Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1, 2, 4 and 8

* **Section H - Annual Reconciliation**

(a) No later than March 31 of each year following the first Effective Period, the Company shall file a petition, testimony and reconciliation statement seeking initiation of an annual reconciliation hearing. Upon review of the Company's filing, the Commission may require a hearing to receive from the Company such evidence as the Commission requires regarding any aspect of determining the charges under this rider including a determination of whