to assist in identifying the relative monetary  
157 significance of each Staff adjustment.

158

159 **Adjustment to Cash Working Capital**

160 **Q. Please describe Schedule 1.08, Cash Working Capital Adjustment.**

161 A. Schedule 1.08 presents my adjustment to calculate the Cash Working  
162 Capital component of rate base after giving effect to Staff's adjustments to  
163 the 2012 test year revenue requirement. My adjustment utilizes the same  
164 methodology as reflected in the Company's Schedules B-2.3 and B-8. At  
165 this time, I do not propose any changes to the Company's cash working  
166 capital methodology. My adjustment merely reflects the derivative impact  
167 of Staff's other adjustments on the cash working capital calculation.

168

169 **Incentive Compensation**

170 **Q. Please describe Schedule 1.09, Incentive Compensation Expense**  
171 **Adjustment.**

172 A. Schedule 1.08 presents my proposed adjustment to reduce the incentive  
173 compensation expenses included in the Company's operating expenses.

174 There are three parts to the adjustment:

- 175 1) Disallowance of 2009 Omnibus Equity Compensation Plan ("ECP")  
176 costs;
- 177 2) Disallowance of the increase in test year Management  
178 Improvement and Employee Recognition Plan ("MIP") costs for  
179 Dividend Equivalent; and
- 180 3) Disallowance of MIP costs.

181

182 **Q. Please describe the Aqua America, Inc. ECP.**

183 A. According to the ECP document:

184 The purpose of the Aqua America, Inc. 2009 Omnibus Equity  
185 Compensation Plan (the "Plan") is to provide (i) designated  
186 employees of Aqua America, Inc. (the "Company") and its  
187 subsidiaries.....with the opportunity to receive grants of incentive  
188 stock options, nonqualified stock options, stock appreciation rights,  
189 stock awards, stock units and other stock-based awards. The  
190 Company believes that the Plan will encourage the participants to  
191 contribute to the success of the Company, align the economic  
192 interests of the participants with those of the shareholders, and  
193 provide a means through which the Company can attract and retain  
194 officers, other key employees, non-employee directors and key

195 consultants of significant talent and abilities for the benefit of our  
196 shareholders and customers.<sup>1</sup>

197 The members of the Board of Directors (“Committee”) designated to  
198 administer the ECP may determine that Stock Awards, Stock Units, Other  
199 Stock-Based Awards and Dividend Equivalents granted to an Employee  
200 under the ECP shall be considered “qualified performance-based  
201 compensation“ under section 162(m) of the Internal Revenue Code of  
202 1986, as amended.<sup>2</sup> If such a determination is made, the Committee  
203 establishes the performance goals that must be met in order to receive a  
204 performance-based share unit grant (“grant”). The business criteria on  
205 which the goals are based may relate to the Grantee’s business unit or  
206 the performance of the Company and its parents and subsidiaries as a  
207 whole.

208

209 **Q. Please explain your rationale for disallowing the costs of the ECP in**  
210 **the test year, as reflected on Schedule 1.09, p. 1, line 3.**

211 A. I propose to disallow test year costs associated with the ECP because:

212 1) the plan is dependent upon financial goals of the Company that  
213 primarily benefit shareholders;

214 2) ratepayers would provide funding even when no costs were

---

<sup>1</sup> Aqua America, Inc. 2009 Omnibus Equity Compensation Plan, p. 1.

<sup>2</sup> *Id.*, Section 12 at p. 17.

215 incurred by the Company because plan goals were not met; and

216 3) the plan is discretionary.

217

218 **Q. Explain how the plan is dependent upon financial goals of the**  
219 **Company that primarily benefit shareholders.**

220 A. The Committee established three performance goals that must be met in  
221 order to receive a grant under the ECP. Two of the performance goals  
222 are based on total shareholder return, which relates to the value of the  
223 Company's common stock. The third goal is based on the Company's  
224 three-year compound annual growth rate in earnings per share.<sup>3</sup> These  
225 performance goals are financial goals of the Company that primarily  
226 benefit shareholders.

227

228 **Q. Should ratepayers be required to fund incentive compensation plans**  
229 **linked to the financial performance goals of the Company?**

230 A. No. Ratepayers should not be required to fund incentive compensation  
231 plans linked to the financial performance goals of the Company. Linking  
232 incentive compensation to these types of goals introduces an  
233 inappropriate circular relationship between rates and the expenses such  
234 rates are designed to recover: the larger the rate increase granted, the

---

<sup>3</sup> *Id.*, Performance-Based Share Unit Grant Terms and Conditions, Schedule A.

235 more success the Company will have in achieving its earnings goals.  
236 Thus, everything else held equal, a rate increase that includes incentive  
237 compensation costs will enhance Aqua's ability to award incentive  
238 compensation under an incentive compensation plan linked to financial  
239 performance. This circular process may provide benefits to the  
240 shareholders, but it provides little benefit to ratepayers. Because financial  
241 performance goals primarily benefit shareholders, the shareholders  
242 should bear the cost of incentive compensation plans based on such  
243 goals.

244

245 **Q. Has the Commission previously disallowed costs of incentive**  
246 **compensation because the goals are dependent upon financial**  
247 **measures that primarily benefit shareholders and not ratepayers?**

248 A. Yes. The Commission has a long history of disallowing such costs. The  
249 Commission's recent The Peoples Gas Light and Coke Company and  
250 North Shore Gas Company consolidated order on this subject  
251 summarizes several past decisions, as well as an appeal:

252 For the most part, the Commission agrees with Staff. Incentive  
253 compensation related to financial goals, affiliate goals or  
254 shareholder goals should not be recoverable from ratepayers. The  
255 Commission has long held that costs related to incentive  
256 compensation are recoverable in rates only if the utility  
257 demonstrates tangible benefits to ratepayers. See, e.g., *Docket 03-*  
258 *0403* at 15 ("[T]o recover incentive compensation, the plan must  
259 confer upon ratepayers specific dollar savings or other tangible  
260 benefits. Furthermore, the degree of benefit that accrues directly to

261 ratepayers, rather than to other stakeholders, is a significant factor  
262 in determining whether incentive compensation should be  
263 recovered in rates.”); *Docket 01-0696* at 10 (requiring evidence of  
264 “specific dollar savings or any other tangible benefit for the  
265 ratepayers”); *Docket 01-0432* at 42-43 (“the Commission has  
266 generally disallowed such expenses except where the utility has  
267 demonstrated that its incentive compensation plan has reduced  
268 expenses and created greater efficiencies in operations. ... [I]f a  
269 utility is seeking to recover such projected expenses from  
270 ratepayers, the utility should demonstrate that its plan can  
271 reasonably be expected to provide net benefits to ratepayers.”).  
272 The utility bears the burden to establish that such tangible benefits  
273 accrue to ratepayers, in order to prove that the recovery of  
274 incentive compensation costs is just and reasonable. See 220 ILCS  
275 9-201(c).

276 This long line of Commission precedent was recently affirmed. In  
277 ComEd’s appeal of the Commission’s decision in Docket 05- 0597,  
278 the court stated that “there is ample precedent making a benefit to  
279 ratepayers a condition upon which the recovery of salary-related  
280 expense depends” *ComEd Appeal* at 12. The Commission’s  
281 decision here conforms to this standard. [...]

282 Moreover, the *ComEd Appeal* found that attracting good  
283 employees was too remote a benefit for ratepayers to support  
284 recovery from ratepayers. *ComEd Appeal* at 13.

285  
286 (ICC Docket Nos. 09-0166/0167 Cons. (Order, January 21, 2010) p. 58-  
287 59, emphasis added.<sup>4</sup>)

288

289 **Q. Discuss your concern that ratepayers would provide funding even**  
290 **when no costs were incurred by the Company because ECP goals**  
291 **were not met, or because the plan is discretionary.**

---

<sup>4</sup> The above referenced ComEd Appeal refers to the decision of the Appellate Court of Illinois Second District ruling in Commonwealth Edison Company (“ComEd”) Docket No. 05-0597 filed September 17, 2009. ComEd v. ICC et al., 398 Ill. App. 3d 510, 924 N.E.2d 1056, Ill. App. 2<sup>nd</sup> Dist., 2009

292 A. If ECP costs are allowed in base rates, ratepayers will pay the costs  
293 whether or not the Company incurs them. If the financial goals are not  
294 met, there will be no grants.

295 The Committee shall certify and announce the results for each  
296 performance period to all Grantees after the announcement of the  
297 Company's financial results for the performance period. If and to the  
298 extent that the Committee does not certify that the performance  
299 goals have been met, the grants of Stock Awards, Stock Units, Other  
300 Stock-Based Awards and Dividend Equivalents for the performance  
301 period shall be forfeited or shall not be made, as applicable.<sup>5</sup>

302 Similarly, if the ECP is suspended or eliminated there will be no grants.

303 The Plan shall be unfunded. The Company shall not be required to  
304 establish any special or separate fund or to make any other  
305 segregation of assets to assure the payment of any Grants under the  
306 Plan.<sup>6</sup>

307 After rates are set, there is no mechanism to protect ratepayers if the  
308 Company does not achieve its financial targets, or if the ECP is  
309 suspended or eliminated. The Company will continue to recover the  
310 amount of ECP costs embedded in base rates in this proceeding until the  
311 rates are changed in the next rate proceeding.

312

313 **Q. Please explain your rationale for disallowing the increase in test year**  
314 **MIP costs for Dividend Equivalents, as reflected on Schedule 1.09, p.**  
315 **1, line 6.**

---

<sup>5</sup> 2009 Omnibus Equity Compensation Plan as Amended as of February 25, 2011, pp. 17-18.

<sup>6</sup> *Id.*, p. 21.

316 A. My adjustment disallows the increase in test year MIP costs for Dividend  
317 Equivalentents because they are a form of compensation under the ECP, the  
318 costs of which I propose to disallow in test year expenses, as discussed  
319 above. There is nothing in the MIP document that suggests that Dividend  
320 Equivalentents are a form of compensation under the MIP.

321

322 **Q. Please describe the Aqua Illinois, Inc. 2011 Annual Management**  
323 **Improvement and Employee Recognition Plan.**

324 A. According to the MIP document:

325 The Plan is designed to provide an appropriate incentive to the  
326 management and certain other employees of the Company to  
327 improve operations and customer service, control costs, enhance  
328 environmental compliance, improve safety, grow the customer base  
329 and encourage community involvement. The Management  
330 Improvement Program covers the management and certain key  
331 employees of the Company and the Employee Recognition Program  
332 covers other non-union employees of the Company.<sup>7</sup>

333

334 **Q. Please explain your rationale for disallowing the costs of Aqua's MIP**  
335 **in the test year, as reflected on Schedule 1.09, p. 1, line 9.**

336 A. I propose to disallow test year costs associated with the MIP because of  
337 concerns regarding the probability of payouts under this plan. Although  
338 the Company modified this plan in 2011 to remove language regarding

---

<sup>7</sup> 2011 Annual Management Improvement and Employee Recognition Plan, p. 1.

339 financial goals, in response to Staff's concerns in Docket No. 10-0194,<sup>8</sup> it  
340 added language that allows the Company to decrease a participant's  
341 award based on "other factors" that are undefined.

342

343 According to the MIP, a participant's award depends "exclusively on the  
344 Board of Directors' assessment of the participant's performance against  
345 the participant's objectives, and *other factors* (emphasis added) as  
346 deemed appropriate by the Board of Directors."<sup>9</sup> Further, in addition to  
347 the percentage points earned based on the participant's performance  
348 against his or her objectives, up to 75 discretionary percentage points may  
349 be added to or *subtracted from* (emphasis added) the participant's earned  
350 percentage points at the discretion of the Board of Directors. In my  
351 opinion, these "other factors" could include financial goals which, if not  
352 met, would result in the Board of Directors deducting percentage points  
353 from a participant's earned percentage points. The result would be the  
354 same as when there was specific language in the MIP regarding  
355 attainment of financial goals.

356

357 **Q. Please explain.**

---

<sup>8</sup> Proposed general increase in water rates for the Kankakee Water Division. Order entered Dec. 2, 2010.

<sup>9</sup> 2011 Annual Management Improvement and Employee Recognition Plan, Section 2.2.2.

358 A. A participant must earn at least 70 points to be eligible for an award, and  
359 the maximum points a participant can earn is 110. To receive an award,  
360 the total of a participant's earned percentage points and discretionary  
361 percentage points must total at least 25.<sup>10</sup> Therefore, if the Board of  
362 Directors decided to deduct the maximum 75 discretionary points from a  
363 participant's earned points because of "other factors," a participant would  
364 have to earn at least 100 out of the maximum 110 points in order to  
365 receive any award under the MIP ( $100 - 75 = 25$ ). Further, under this  
366 scenario, the maximum amount the participant could earn would be 35%  
367 of the maximum target award<sup>11</sup> ( $110 - 75 = 35$ ).

368

369 Similar to my explanation regarding the costs of the ECP, once rates are  
370 set, ratepayers will pay the costs of the MIP included in the revenue  
371 requirement on which those rates are based whether or not the Company  
372 incurs them. Although the Company has removed all specific references  
373 to financial goals as a limiting factor to MIP awards, it has included a  
374 mechanism for achieving the same end.

375

376 **Corporate Management Fees**

---

<sup>10</sup> *Id.*, Sections 3.3 and 3.5.

<sup>11</sup> Maximum target award equals 5-20% of base salary, depending on the participant's duties and responsibilities, as approved by the Board of Directors.

377 **Q. Please describe Schedule 1.10, Corporate Management Fees**  
378 **Expense Adjustment.**

379 A. Schedule 1.10 presents my proposed adjustment to reduce the  
380 Company's operating expenses for charges it receives for services from  
381 its parent, Aqua America, Inc., pursuant to an agreement between Aqua  
382 Services, Inc. and Aqua Illinois, Inc. The charges are recorded on the  
383 Company's books as Corporate Management Fees.

384

385 **Q. Why are you proposing an adjustment to reduce test year Corporate**  
386 **Management Fees?**

387 A. I believe that test year Corporate Management Fees are unreasonably  
388 high because: (1) the Company incorrectly calculated the four-year  
389 average inflation factor of 10% that it applied to its 2011 budget amount to  
390 calculate the test year fees, and (2) the projected increase in 2012 is  
391 inconsistent with the rate of increase projected for all other expenses.

392

393 **Q. Please explain how the Company incorrectly calculated the four-year**  
394 **average inflation factor of 10% that it applied to its 2011 budget**  
395 **amount to calculate test year Corporate Management Fees.**

396 A. Beginning in 2010, the Company changed its method of recording the  
397 management fees to include both direct and allocated charges from the

398 service company in the same account. Prior to 2010, the direct charges  
399 were recorded to other accounts. Thus, the annual amounts for 2010 and  
400 2011 in the Company's calculation of the four-year average are not on the  
401 same basis as the amounts for 2007, 2008, and 2009. The annual  
402 amounts for 2010 and 2011 include charges previously recorded to other  
403 accounts, as evidenced by the 27% increase in Corporate Management  
404 Fees from 2009 to 2010.<sup>12</sup>

405

406 **Q. Please explain how the projected increase in 2012 for Corporate**  
407 **Management Fees is inconsistent with the rate of increase projected**  
408 **for other expenses.**

409 A. Per Aqua Exhibit 4.2 and Schedule G-6 of the Company's filing, the  
410 Company utilized a 3% inflation factor to project the majority of non-wage  
411 test year expenses and a 4% inflation factor to project test year labor  
412 expense. Each of these factors is less than one half of the inflation factor  
413 of 10% applied to Corporate Management Fees.

414

415 **Q. Please explain how your adjustment in Schedule 1.10 was**  
416 **calculated.**

---

<sup>12</sup> 27% increase calculated from amounts presented in Company response to Staff DR BCJ-2.16.

417 A. My adjustment applies a 5% inflation factor to the 2011 budget amount for  
418 Corporate Management Fees to calculate the test year expense. The 5%  
419 factor represents the revised four-year average increase provided by the  
420 Company.<sup>13</sup> When the Company put the amounts for 2007, 2008, and  
421 2009 on the same basis as the amounts for 2010 and 2011, by adding the  
422 direct charges recorded in other accounts to the amounts recorded as  
423 Corporate Management Fees, the four-year average changed from 10%  
424 to 5%.

425

426 **Accumulated Deferred Income Tax – Change in State Income Tax Rate**

427 **Q. Please describe Schedule 1.11, Accumulated Deferred Income Tax**  
428 **Adjustment – Change in State Income Tax Rate.**

429 A. Schedule 1.11 presents my proposed adjustment to reflect the impact on  
430 ADIT of the increase in the Illinois SIT rate from 7.3% to 9.5%, effective  
431 January 1, 2011. There are three parts to the adjustment:

- 432 1) An increase to ADIT for the shortfall resulting from the tax rate  
433 increase;
- 434 2) Creation of a regulatory asset for the future recovery of the  
435 additional ADIT liability; and

---

<sup>13</sup> Company response to Staff DR BCJ-7.03.

436 3) Amortization of the regulatory asset over the remaining life of the  
437 depreciable assets that gave rise to the ADIT.

438

439 **Q. Please explain your adjustment to increase ADIT.**

440 A. The increase in the SIT, effective January 1, 2011, creates a shortfall in  
441 the ADIT balance. The ADIT balance reflected in the Company's filing  
442 was determined by applying the old tax rate of 7.3% to the temporary  
443 differences between book income and taxable income when they  
444 originated. When those temporary differences reverse, the SIT rate  
445 applied to those differences will be at the new 9.5% rate, rather than the  
446 7.3% rate reflected in the Company's proposed ADIT balance. My  
447 adjustment is necessary because the Company's ADIT balance is less  
448 than the amount required, based on the new SIT rate.

449

450 ADIT arises because some transactions are recognized at different points  
451 in time for income tax and financial purposes. Over time, these temporary  
452 differences will reverse so that, ultimately, the same amount is recognized  
453 for both income tax and financial purposes. ADIT is the net amount of  
454 income taxes associated with these temporary differences that have not  
455 yet reversed. Most of these differences are due to the differences  
456 between tax and book depreciation.

457

458 **Q. Please explain your adjustment to create a regulatory asset for the**  
459 **future recovery of the additional ADIT liability.**

460 A. My adjustment creates a regulatory asset that offsets the increase to ADIT  
461 to comply with the income tax normalization requirement of the Internal  
462 Revenue Code.<sup>14</sup> The ratemaking impact of the ADIT increase must be  
463 amortized over the remaining life of the underlying depreciable assets that  
464 gave rise to the ADIT. Because the regulatory asset offsets the increase  
465 to the ADIT reserve, there is no impact on rate base except for the annual  
466 amortization of the increase to ADIT.

467

468 **Q. Please explain your adjustment to amortize the regulatory asset.**

469 A. My adjustment amortizes the regulatory asset over the remaining life of  
470 the depreciable assets that gave rise to the ADIT. It results in an increase  
471 in amortization expense and a corresponding decrease in rate base.

472

473 **Accumulated Deferred Income Tax – Bonus Depreciation**

474 **Q. Please describe Schedule 1.12, Accumulated Deferred Income Tax**  
475 **Adjustment – Bonus Depreciation.**

---

<sup>14</sup> 26 CFR Part 1, Section 168(l)

476 A. Schedule 1.12 presents my proposed adjustment to reflect the impact on  
477 ADIT of Illinois' allowance of 100% federal bonus depreciation in 2011.

478

479 **Q. Please explain your adjustment.**

480 A. Normally, the State disallows federal bonus depreciation in the calculation  
481 of a taxpayer's state income tax obligation, but it did not vote to do so for  
482 2011. This means that the Company can defer payment of state income  
483 tax on the amount of the 100% federal bonus depreciation for 2011. The  
484 Company's filing does not reflect the State's decision to recognize the  
485 federal bonus depreciation for taxing purposes, so an adjustment is  
486 necessary to increase ADIT.

487

488 **Rate Case Expense**

489 **Q. Are you proposing an adjustment to rate case expense?**

490 A. No. At this time I am not aware of any issue related to rate case expense.  
491 However, I expect supplemental DR responses from the Company related  
492 to actual rate case expense it has incurred to date, which I will evaluate to  
493 determine if an adjustment is warranted. If such an adjustment is  
494 warranted, I will present my recommendation on the appropriate  
495 adjustment in my rebuttal testimony.

496

497      **Conclusion**

498      **Q.     Does this question end your prepared direct testimony?**

499      **A.     Yes.**

**Aqua Illinois, Inc. - Consolidated Water Division**  
**Statement of Operating Income with Adjustments**  
 For the Test Year Ending December 31, 2012

Line No.	Description	Company Pro Forma Present (Sch C-1, C-2.1, C-4)	Staff Adjustments (St. Ex. 1.0) (Sch 1.02 CW)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Sch. C-1, C-2.1)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)	\$ Revenue Change (Cols. i-b)	% Revenue Change (Cols. j/b)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
1	Operating Revenues	\$ 16,646,609	\$ -	\$ 16,646,609	\$ 3,126,371	\$ 441	\$ 19,773,421	\$ (1,013,421)	\$ 18,760,000	\$ 2,113,391	12.70%
2	Other Revenues	\$ 197,439	-	197,439	\$ 14,426	\$ -	211,865	-	211,865	14,426	
3	Total Operating Revenue	16,844,048	-	16,844,048	3,140,797	441	19,985,286	(1,013,421)	18,971,865	\$ 2,127,817	12.63%
4	Uncollectible Accounts	203,271	-	203,271	37,574	444	241,289	(12,265)	229,024		
5	Wages and Salaries	1,534,727	(101,864)	1,432,863	-	-	1,432,863	-	1,432,863		
6	Employee Benefits	796,349	-	796,349	-	-	796,349	-	796,349		
7	Contractual Services	2,074,798	(31,970)	2,042,828	-	-	2,042,828	-	2,042,828		
8	Operations and Maintenance	1,525,095	-	1,525,095	-	-	1,525,095	-	1,525,095		
9	Materials and Supplies	154,129	-	154,129	-	-	154,129	-	154,129		
10	Insurance Expense	238,962	-	238,962	-	-	238,962	-	238,962		
11	Regulatory Expense Amortization	176,134	-	176,134	-	-	176,134	-	176,134		
12	Miscellaneous Expense	678,519	(5,000)	673,519	-	-	673,519	-	673,519		
13	Depreciation and Amortization	3,523,241	4,753	3,527,994	-	-	3,527,994	-	3,527,994		
14	Taxes Other Than Income	1,308,920	-	1,308,920	-	-	1,308,920	-	1,308,920		
15	Total Operating Expense										
16	Before Income Taxes	12,214,145	(134,081)	12,080,064	37,574	444	12,118,082	(12,265)	12,105,817		
17	State Income Tax	265,081	14,485	279,566	294,806	(1)	574,371	(95,110)	479,261		
18	Federal Income Tax	883,835	48,293	932,128	982,946	(2)	1,915,072	(317,116)	1,597,956		
19	Deferred Taxes and ITCs Net	(26,304)	-	(26,304)	-	-	(26,304)	-	(26,304)		
20	Total Operating Expenses	13,336,757	(71,303)	13,265,454	1,315,326	441	14,581,221	(424,491)	14,156,730		
21	NET OPERATING INCOME	\$ 3,507,291	\$ 71,303	\$ 3,578,594	\$ 1,825,471	\$ -	\$ 5,404,065	\$ (588,930)	\$ 4,815,135		
22	Staff Rate Base (ICC Staff Exhibit 1.0, Schedule 1.03 CW, Column (d))								\$ 59,261,535		
23	Staff Overall Rate of Return (ICC Staff Exhibit 3.0, Schedule 3.01)								8.13%		

**Aqua Illinois, Inc. - Consolidated Water Division**  
**Adjustments to Operating Income**  
 For the Test Year Ending December 31, 2012

Line No.	Description	Interest Synchronization (St. Ex. 1.0 Sch 1.05 CW)	Incentive Compensation (St. Ex. 1.0 Sch 1.09)	Management Fees (St. Ex. 1.0 Sch 1.10)	ADIT - Change in SIT Rate (St. Ex. 1.0 Sch 1.11)	Misc. Expense (St. Ex. 2.0 Sch 2.01)	Charitable Contributions (St. Ex. 2.0 Sch. 2.02)	Industry Assoc. Dues (St. Ex. 2.0 Sch. 2.03)	Subtotal Operating Statement Adjustments (i)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Other Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Wages and Salaries	-	(101,864)	-	-	-	-	-	(101,864)
6	Employee Benefits	-	-	-	-	-	-	-	-
7	Contractual Services	-	-	(31,970)	-	-	-	-	(31,970)
8	Operations and Maintenance	-	-	-	-	-	-	-	-
9	Materials and Supplies	-	-	-	-	-	-	-	-
10	Insurance Expense	-	-	-	-	-	-	-	-
11	Regulatory Expense Amortization	-	-	-	-	-	-	-	-
12	Miscellaneous Expense	-	-	-	-	(124)	(1,100)	(3,776)	(5,000)
13	Depreciation and Amortization	-	-	-	8,599	-	-	-	8,599
14		-	-	-	-	-	-	-	-
15	Total Operating Expense	-	(101,864)	(31,970)	8,599	(124)	(1,100)	(3,776)	(130,235)
16	Before Income Taxes	-	(101,864)	(31,970)	8,599	(124)	(1,100)	(3,776)	(130,235)
17	State Income Tax	1,747	9,677	3,037	(817)	12	105	359	14,120
18	Federal Income Tax	5,825	32,265	10,126	(2,724)	39	348	1,196	47,075
19		-	-	-	-	-	-	-	-
20	Total Operating Expenses	<u>7,572</u>	<u>(59,922)</u>	<u>(18,807)</u>	<u>5,058</u>	<u>(73)</u>	<u>(647)</u>	<u>(2,221)</u>	<u>(69,040)</u>
21	NET OPERATING INCOME	<u>\$ (7,572)</u>	<u>\$ 59,922</u>	<u>\$ 18,807</u>	<u>\$ (5,058)</u>	<u>\$ 73</u>	<u>\$ 647</u>	<u>\$ 2,221</u>	<u>\$ 69,040</u>



**Aqua Illinois, Inc. - Consolidated Water Division**  
**Rate Base**  
 For the Test Year Ending December 31, 2012

Line No.	Description	Company Pro Forma Rate Base (Schedule B-1)	Staff Adjustments (St. Ex. 1.0 Sch 1.04 CW)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 118,558,234	\$ (128,034)	\$ 118,430,200
2	Accumulated Depreciation	\$ (38,054,341)	41,097	(38,013,244)
3		-	-	-
4	Net Plant	80,503,893	(86,937)	80,416,956
5	Additions to Rate Base			
6	Deferred Charges	363,733	-	363,733
7	Materials & Supplies	625,003	-	625,003
8	Cash Working Capital	962,401	(163,166)	799,235
9	Amort. of Contributions In Aid of Const.	3,784,136	-	3,784,136
10	Regulatory Asset - Deferred SIT	-	68,170	68,170
11		-	-	-
12		-	-	-
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base			
17	FAS 87 Pension	(1,042,434)	-	(1,042,434)
18	FAS 106 OPEB	(158,944)	-	(158,944)
19	Customer Advances	(169,164)	-	(169,164)
20	Contributions In Aid of Construction	(15,534,727)	-	(15,534,727)
21	Deferred Income Taxes	(9,470,248)	(420,181)	(9,890,429)
22		-	-	-
23	Rate Base	<u>\$ 59,863,649</u>	<u>\$ (602,114)</u>	<u>\$ 59,261,535</u>

**Aqua Illinois, Inc. - Consolidated Water Division**  
**Adjustments to Rate Base**  
 For the Test Year Ending December 31, 2012

Line No.	Description	Cash Working Capital (ICC St. Ex. 1.0 Sch. 1.08 CW)	ADIT-Change in SIT Rate (St. Ex. 1.0 Sch 1.11)	ADIT-Bonus Depreciation (St. Ex. 1.0 Sch 1.12)	Forecast Plant Additions (St. Ex. 2.0 Sch 2.04)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Plant in Service	\$ -	\$ -	\$ -	\$ (128,034)	\$ -	\$ -	\$ -	\$ (128,034)
2	Accumulated Depreciation	-	-	-	41,097	-	-	-	41,097
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	-	(86,937)	-	-	-	(86,937)
5	Additions to Rate Base								-
6	Deferred Charges	-	-	-	-	-	-	-	-
7	Materials & Supplies	-	-	-	-	-	-	-	-
8	Cash Working Capital	(163,166)	-	-	-	-	-	-	(163,166)
9	Amort. of Contributions In Aid of Const.	-	-	-	-	-	-	-	-
10	Regulatory Asset - Deferred SIT	-	68,170	-	-	-	-	-	68,170
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base								-
17	FAS 87 Pension	-	-	-	-	-	-	-	-
18	FAS 106 OPEB	-	-	-	-	-	-	-	-
19	Customer Advances	-	-	-	-	-	-	-	-
20	Contributions In Aid of Construction	-	-	-	-	-	-	-	-
21	Deferred Income Taxes	-	(68,170)	(362,612)	10,601	-	-	-	(420,181)
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (163,166)	\$ -	\$ (362,612)	\$ (76,336)	\$ -	\$ -	\$ -	\$ (602,114)

Aqua Illinois, Inc. - Consolidated Water Division  
 Interest Synchronization Adjustment  
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Amount (b)
1	Gross Plant in Service	\$ 59,261,535 (1)
2	Weighted Cost of Debt	3.08% (2)
3	Synchronized Interest Per Staff	1,828,199
4	Company Interest Expense	<u>1,846,590</u> (3)
5	Increase (Decrease) in Interest Expense	<u>(18,391)</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 9.500%	<u>\$ 1,747</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 35.000%	<u>\$ 5,825</u>

(1) Source: ICC Staff Exhibit 1.0, Schedule 1.03 CW Column (d), Line 23.  
 (2) Source: ICC Staff Exhibit 3.0, Schedule 3.01.  
 (3) Source: Company Schedule C-5.4.

Aqua Illinois, Inc. - Consolidated Water Division  
 Gross Revenue Conversion Factor  
 For the Test Year Ending December 31, 2012

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	1.2103%	<u>0.012103</u>	
3	State Taxable Income		0.987897	1.000000
4	State Income Tax	9.5000%	<u>0.093850</u>	<u>0.095000</u>
5	Federal Taxable Income		0.894047	0.905000
6	Federal Income Tax	35.0000%	<u>0.312916</u>	<u>0.316750</u>
7	Operating Income		<u>0.581131</u>	<u>0.588250</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.720782</u>	<u>1.699958</u>

Aqua Illinois, Inc. - Consolidated Water Division  
 Revenue Effect of Staff's Adjustments  
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Aqua's Proposal (b)	Staff's Adjustments (c)	Staff's Direct (d)
1	<b>Summary</b>			
2	Current Revenues	\$ 16,844,048		\$ 16,844,048
3	<b>Proposed Increase</b>	<b><u>3,140,797</u></b>	<b><u>(1,012,980) #</u></b>	<b><u>2,127,817</u></b>
4	Proposed Revenue Requirement	<u>\$ 19,984,845</u>	<u>\$ (1,012,980)</u>	<u>\$ 18,971,865</u>
5	<b>Percentage Increase</b>	<b>18.65%</b>	<b>-6.01%</b>	<b>12.63%</b>
6	<b>Effect of Each Staff Adjustment</b>			
7	Rate of Return		\$ (806,538)	
8	Reduce Incentive Compensation		\$ (103,113)	
9	ADIT - Bonus Depreciation		\$ (42,773)	
10	Reduce Management Fees		\$ (32,363)	
11	Cash Working Capital		\$ (19,247)	
12	Forecast Plant Additions		\$ (9,004)	
13	Depreciation on Disallowed Forecasted Plant		\$ (3,894)	
14	Industry Association Dues		\$ (3,822)	
15	Charitable Contributions		\$ (1,113)	
16	Interest Synchronization		\$ (132)	
17	Miscellaneous Expense		\$ (126)	
18	ADIT - Change in State Income Tax Rate		\$ -	
19	Gross Revenue Conversion Factor		\$ 441	
20	State Income Tax Regulatory Asset Amortization		\$ 8,704	
21				
22				
23				
24				
25				
26				
27				
28				
29				
30				
31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41				
42	Rounding		\$ -	
43	Effect of Staff's Adjustments		<b><u>\$ (1,012,980) #</u></b>	
44	<b>Reconciliation to Schedule 1.01 CW</b>			
45	Column (c), line 5.		-	
46	Column (f), line 5.		441	-
47	Column (h), line 5.		<u>(1,013,421)</u>	
48	Total Effect of Staff's Adjustments		<b><u>\$ (1,012,980) #</u></b>	

**Aqua Illinois, Inc. - Consolidated Water Division**  
**Adjustment for Cash Working Capital**  
**For the Test Year Ending December 31, 2012**

Line No.	Description	Amount
(a)	(b)	(c)
1	Total Operating Expenses Before Income Taxes	\$ 12,105,817 (1)
2	Less:	
3	Uncollectible Accounts	229,024 (1)
4	Annual Amortization of Rate Case Expense	176,134 (1)
5	Depreciation and Amortization Expense	3,527,994 (1)
6	Real Estate Tax Expense	680,702 (2)
7	Total Cash Operating Expenses	<u>7,491,963</u>
8	Cash Working Capital Per Staff	936,495 (3)
9	Cash Working Capital Per Company	<u>1,099,661 (2)</u>
10	Staff Proposed Adjustment	<u><u>\$ (163,166)</u></u>

- (1) Source: ICC Staff Exhibit 1.0, Schedule 1.01 CW Column (i).  
 (2) Source: Company Schedule B-8.  
 (3) Source: 45/360 x Line 7



**Aqua Illinois, Inc. - Consolidated Sewer Division**  
**Adjustments to Operating Income**  
 For the Test Year Ending December 31, 2012

Line No.	Description	Interest	Incentive	Management	ADIT - Change	Misc.	N/A	Industry	Subtotal
		Synchronization (St. Ex. 1.0 Sch 1.05 CS)	Compensation (St. Ex. 1.0 Sch 1.09)	Fees (St. Ex. 1.0 Sch 1.10)	in SIT Rate (St. Ex. 1.0 Sch 1.11)	Expense (St. Ex. 2.0 Sch 2.01)	Charitable Contributions (St. Ex. 2.0 Sch. 2.02)	Assoc. Dues (St. Ex. 2.0 Sch. 2.03)	Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Other Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Wages and Salaries	-	(34,014)	-	-	-	-	-	(34,014)
6	Employee Benefits	-	-	-	-	-	-	-	-
7	Contractual Services	-	-	(6,166)	-	-	-	-	(6,166)
8	Operations and Maintenance	-	-	-	-	-	-	-	-
9	Materials and Supplies	-	-	-	-	-	-	-	-
10	Insurance Expense	-	-	-	-	-	-	-	-
11	Regulatory Expense Amortization	-	-	-	-	-	-	-	-
12	Miscellaneous Expense	-	-	-	-	(618)	-	(728)	(1,346)
13	Depreciation and Amortization	-	-	-	4,745	-	-	-	4,745
14		-	-	-	-	-	-	-	-
15	Total Operating Expense	-	(34,014)	(6,166)	4,745	(618)	-	(728)	(36,781)
16	Before Income Taxes	-	(34,014)	(6,166)	4,745	(618)	-	(728)	(36,781)
17	State Income Tax	423	3,231	586	(451)	59	-	69	3,917
18	Federal Income Tax	1,410	10,774	1,953	(1,503)	196	-	231	13,061
19		-	-	-	-	-	-	-	-
20	Total Operating Expenses	1,833	(20,009)	(3,627)	2,791	(363)	-	(428)	(19,803)
21	NET OPERATING INCOME	\$ (1,833)	\$ 20,009	\$ 3,627	\$ (2,791)	\$ 363	\$ -	\$ 428	\$ 19,803



**Aqua Illinois, Inc. - Consolidated Sewer Division**  
**Rate Base**  
 For the Test Year Ending December 31, 2012

Line No.	Description	Company Pro Forma Rate Base (Schedule B-1)	Staff Adjustments (St. Ex. 1.0 Sch 1.04 CS)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 58,228,655	\$ -	\$ 58,228,655
2	Accumulated Depreciation	(17,624,788)	-	(17,624,788)
3		-	-	-
4	Net Plant	40,603,867	-	40,603,867
5	Additions to Rate Base			
6	Deferred Charges	420	-	420
7	Materials & Supplies	-	-	-
8	Cash Working Capital	306,351	(5,191)	301,160
9	Amort. of Contributions In Aid of Const.	4,069,894	-	4,069,894
10		-	37,705	37,705
11		-	-	-
12		-	-	-
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base			
17	FAS 87 Pension	(290,159)	-	(290,159)
18	FAS 106 OPEB	(44,250)	-	(44,250)
19	Customer Advances	(347,082)	-	(347,082)
20	Contributions In Aid of Construction	(18,537,627)	-	(18,537,627)
21	Deferred Income Taxes	(3,605,013)	(179,094)	(3,784,107)
22		-	-	-
23	Rate Base	<u>\$ 22,156,401</u>	<u>\$ (146,580)</u>	<u>\$ 22,009,821</u>

**Aqua Illinois, Inc. - Consolidated Sewer Division**  
**Adjustments to Rate Base**  
 For the Test Year Ending December 31, 2012

Line No.	Description	Cash Working Capital (ICC St. Ex. 1.0 Sch. 1.08 CS)	ADIT-Change in SIT Rate (St. Ex. 1.0 Sch 1.11)	ADIT-Bonus Depreciation (St. Ex. 1.0 Sch 1.12)	N/A Forecast Plant Additions (St. Ex. 2.0 Sch 2.04)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
1	Gross Plant in Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Accumulated Depreciation	-	-	-	-	-	-	-	-
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	-	-	-	-	-	-
5	Additions to Rate Base								
6	Deferred Charges	-	-	-	-	-	-	-	-
7	Materials & Supplies	-	-	-	-	-	-	-	-
8	Cash Working Capital	(5,191)	-	-	-	-	-	-	(5,191)
9	Amort. of Contributions In Aid of Const.	-	-	-	-	-	-	-	-
10	Regulatory Asset - Deferred SIT	-	37,705	-	-	-	-	-	37,705
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base								
17	FAS 87 Pension	-	-	-	-	-	-	-	-
18	FAS 106 OPEB	-	-	-	-	-	-	-	-
19	Customer Advances	-	-	-	-	-	-	-	-
20	Contributions In Aid of Construction	-	-	-	-	-	-	-	-
21	Deferred Income Taxes	-	(37,705)	(141,389)	-	-	-	-	(179,094)
22		-	-	-	-	-	-	-	-
23	Rate Base	<u>\$ (5,191)</u>	<u>\$ -</u>	<u>\$ (141,389)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (146,580)</u>

**Aqua Illinois, Inc. - Consolidated Sewer Division**  
**Interest Synchronization Adjustment**  
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Amount (b)
1	Gross Plant in Service	\$ 22,009,821 (1)
2	Weighted Cost of Debt	3.08% (2)
3	Synchronized Interest Per Staff	678,996
4	Company Interest Expense	<u>683,449</u> (3)
5	Increase (Decrease) in Interest Expense	<u>(4,453)</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 9.500%	<u>\$ 423</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 35.000%	<u>\$ 1,410</u>

(1) Source: ICC Staff Exhibit 1.0, Schedule 1.03 CS Column (d), Line 23.  
 (2) Source: ICC Staff Exhibit 3.0, Schedule 3.01.  
 (3) Source: Company Schedule C-5.4.

Aqua Illinois, Inc. - Consolidated Sewer Division  
 Gross Revenue Conversion Factor  
 For the Test Year Ending December 31, 2012

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	1.5514%	<u>0.015514</u>	
3	State Taxable Income		0.984486	1.000000
4	State Income Tax	9.5000%	<u>0.093526</u>	<u>0.095000</u>
5	Federal Taxable Income		0.890960	0.905000
6	Federal Income Tax	35.0000%	<u>0.311836</u>	<u>0.316750</u>
7	Operating Income		<u>0.579124</u>	<u>0.588250</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.726746</u>	<u>1.699958</u>

**Aqua Illinois, Inc. - Consolidated Sewer Division**  
**Revenue Effect of Staff's Adjustments**  
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Aqua's Proposal (b)	Staff's Adjustments (c)	Staff's Direct (d)
1	<b>Summary</b>			
2	Current Revenues	\$ 5,882,158		\$ 5,882,158
3	<b>Proposed Increase</b>	<u>1,269,162</u>	<u>(354,307) #</u>	<u>914,855</u>
4	Proposed Revenue Requirement	<u>\$ 7,151,320</u>	<u>\$ (354,307)</u>	<u>\$ 6,797,013</u>
5	<b>Percentage Increase</b>	<b>21.58%</b>	<b>-6.02%</b>	<b>15.55%</b>
6	<b>Effect of Each Staff Adjustment</b>			
7	Rate of Return		\$ (299,545)	
8	Incentive Compensation		\$ (34,550)	
9	ADIT - Bonus Depreciation		\$ (16,736)	
10	Management Fees		\$ (6,263)	
11	Industry Association Dues		\$ (739)	
12	Miscellaneous Expense		\$ (627)	
13	Cash Working Capital		\$ (614)	
14	Interest Synchronization		\$ (50)	
15	ADIT - Change in State Income Tax Rate		\$ -	
16	Forecast Plant Additions		\$ -	
17	Charitable Contributions		\$ -	
18	Depreciation on Disallowed Forecasted Plant		\$ -	
19	Gross Revenue Conversion Factor		\$ -	
20	State Income Tax Regulatory Asset Amortization		\$ 4,819	
21				
22				
23				
24				
25				
26				
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28				
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31				
32				
33				
34				
35				
36				
37				
38				
39				
40				
41				
42	Rounding		\$ (2)	
43	Effect of Staff's Adjustments		<u>\$ (354,307) #</u>	
44	<b>Reconciliation to Schedule 1.01 CS</b>			
45	Column (c), line 5.		-	
46	Column (f), line 5.		-	
47	Column (h), line 5.		<u>(354,307)</u>	
48	Total Effect of Staff's Adjustments		<u>\$ (354,307) #</u>	

**Aqua Illinois, Inc. - Consolidated Sewer Division**  
**Adjustment for Cash Working Capital**  
 For the Test Year Ending December 31, 2012

Line No.	Description	Amount
(a)	(b)	(c)
1	Total Operating Expenses Before Income Taxes	\$ 4,240,528 (1)
2	Less:	
3	Uncollectible Accounts	105,452 (1)
4	Annual Amortization of Rate Case Expense	39,222 (1)
5	Depreciation and Amortization Expense	1,511,896 (1)
6	Real Estate Tax Expense	174,678 (2)
7	Total Cash Operating Expenses	<u>2,409,280</u>
8	Cash Working Capital Per Staff	301,160 (3)
9	Cash Working Capital Per Company	<u>306,351 (2)</u>
10	Staff Proposed Adjustment	<u><u>\$ (5,191)</u></u>

(1) Source: ICC Staff Exhibit 1.0, Schedule 1.01 CS Column (i).

(2) Source: Company Schedule B-8.

(3) Source: 45/360 x Line 7

**Aqua Illinois, Inc. - University Park Water**  
**Statement of Operating Income with Adjustments**  
 For the Test Year Ending December 31, 2012

Line No.	Description	Company Pro Forma Present (Sch C-1, C-2.1, C-4)	Staff Adjustments (St. Ex. 1.0) (Sch 1.02 UP)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Sch. C-1, C-2.1)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)	\$ Revenue Change (Cols. i-b)	% Revenue Change (Cols. j/b)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
1	Operating Revenues	\$ 1,074,137	\$ -	\$ 1,074,137	\$ 940,681	\$ (1)	\$ 2,014,817	\$ (91,443)	\$ 1,923,374	\$ 849,237	79.06%
2	Other Revenues	60,244	-	60,244	5,839	-	66,083	-	66,083	5,839	
3	Total Operating Revenue	1,134,381	-	1,134,381	946,520	\$ (1)	2,080,900	(91,443)	1,989,457	\$ 855,076	75.38%
4	Uncollectible Accounts	15,073	-	15,073	12,577	(1)	27,649	(1,215)	26,434		
5	Wages and Salaries	224,923	(12,327)	212,596	-	-	212,596	-	212,596		
6	Employee Benefits	111,689	-	111,689	-	-	111,689	-	111,689		
7	Contractual Services	291,345	(2,360)	288,985	-	-	288,985	-	288,985		
8	Operations and Maintenance	229,351	-	229,351	-	-	229,351	-	229,351		
9	Materials and Supplies	37,574	-	37,574	-	-	37,574	-	37,574		
10	Insurance Expense	22,541	-	22,541	-	-	22,541	-	22,541		
11	Regulatory Expense Amortization	15,613	-	15,613	-	-	15,613	-	15,613		
12	Miscellaneous Expense	(33,552)	(902)	(34,454)	-	-	(34,454)	-	(34,454)		
13	Depreciation and Amortization	370,283	(865)	369,418	-	-	369,418	-	369,418		
14	Taxes Other Than Income	130,926	-	130,926	-	-	130,926	-	130,926		
15	Total Operating Expense										
16	Before Income Taxes	1,415,766	(16,454)	1,399,312	12,577	(1)	1,411,888	(1,215)	1,410,673		
17	State Income Tax	(41,383)	1,736	(39,647)	88,725	-	49,078	(8,572)	40,506		
18	Federal Income Tax	(137,980)	5,789	(132,191)	295,826	-	163,635	(28,580)	135,055		
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-		
20	Total Operating Expenses	1,236,403	(8,929)	1,227,474	397,128	(1)	1,624,601	(38,367)	1,586,234		
21	NET OPERATING INCOME	\$ (102,022)	\$ 8,929	\$ (93,093)	\$ 549,392	\$ -	\$ 456,299	\$ (53,076)	\$ 403,223		
22	Staff Rate Base (ICC Staff Exhibit 1.0, Schedule 1.03 UP, Column (d))								\$ 4,962,598		
23	Staff Overall Rate of Return (ICC Staff Exhibit 3.0, Schedule 3.01)								8.13%		

**Aqua Illinois, Inc. - University Park Water**  
**Adjustments to Operating Income**  
 For the Test Year Ending December 31, 2012

Line (	Description	Interest Synchronization (St. Ex. 1.0 Sch 1.05 UP)	Incentive Compensation (St. Ex. 1.0 Sch 1.09)	Management Fees (St. Ex. 1.0 Sch 1.10)	N/A ADIT - Change in SIT Rate (St. Ex. 1.0 Sch 1.11)	Misc. Expense (St. Ex. 2.0 Sch 2.01)	N/A Charitable Contributions (St. Ex. 2.0 Sch. 2.02)	Industry Assoc. Dues (St. Ex. 2.0 Sch. 2.03)	Subtotal Operating Statement Adjustments
)	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Other Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Wages and Salaries	-	(12,327)	-	-	-	-	-	(12,327)
6	Employee Benefits	-	-	-	-	-	-	-	-
7	Contractual Services	-	-	(2,360)	-	-	-	-	(2,360)
8	Operations and Maintenance	-	-	-	-	-	-	-	-
9	Materials and Supplies	-	-	-	-	-	-	-	-
10	Insurance Expense	-	-	-	-	-	-	-	-
11	Regulatory Expense Amortization	-	-	-	-	-	-	-	-
12	Miscellaneous Expense	-	-	-	-	(618)	-	(284)	(902)
13	Depreciation and Amortization	-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense	-	-	-	-	-	-	-	-
16	Before Income Taxes	-	(12,327)	(2,360)	-	(618)	-	(284)	(15,589)
17	State Income Tax	173	1,171	224	-	59	-	27	1,654
18	Federal Income Tax	576	3,905	748	-	196	-	90	5,515
19		-	-	-	-	-	-	-	-
20	Total Operating Expenses	749	(7,251)	(1,388)	-	(363)	-	(167)	(8,420)
21	NET OPERATING INCOME	\$ (749)	\$ 7,251	\$ 1,388	\$ -	\$ 363	\$ -	\$ 167	\$ 8,420



**Aqua Illinois, Inc. - University Park Water**  
**Rate Base**  
 For the Test Year Ending December 31, 2012

Line No.	Description	Company Pro Forma Rate Base (Schedule B-1)	Staff Adjustments (St. Ex. 1.0 Sch 1.04 UP)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 16,309,219	\$ (40,974)	\$ 16,268,245
2	Accumulated Depreciation	(5,516,771)	13,878	(5,502,893)
3		-	-	-
4	Net Plant	10,792,448	(27,096)	10,765,352
5	Additions to Rate Base			
6	Deferred Charges	119,345	-	119,345
7	Materials & Supplies	23,743	-	23,743
8	Cash Working Capital	118,540	(1,949)	116,591
9	Amort. of Contributions In Aid of Const.	2,451,841	-	2,451,841
10		-	-	-
11		-	-	-
12		-	-	-
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base			
17	FAS 87 Pension	(161,628)	-	(161,628)
18	FAS 106 OPEB	(24,647)	-	(24,647)
19	Customer Advances	(406,016)	-	(406,016)
20	Contributions In Aid of Construction	(7,024,640)	-	(7,024,640)
21	Deferred Income Taxes	(866,972)	(30,371)	(897,343)
22		-	-	-
23	Rate Base	<u>\$ 5,022,014</u>	<u>\$ (59,416)</u>	<u>\$ 4,962,598</u>

**Aqua Illinois, Inc. - University Park Water**  
**Adjustments to Rate Base**  
 For the Test Year Ending December 31, 2012

Line No.	Description	Cash Working Capital (ICC St. Ex. 1.0 Sch. 1.08 UP)	N/A ADIT-Change in SIT Rate (St. Ex. 1.0 Sch 1.11)	ADIT-Bonus Depreciation (St. Ex. 1.0 Sch 1.12)	Forecast Plant Additions (St. Ex. 2.0 Sch 2.04)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
1	Gross Plant in Service	\$ -	\$ -	\$ -	\$ (40,974)	\$ -	\$ -	\$ -	\$ (40,974)
2	Accumulated Depreciation	-	-	-	13,878	-	-	-	13,878
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	-	(27,096)	-	-	-	(27,096)
5	Additions to Rate Base								-
6	Deferred Charges	-	-	-	-	-	-	-	-
7	Materials & Supplies	-	-	-	-	-	-	-	-
8	Cash Working Capital	(1,949)	-	-	-	-	-	-	(1,949)
9	Amort. of Contributions In Aid of Const.	-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base								-
17	FAS 87 Pension	-	-	-	-	-	-	-	-
18	FAS 106 OPEB	-	-	-	-	-	-	-	-
19	Customer Advances	-	-	-	-	-	-	-	-
20	Contributions In Aid of Construction	-	-	-	-	-	-	-	-
21	Deferred Income Taxes	-	-	(32,605)	2,234	-	-	-	(30,371)
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (1,949)	\$ -	\$ (32,605)	\$ (24,862)	\$ -	\$ -	\$ -	\$ (59,416)

Aqua Illinois, Inc. - University Park Water  
 Interest Synchronization Adjustment  
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Amount (b)
1	Gross Plant in Service	\$ 4,962,598 (1)
2	Weighted Cost of Debt	3.08% (2)
3	Synchronized Interest Per Staff	153,095
4	Company Interest Expense	<u>154,912</u> (3)
5	Increase (Decrease) in Interest Expense	<u>(1,817)</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 9.500%	<u>\$ 173</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 35.000%	<u>\$ 576</u>

(1) Source: ICC Staff Exhibit 1.0, Schedule 1.03 UP Column (d), Line 23.  
 (2) Source: ICC Staff Exhibit 7.0, Schedule 7.01.  
 (3) Source: Company Schedule C-5.4.

Aqua Illinois, Inc. - University Park Water  
 Gross Revenue Conversion Factor  
 For the Test Year Ending December 31, 2012

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	1.3287%	<u>0.013287</u>	
3	State Taxable Income		0.986713	1.000000
4	State Income Tax	9.5000%	<u>0.093738</u>	<u>0.095000</u>
5	Federal Taxable Income		0.892975	0.905000
6	Federal Income Tax	35.0000%	<u>0.312541</u>	<u>0.316750</u>
7	Operating Income		<u>0.580434</u>	<u>0.588250</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.722849</u>	<u>1.699958</u>

Aqua Illinois, Inc. - University Park Water  
 Revenue Effect of Staff's Adjustments  
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Aqua's Proposal (b)	Staff's Adjustments (c)	Staff's Direct (d)
1	<b>Summary</b>			
2	Current Revenues	\$ 1,134,381		\$ 1,134,381
3	<b>Proposed Increase</b>	<u>946,520</u>	<u>(91,444) #</u>	<u>855,076</u>
4	Proposed Revenue Requirement	<u>\$ 2,080,901</u>	<u>\$ (91,444)</u>	<u>\$ 1,989,457</u>
5	<b>Percentage Increase</b>	<b>83.44%</b>	<b>-8.06%</b>	<b>75.38%</b>
6	<b>Effect of Each Staff Adjustment</b>			
7	Rate of Return		\$ (67,741)	
8	Incentive Compensation		\$ (12,492)	
9	ADIT - Bonus Depreciation		\$ (3,851)	
10	Forecast Plant Additions		\$ (2,936)	
11	Management Fees		\$ (2,391)	
12	Depreciation on Disallowed Forecasted Plant		\$ (877)	
13	Miscellaneous Expense		\$ (625)	
14	Industry Association Dues		\$ (288)	
15	Cash Working Capital		\$ (230)	
16	Interest Synchronization		\$ (10)	
17	Gross Revenue Conversion Factor		\$ (1)	
18	ADIT - Change in State Income Tax Rate		\$ -	
19	State Income Tax Regulatory Asset Amortization		\$ -	
20	Charitable Contributions		\$ -	
21			\$ -	
22			\$ -	
23			\$ -	
24			\$ -	
25			\$ -	
26			\$ -	
27			\$ -	
28			\$ -	
29			\$ -	
30			\$ -	
31			\$ -	
32			\$ -	
33			\$ -	
34			\$ -	
35			\$ -	
36			\$ -	
37			\$ -	
38			\$ -	
39			\$ -	
40			\$ -	
41			\$ -	
42	Rounding		\$ (2)	
43	Effect of Staff's Adjustments		<u>\$ (91,444) #</u>	
44	<b>Reconciliation to Schedule 1.01 UP</b>			
45	Column (c), line 5.		-	
46	Column (f), line 5.		(1)	-
47	Column (h), line 5.		<u>(91,443)</u>	
48	Total Effect of Staff's Adjustments		<u>\$ (91,444) #</u>	

**Aqua Illinois, Inc. - University Park Water**  
**Adjustment for Cash Working Capital**  
 For the Test Year Ending December 31, 2012

Line No.	Description	Amount
(a) 1	(b) Total Operating Expenses Before Income Taxes	(c) \$ 1,410,673 (1)
2	Less:	
3	Uncollectible Accounts	26,434 (1)
4	Annual Amortization of Rate Case Expense	15,613 (1)
5	Depreciation and Amortization Expense	369,418 (1)
6	Real Estate Tax Expense	66,479 (2)
7	Total Cash Operating Expenses	<u>932,729</u>
8	Cash Working Capital Per Staff	116,591 (3)
9	Cash Working Capital Per Company	<u>118,540 (2)</u>
10	Staff Proposed Adjustment	<u>\$ (1,949)</u>

(1) Source: ICC Staff Exhibit 1.0, Schedule 1.01 UP Column (i).

(2) Source: Company Schedule B-8.

(3) Source: 45/360 x Line 7

Aqua Illinois, Inc. - Fairhaven Estates Water  
 Statement of Operating Income with Adjustments  
 For the Test Year Ending December 31, 2012

Line No.	Description	Company Pro Forma Present (Sch C-1, C-2.1, C-4)	Staff Adjustments (St. Ex. 1.0) (Sch 1.02 FE)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Sch. C-1, C-2.1)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)	\$ Revenue Change (Cols. i-b)	% Revenue Change (Cols. j/b)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
1	Operating Revenues	\$ 53,739	\$ -	\$ 53,739	\$ 26,055	\$ 1	\$ 79,795	\$ (4,293)	\$ 75,502	\$ 21,763	40.50%
2	Other Revenues	-	-	-	-	-	-	-	-	-	-
3	Total Operating Revenue	53,739	-	53,739	26,055	1	79,795	(4,293)	75,502	\$ 21,763	40.50%
4	Uncollectible Accounts	239	-	239	116	-	355	(19)	336		
5	Wages and Salaries	15,798	(882)	14,916	-	-	14,916	-	14,916		
6	Employee Benefits	2,884	-	2,884	-	-	2,884	-	2,884		
7	Contractual Services	1,693	(117)	1,576	-	-	1,576	-	1,576		
8	Operations and Maintenance	4,145	-	4,145	-	-	4,145	-	4,145		
9	Materials and Supplies	-	-	-	-	-	-	-	-		
10	Insurance Expense	500	-	500	-	-	500	-	500		
11	Regulatory Expense Amortization	549	-	549	-	-	549	-	549		
12	Miscellaneous Expense	1,595	(14)	1,581	-	-	1,581	-	1,581		
13	Depreciation and Amortization	18,171	-	18,171	-	-	18,171	-	18,171		
14	Taxes Other Than Income	3,926	-	3,926	-	-	3,926	-	3,926		
15	Total Operating Expense										
16	Before Income Taxes	49,500	(1,013)	48,487	116	-	48,603	(19)	48,584		
17	State Income Tax	(276)	100	(176)	2,464	-	2,288	(406)	1,882		
18	Federal Income Tax	(919)	334	(585)	8,216	-	7,631	(1,354)	6,277		
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-		
20	Total Operating Expenses	48,305	(579)	47,726	10,796	-	58,522	(1,779)	56,743		
21	NET OPERATING INCOME	\$ 5,434	\$ 579	\$ 6,013	\$ 15,259	\$ 1	\$ 21,273	\$ (2,514)	\$ 18,759		
22	Staff Rate Base (ICC Staff Exhibit 1.0, Schedule 1.03 FE, Column (d))								\$ 230,873		
23	Staff Overall Rate of Return (ICC Staff Exhibit 3.0, Schedule 3.01)								8.13%		

**Aqua Illinois, Inc. - Fairhaven Estates Water**  
**Adjustments to Operating Income**  
 For the Test Year Ending December 31, 2012

Line ( )	Description	Interest Synchronization (St. Ex. 1.0 Sch 1.05 FE)	Incentive Compensation (St. Ex. 1.0 Sch 1.09)	Management Fees (St. Ex. 1.0 Sch 1.10)	N/A ADIT - Change in SIT Rate (St. Ex. 1.0 Sch 1.11)	N/A Misc. Expense (St. Ex. 2.0 Sch 2.01)	N/A Charitable Contributions (St. Ex. 2.0 Sch. 2.02)	Industry Assoc. Dues (St. Ex. 2.0 Sch. 2.03)	Subtotal Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Other Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Wages and Salaries	-	(882)	-	-	-	-	-	(882)
6	Employee Benefits	-	-	-	-	-	-	-	-
7	Contractual Services	-	-	(117)	-	-	-	-	(117)
8	Operations and Maintenance	-	-	-	-	-	-	-	-
9	Materials and Supplies	-	-	-	-	-	-	-	-
10	Insurance Expense	-	-	-	-	-	-	-	-
11	Regulatory Expense Amortization	-	-	-	-	-	-	-	-
12	Miscellaneous Expense	-	-	-	-	-	-	(14)	(14)
13	Depreciation and Amortization	-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense	-	-	-	-	-	-	-	-
16	Before Income Taxes	-	(882)	(117)	-	-	-	(14)	(1,013)
17	State Income Tax	4	84	11	-	-	-	1	100
18	Federal Income Tax	14	279	37	-	-	-	4	334
19		-	-	-	-	-	-	-	-
20	Total Operating Expenses	18	(519)	(69)	-	-	-	(9)	(579)
21	NET OPERATING INCOME	\$ (18)	\$ 519	\$ 69	\$ -	\$ -	\$ -	\$ 9	\$ 579



**Aqua Illinois, Inc. - Fairhaven Estates Water**  
**Rate Base**  
 For the Test Year Ending December 31, 2012

Line No.	Description	Company Pro Forma Rate Base (Schedule B-1)	Staff Adjustments (St. Ex. 1.0 Sch 1.04 FE)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 372,225	\$ -	\$ 372,225
2	Accumulated Depreciation	(106,986)	-	(106,986)
3		-	-	-
4	Net Plant	265,239	-	265,239
5	Additions to Rate Base			
6	Deferred Charges	(2,183)	-	(2,183)
7	Materials & Supplies	196	-	196
8	Cash Working Capital	3,575	(127)	3,448
9	Amort. of Contributions In Aid of Const.	-	-	-
10		-	-	-
11		-	-	-
12		-	-	-
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base			
17	FAS 87 Pension	(525)	-	(525)
18	FAS 106 OPEB	(80)	-	(80)
19	Customer Advances	-	-	-
20	Contributions In Aid of Construction	-	-	-
21	Deferred Income Taxes	(33,938)	(1,284)	(35,222)
22		-	-	-
23	Rate Base	<u>\$ 232,284</u>	<u>\$ (1,411)</u>	<u>\$ 230,873</u>

**Aqua Illinois, Inc. - Fairhaven Estates Water**  
**Adjustments to Rate Base**  
 For the Test Year Ending December 31, 2012

Line No.	Description	Cash Working	N/A	ADIT-Bonus	N/A				Total
		Capital (ICC St. Ex. 1.0 Sch. 1.08 FE)	ADIT-Change in SIT Rate (St. Ex. 1.0 Sch 1.11)	Depreciation (St. Ex. 1.0 Sch 1.12)	Forecast Plant Additions (St. Ex. 2.0 Sch 2.04)	(Source)	(Source)	(Source)	Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross Plant in Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Accumulated Depreciation	-	-	-	-	-	-	-	-
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	-	-	-	-	-	-
5	Additions to Rate Base								
6	Deferred Charges	-	-	-	-	-	-	-	-
7	Materials & Supplies	-	-	-	-	-	-	-	-
8	Cash Working Capital	(127)	-	-	-	-	-	-	(127)
9	Amort. of Contributions In Aid of Const.	-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base								
17	FAS 87 Pension	-	-	-	-	-	-	-	-
18	FAS 106 OPEB	-	-	-	-	-	-	-	-
19	Customer Advances	-	-	-	-	-	-	-	-
20	Contributions In Aid of Construction	-	-	-	-	-	-	-	-
21	Deferred Income Taxes	-	-	(1,284)	-	-	-	-	(1,284)
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (127)	\$ -	\$ (1,284)	\$ -	\$ -	\$ -	\$ -	\$ (1,411)

Aqua Illinois, Inc. - Fairhaven Estates Water  
 Interest Synchronization Adjustment  
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Amount (b)
1	Gross Plant in Service	\$ 230,873 (1)
2	Weighted Cost of Debt	3.08% (2)
3	Synchronized Interest Per Staff	7,122
4	Company Interest Expense	<u>7,165 (3)</u>
5	Increase (Decrease) in Interest Expense	<u>(43)</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 9.500%	<u>\$ 4</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 35.000%	<u>\$ 14</u>

(1) Source: ICC Staff Exhibit 1.0, Schedule 1.03 FE Column (d), Line 23.  
 (2) Source: ICC Staff Exhibit 7.0, Schedule 7.01.  
 (3) Source: Company Schedule C-5.4.

Aqua Illinois, Inc. - Fairhaven Estates Water  
 Gross Revenue Conversion Factor  
 For the Test Year Ending December 31, 2012

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	0.4447%	<u>0.004447</u>	
3	State Taxable Income		0.995553	1.000000
4	State Income Tax	9.5000%	<u>0.094578</u>	<u>0.095000</u>
5	Federal Taxable Income		0.900975	0.905000
6	Federal Income Tax	35.0000%	<u>0.315341</u>	<u>0.316750</u>
7	Operating Income		<u>0.585634</u>	<u>0.588250</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.707551</u>	<u>1.699958</u>

Aqua Illinois, Inc. - Fairhaven Estates Water  
 Revenue Effect of Staff's Adjustments  
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Aqua's Proposal (b)	Staff's Adjustments (c)	Staff's Direct (d)
1	<b>Summary</b>			
2	Current Revenues	\$ 53,739		\$ 53,739
3	<b>Proposed Increase</b>	<b><u>26,055</u></b>	<b><u>(4,292) #</u></b>	<b><u>21,763</u></b>
4	Proposed Revenue Requirement	<u>\$ 79,794</u>	<u>\$ (4,292)</u>	<u>\$ 75,502</u>
5	<b>Percentage Increase</b>	<b>48.48%</b>	<b>-7.99%</b>	<b>40.50%</b>
6	<b>Effect of Each Staff Adjustment</b>			
7	Rate of Return		\$ (3,107)	
8	Incentive Compensation		\$ (886)	
9	ADIT - Bonus Depreciation		\$ (150)	
10	Management Fees		\$ (118)	
11	Cash Working Capital		\$ (15)	
12	Industry Association Dues		\$ (15)	
13	ADIT - Change in State Income Tax Rate		\$ -	
14	Forecast Plant Additions		\$ -	
15	Interest Synchronization		\$ -	
16	State Income Tax Regulatory Asset Amortization		\$ -	
17	Miscellaneous Expense		\$ -	
18	Charitable Contributions		\$ -	
19	Depreciation on Disallowed Forecasted Plant		\$ -	
20	Gross Revenue Conversion Factor		\$ 1	
21			\$ -	
22			\$ -	
23			\$ -	
24			\$ -	
25			\$ -	
26			\$ -	
27			\$ -	
28			\$ -	
29			\$ -	
30			\$ -	
31			\$ -	
32			\$ -	
33			\$ -	
34			\$ -	
35			\$ -	
36			\$ -	
37			\$ -	
38			\$ -	
39			\$ -	
40			\$ -	
41			\$ -	
42	Rounding		<u>\$ (2)</u>	
43	Effect of Staff's Adjustments		<b><u>\$ (4,292) #</u></b>	
44	<b>Reconciliation to Schedule 1.01 FE</b>			
45	Column (c), line 5.		-	
46	Column (f), line 5.		1	
47	Column (h), line 5.		<u>(4,293)</u>	
48	Total Effect of Staff's Adjustments		<b><u>\$ (4,292) #</u></b>	

**Aqua Illinois, Inc. - Fairhaven Estates Water**  
**Adjustment for Cash Working Capital**  
**For the Test Year Ending December 31, 2012**

Line No.	Description	Amount
(a)	(b)	(c)
1	Total Operating Expenses Before Income Taxes	\$ 48,584 (1)
2	Less:	
3	Uncollectible Accounts	336 (1)
4	Annual Amortization of Rate Case Expense	549 (1)
5	Depreciation and Amortization Expense	18,171 (1)
6	Real Estate Tax Expense	1,943 (2)
7	Total Cash Operating Expenses	<u>27,585</u>
8	Cash Working Capital Per Staff	3,448 (3)
9	Cash Working Capital Per Company	<u>3,575 (2)</u>
10	Staff Proposed Adjustment	<u><u>\$ (127)</u></u>

(1) Source: ICC Staff Exhibit 1.0, Schedule 1.01 FE Column (i).

(2) Source: Company Schedule B-8.

(3) Source: 45/360 x Line 7

Aqua Illinois, Inc. - Ivanhoe Water  
 Statement of Operating Income with Adjustments  
 For the Test Year Ending December 31, 2012

Line No.	Description	Company Pro Forma Present (Sch C-1, C-2.1, C-4)	Staff Adjustments (St. Ex. 1.0 (Sch 1.02 V))	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Sch. C-1, C-2.1)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)	\$ Revenue Change (Cols. i-b)	% Revenue Change (Cols. j/b)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)	(j)	(k)
1	Operating Revenues	\$ 86,022	\$ -	\$ 86,022	\$ 122,994	\$ -	\$ 209,016	\$ (9,826)	\$ 199,190	\$ 113,168	131.56%
2	Other Revenues	360	-	360	343	\$ -	703	-	703	343	
3	Total Operating Revenue	86,382	-	86,382	123,337	\$ -	209,719	(9,826)	199,893	\$ 113,511	131.41%
4	Uncollectible Accounts	708	-	708	1,011	-	1,719	(81)	1,638		
5	Wages and Salaries	30,629	(1,608)	29,021	-	-	29,021	-	29,021		
6	Employee Benefits	6,585	-	6,585	-	-	6,585	-	6,585		
7	Contractual Services	29,043	(290)	28,753	-	-	28,753	-	28,753		
8	Operations and Maintenance	33,536	-	33,536	-	-	33,536	-	33,536		
9	Materials and Supplies	2,225	-	2,225	-	-	2,225	-	2,225		
10	Insurance Expense	1,809	-	1,809	-	-	1,809	-	1,809		
11	Regulatory Expense Amortization	1,821	-	1,821	-	-	1,821	-	1,821		
12	Miscellaneous Expense	11,368	(35)	11,333	-	-	11,333	-	11,333		
13	Depreciation and Amortization	28,198	(542)	27,656	-	-	27,656	-	27,656		
14	Taxes Other Than Income	5,961	-	5,961	-	-	5,961	-	5,961		
15	Total Operating Expense										
16	Before Income Taxes	151,883	(2,475)	149,408	1,011	-	150,419	(81)	150,338		
17	State Income Tax	(7,496)	271	(7,225)	11,621	-	4,396	(926)	3,470		
18	Federal Income Tax	(24,994)	905	(24,089)	38,747	-	14,658	(3,087)	11,571		
19	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-		
20	Total Operating Expenses	119,393	(1,299)	118,094	51,379	-	169,473	(4,094)	165,379		
21	NET OPERATING INCOME	\$ (33,011)	\$ 1,299	\$ (31,712)	\$ 71,958	\$ -	\$ 40,246	\$ (5,732)	\$ 34,514		
22	Staff Rate Base (ICC Staff Exhibit 1.0, Schedule 1.03 V, Column (d))								\$ 424,770		
23	Staff Overall Rate of Return (ICC Staff Exhibit 3.0, Schedule 3.01)									8.13%	

**Aqua Illinois, Inc. - Ivanhoe Water**  
**Adjustments to Operating Income**  
 For the Test Year Ending December 31, 2012

Line ( )	Description	Interest Synchronization (St. Ex. 1.0 Sch 1.05 V)	Incentive Compensation (St. Ex. 1.0 Sch 1.09)	Management Fees (St. Ex. 1.0 Sch 1.10)	N/A ADIT - Change in SIT Rate (St. Ex. 1.0 Sch 1.11)	N/A Misc. Expense (St. Ex. 2.0 Sch 2.01)	N/A Charitable Contributions (St. Ex. 2.0 Sch. 2.02)	Industry Assoc. Dues (St. Ex. 2.0 Sch. 2.03)	Subtotal Operating Statement Adjustments (i)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Other Revenues	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Wages and Salaries	-	(1,608)	-	-	-	-	-	(1,608)
6	Employee Benefits	-	-	-	-	-	-	-	-
7	Contractual Services	-	-	(290)	-	-	-	-	(290)
8	Operations and Maintenance	-	-	-	-	-	-	-	-
9	Materials and Supplies	-	-	-	-	-	-	-	-
10	Insurance Expense	-	-	-	-	-	-	-	-
11	Regulatory Expense Amortization	-	-	-	-	-	-	-	-
12	Miscellaneous Expense	-	-	-	-	-	-	(35)	(35)
13	Depreciation and Amortization	-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15	Total Operating Expense	-	-	-	-	-	-	-	-
16	Before Income Taxes	-	(1,608)	(290)	-	-	-	(35)	(1,933)
17	State Income Tax	36	153	28	-	-	-	3	220
18	Federal Income Tax	121	509	92	-	-	-	11	733
19		-	-	-	-	-	-	-	-
20	Total Operating Expenses	157	(946)	(170)	-	-	-	(21)	(980)
21	NET OPERATING INCOME	\$ (157)	\$ 946	\$ 170	\$ -	\$ -	\$ -	\$ 21	\$ 980



**Aqua Illinois, Inc. - Ivanhoe Water**  
**Rate Base**  
 For the Test Year Ending December 31, 2012

Line No.	Description	Company Pro Forma Rate Base (Schedule B-1)	Staff Adjustments (St. Ex. 1.0 Sch 1.04 V)	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross Plant in Service	\$ 1,036,014	\$ (16,290)	\$ 1,019,724
2	Accumulated Depreciation	(197,543)	4,181	(193,362)
3		-	-	-
4	Net Plant	<u>838,471</u>	<u>(12,109)</u>	<u>826,362</u>
5	Additions to Rate Base			
6	Deferred Charges	12,093	-	12,093
7	Materials & Supplies	3,953	-	3,953
8	Cash Working Capital	15,145	(242)	14,903
9	Amort. of Contributions In Aid of Const.	84,189	-	84,189
10		-	-	-
11		-	-	-
12		-	-	-
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base			
17	FAS 87 Pension	(1,742)	-	(1,742)
18	FAS 106 OPEB	(266)	-	(266)
19	Customer Advances	-	-	-
20	Contributions In Aid of Construction	(483,840)	-	(483,840)
21	Deferred Income Taxes	(30,799)	(83)	(30,882)
22		-	-	-
23	Rate Base	<u>\$ 437,204</u>	<u>\$ (12,434)</u>	<u>\$ 424,770</u>

Aqua Illinois, Inc. - Ivanhoe Water  
 Adjustments to Rate Base  
 For the Test Year Ending December 31, 2012

Line No.	Description	Cash Working Capital (ICC St. Ex. 1.0 Sch. 1.08 V)	N/A ADIT-Change in SIT Rate (St. Ex. 1.0 Sch 1.11)	ADIT-Bonus Depreciation (St. Ex. 1.0 Sch 1.12)	Forecast Plant Additions (St. Ex. 2.0 Sch 2.04)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
1	Gross Plant in Service	\$ -	\$ -	\$ -	\$ (16,290)	\$ -	\$ -	\$ -	\$ (16,290)
2	Accumulated Depreciation	-	-	-	4,181	-	-	-	4,181
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	-	(12,109)	-	-	-	(12,109)
5	Additions to Rate Base								-
6	Deferred Charges	-	-	-	-	-	-	-	-
7	Materials & Supplies	-	-	-	-	-	-	-	-
8	Cash Working Capital	(242)	-	-	-	-	-	-	(242)
9	Amort. of Contributions In Aid of Const.	-	-	-	-	-	-	-	-
10		-	-	-	-	-	-	-	-
11		-	-	-	-	-	-	-	-
12		-	-	-	-	-	-	-	-
13		-	-	-	-	-	-	-	-
14		-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base								-
17	FAS 87 Pension	-	-	-	-	-	-	-	-
18	FAS 106 OPEB	-	-	-	-	-	-	-	-
19	Customer Advances	-	-	-	-	-	-	-	-
20	Contributions In Aid of Construction	-	-	-	-	-	-	-	-
21	Deferred Income Taxes	-	-	(790)	707	-	-	-	(83)
22		-	-	-	-	-	-	-	-
23	Rate Base	\$ (242)	\$ -	\$ (790)	\$ (11,402)	\$ -	\$ -	\$ -	\$ (12,434)

Aqua Illinois, Inc. - Ivanhoe Water  
 Interest Synchronization Adjustment  
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Amount (b)
1	Gross Plant in Service	\$ 424,770 (1)
2	Weighted Cost of Debt	3.08% (2)
3	Synchronized Interest Per Staff	13,104
4	Company Interest Expense	<u>13,486</u> (3)
5	Increase (Decrease) in Interest Expense	<u>(382)</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 9.500%	<u>\$ 36</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 35.000%	<u>\$ 121</u>

(1) Source: ICC Staff Exhibit 1.0, Schedule 1.03 V Column (d), Line 23.  
 (2) Source: ICC Staff Exhibit 3.0, Schedule 3.01.  
 (3) Source: Company Schedule C-5.4.

Aqua Illinois, Inc. - Ivanhoe Water  
 Gross Revenue Conversion Factor  
 For the Test Year Ending December 31, 2012

Line No.	Description	Rate	Per Staff With Bad Debts	Per Staff Without Bad Debts
	(a)	(b)	(c)	(d)
1	Revenues		1.000000	
2	Uncollectibles	0.8199%	<u>0.008199</u>	
3	State Taxable Income		0.991801	1.000000
4	State Income Tax	9.5000%	<u>0.094221</u>	<u>0.095000</u>
5	Federal Taxable Income		0.897580	0.905000
6	Federal Income Tax	35.0000%	<u>0.314153</u>	<u>0.316750</u>
7	Operating Income		<u>0.583427</u>	<u>0.588250</u>
8	Gross Revenue Conversion Factor Per Staff		<u>1.714010</u>	<u>1.699958</u>

Aqua Illinois, Inc. - Ivanhoe Water  
 Revenue Effect of Staff's Adjustments  
 For the Test Year Ending December 31, 2012

Line No.	Description	Aqua's Proposal	Staff's Adjustments	Staff's Direct
	(a)	(b)	(c)	(d)
1	<b>Summary</b>			
2	Current Revenues	\$ 86,382		\$ 86,382
3	<b>Proposed Increase</b>	<u>123,337</u>	<u>(9,826) #</u>	<u>113,511</u>
4	Proposed Revenue Requirement	<u>\$ 209,719</u>	<u>\$ (9,826)</u>	<u>\$ 199,893</u>
5	<b>Percentage Increase</b>	<b>142.78%</b>	<b>-11.38%</b>	<b>131.41%</b>
6	<b>Effect of Each Staff Adjustment</b>			
7	Rate of Return		\$ (5,867)	
8	Incentive Compensation		\$ (1,621)	
9	Forecast Plant Additions		\$ (1,340)	
10	Depreciation on Disallowed Forecasted Plant		\$ (547)	
11	Management Fees		\$ (291)	
12	ADIT - Bonus Depreciation		\$ (93)	
13	Industry Association Dues		\$ (36)	
14	Cash Working Capital		\$ (28)	
15	Interest Synchronization		\$ (2)	
16	ADIT - Change in State Income Tax Rate		\$ -	
17	State Income Tax Regulatory Asset Amortization		\$ -	
18	Miscellaneous Expense		\$ -	
19	Charitable Contributions		\$ -	
20	Gross Revenue Conversion Factor		\$ -	
21			\$ -	
22			\$ -	
23			\$ -	
24			\$ -	
25			\$ -	
26			\$ -	
27			\$ -	
28			\$ -	
29			\$ -	
30			\$ -	
31			\$ -	
32			\$ -	
33			\$ -	
34			\$ -	
35			\$ -	
36			\$ -	
37			\$ -	
38			\$ -	
39			\$ -	
40			\$ -	
41			\$ -	
42	Rounding		\$ (1)	
43	Effect of Staff's Adjustments		<u>\$ (9,826) #</u>	
44	<b>Reconciliation to Schedule 1.01 V</b>			
45	Column (c), line 5.		-	
46	Column (f), line 5.		-	
47	Column (h), line 5.		(9,826)	
48	Total Effect of Staff's Adjustments		<u>\$ (9,826) #</u>	

Aqua Illinois, Inc. - Ivanhoe Water  
 Adjustment for Cash Working Capital  
 For the Test Year Ending December 31, 2012

Line No.	Description	Amount
(a)	(b)	(c)
1	Total Operating Expenses Before Income Taxes	\$ 150,338 (1)
2	Less:	
3	Uncollectible Accounts	1,638 (1)
4	Annual Amortization of Rate Case Expense	1,821 (1)
5	Depreciation and Amortization Expense	27,656 (1)
6	Real Estate Tax Expense	- (2)
7	Total Cash Operating Expenses	<u>119,223</u>
8	Cash Working Capital Per Staff	14,903 (3)
9	Cash Working Capital Per Company	<u>15,145 (2)</u>
10	Staff Proposed Adjustment	<u><u>\$ (242)</u></u>

(1) Source: ICC Staff Exhibit 1.0, Schedule 1.01 V Column (i).

(2) Source: Company Schedule B-8.

(3) Source: 45/360 x Line 7

**Aqua Illinois, Inc**  
 Incentive Compensation Expense Adjustment  
 For the Test Year Ending December 31, 2012

Line No.	Description	Consolidated Water Division <sup>1</sup>	Consolidated Sewer Division <sup>2</sup>	University Park Water	Fairhaven Estates Water	Ivanhoe Water	Total	Source
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)
1	Equity Compensation Plan per Staff	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
2	Equity Compensation Plan per Company	41,154	13,741	4,980	356	648	60,879	Co. Response to Staff DR BCJ-2.06
3	Staff Proposed Adjustment to Disallow Equity Compensation Plan	<u>\$ (41,154)</u>	<u>\$ (13,741)</u>	<u>\$ (4,980)</u>	<u>\$ (356)</u>	<u>\$ (648)</u>	<u>\$ (60,879)</u>	
4	Management Improvement Plan Less Dividend Equivalents	\$ 52,774	\$ 17,623	\$ 6,386	\$ 457	\$ 835	\$ 78,075	ICC Staff Ex. 1.0, Sch. 1.09, p. 2
5	Management Improvement Plan as Filed	60,710	20,273	7,347	526	960	89,816	Co. Response to Staff DR BCJ-2.04
6	Staff Proposed Adjustment to Disallow Dividend Equivalents	<u>\$ (7,936)</u>	<u>\$ (2,650)</u>	<u>\$ (961)</u>	<u>\$ (69)</u>	<u>\$ (125)</u>	<u>\$ (11,741)</u>	
7	Management Improvement Plan per Staff	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	
8	Management Improvement Plan per Company, less Dividend Equivalents	52,774	17,623	6,386	457	835	78,075	ICC Staff Ex. 1.0, Sch. 1.09, p. 2
9	Staff Proposed Adjustment to Disallow Management Improvement Plan	<u>\$ (52,774)</u>	<u>\$ (17,623)</u>	<u>\$ (6,386)</u>	<u>\$ (457)</u>	<u>\$ (835)</u>	<u>\$ (78,075)</u>	
10	Total Staff Proposed Adjustment to Decrease Salaries and Wages	<u>\$ (101,864)</u>	<u>\$ (34,014)</u>	<u>\$ (12,327)</u>	<u>\$ (882)</u>	<u>\$ (1,608)</u>	<u>\$ (150,695)</u>	Line 3 + Line 6 + Line 9

<sup>1</sup> Willowbrook, Candlewick, Oak Run, Vermilion, Hawthorn Woods, Ravenna

<sup>2</sup> Willowbrook, Candlewick, Ellwood Greens, Hawthorn Woods, University Park, Ivanhoe

**Aqua Illinois, Inc**  
 Incentive Compensation Expense Adjustment  
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Allocation % (b)	Amount (c)	Source (d)
1	Management Improvement Plan - 2011 Accrual		\$ 153,830	} Co. response to Staff DR BCJ-2.04
2	Inflation @ 4%		6,153	
3	2012 Management Improvement Plan, Less Dividend Equivalents		<u>\$ 159,983</u>	
4	Divisions:			
5	<u>Consolidated Water</u>			
6	Willowbrook Water	2.37%	\$ 3,784	} Column (b) x line 3
7	Candlewick Water	2.03%	3,252	
8	Oak Run Water	0.22%	346	
9	Vermilion Water	26.89%	43,020	
10	Hawthorn Woods Water	1.19%	1,907	
11	Ravenna Water	0.29%	464	
12	Total Consolidated Water		<u>\$ 52,774</u>	
13	University Park Water	3.99%	\$ 6,386	
14	Fairhaven Estates Water	0.29%	\$ 457	
15	Ivanhoe Water	0.52%	\$ 835	
16	<u>Consolidated Sewer:</u>			
17	Willowbrook Sewer	2.01%	\$ 3,220	
18	Hawthorn Woods Sewer	1.16%	1,854	
19	University Park Sewer	4.35%	6,953	
20	Ellwood Greens Sewer	0.68%	1,094	
21	Candlewick Sewer	2.36%	3,768	
22	Ivanhoe Sewer	0.46%	733	
23	Total Consolidated Sewer		<u>\$ 17,623</u>	

**Aqua Illinois, Inc**  
 Corporate Management Fees Expense Adjustment  
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Consolidated Water Division <sup>1</sup> (b)	Consolidated Sewer Division <sup>2</sup> (c)	University Park Water (d)	Fairhaven Estates Water (e)	Ivanhoe Water (f)	Source (g)
1	Corporate Management Fees per Staff	\$ 671,335	\$ 129,513	\$ 49,573	\$ 2,457	\$ 6,073	Line 6
2	Corporate Management Fees per Company	<u>703,305</u>	<u>135,679</u>	<u>51,933</u>	<u>2,574</u>	<u>6,363</u>	Co. response to Staff DR BCJ-2.17
3	Staff Proposed Adjustment to Corporate Management Fees	<u>\$ (31,970)</u>	<u>\$ (6,166)</u>	<u>\$ (2,360)</u>	<u>\$ (117)</u>	<u>\$ (290)</u>	Line 1 - Line 2
4	Corporate Management Fees per 2011 Budget	\$ 639,367	\$ 123,346	\$ 47,212	\$ 2,340	\$ 5,784	Co. response to Staff DR BCJ-2.17
5	5% increase	<u>31,968</u>	<u>6,167</u>	<u>2,361</u>	<u>117</u>	<u>289</u>	Line 4 x 5%
6	Corporate Management Fees for 2012	<u>\$ 671,335</u>	<u>\$ 129,513</u>	<u>\$ 49,573</u>	<u>\$ 2,457</u>	<u>\$ 6,073</u>	Line 4 + Line 5

<sup>1</sup> Willowbrook, Candlewick, Oak Run, Vermilion, Hawthorn Woods, Ravenna

<sup>2</sup> Willowbrook, Candlewick, Ellwood Greens, Hawthorn Woods, University Park, Ivanhoe

**Aqua Illinois, Inc**  
 ADIT Adjustment - Change in State Income Tax Rate  
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Consolidated Water Division <sup>1</sup> (b)	Consolidated Sewer Division <sup>2</sup> (c)	Source (d)
1	Increase in ADIT due to change in State Income Tax (SIT) rate per Staff	\$ 68,170	\$ 37,705	ICC Staff Ex. 1.0, Sch. 1.11, p. 2
2	Increase in ADIT due to change in State Income Tax (SIT) rate per Company	-	-	
3	Staff Proposed Adjustment to Increase ADIT	<u>\$ 68,170</u>	<u>\$ 37,705</u>	Line 1 - Line 2
4	Staff Proposed Adjustment to Create SIT-ADIT Regulatory Asset	<u>\$68,170</u>	<u>\$37,705</u>	Line 3
5	Amortize SIT-ADIT Regulatory Asset per Staff	\$ 8,599	\$ 4,745	Co. response to Staff DR BCJ-5.01
6	Amortize SIT-ADIT Regulatory Asset per Company	-	-	
7	Staff Proposed Adjustment to Increase Amortization Expense	<u>\$ 8,599</u>	<u>\$ 4,745</u>	Line 5 - Line 6

<sup>1</sup> Willowbrook, Candlewick, Oak Run, Vermilion, Hawthorn Woods, Ravenna

<sup>2</sup> Willowbrook, Candlewick, Ellwood Greens, Hawthorn Woods, University Park, Ivanhoe

**Aqua Illinois, Inc**  
 ADIT Adjustment - Change in State Income Tax Rate  
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Allocation % <sup>1</sup> (b)	Amount (c)	Source (d)
1	Increase in Test Year ADIT for Change in State Income Tax Rate		<u>\$ 301,636</u>	Revised wkp p. 4 in Co. supplemental response to Staff DR BCJ-5.03
2	Allocated to Consolidated Water Division	22.60%	<u>\$ 68,170</u>	Column (b) x line 1
3	Allocated to Consolidated Sewer Division	12.50%	<u>\$ 37,705</u>	Column (b) x line 1

<sup>1</sup> Based on 2012 projected net income per Co. response to Staff DR BCJ-5.01

**Aqua Illinois, Inc**  
 ADIT Adjustment - Bonus Depreciation  
 For the Test Year Ending December 31, 2012

Line No.	Description (a)	Plant Allocation Factor (b)	Amount (c)	Source (d)
1	ADIT - Excess Tax Depreciation per Staff		\$ 27,421,034	Co. suppl. responses to Staff DR BCJ-5.02 and BCJ-5.03 Schedule B-9, p. 1 as filed
2	ADIT - Excess Tax Depreciation per Company		<u>26,432,990</u>	
3	Staff Proposed Adjustment to Increase ADIT for Bonus Depreciation in 2011		<u>\$ 988,044</u>	Line 1 - Line 2
4	Allocated to Divisions:			
5	<u>Consolidated Water</u>			
6	Willowbrook Water	1.49%	\$ 14,722	} Column (b) x line 3
7	Candlewick Water	1.61%	15,908	
8	Oak Run Water	0.96%	9,485	
9	Vermilion Water	30.92%	305,503	
10	Hawthorn Woods Water	1.58%	15,611	
11	Ravenna Water	0.14%	1,383	
12	Total Consolidated Water Division		<u>\$ 362,612</u>	
13	University Park Water	3.30%	\$ 32,605	
14	Fairhaven Estates Water	0.13%	\$ 1,284	
15	Ivanhoe Water	0.08%	\$ 790	
16	<u>Consolidated Sewer:</u>			
17	Willowbrook Sewer	1.71%	\$ 16,896	
18	Hawthorn Woods Sewer	0.87%	8,596	
19	University Park Sewer	7.08%	69,954	
20	Ellwood Greens Sewer	0.07%	692	
21	Candlewick Sewer	3.71%	36,656	
22	Ivanhoe Sewer	0.87%	8,596	
23	Total Consolidated Sewer Division		<u>\$ 141,389</u>	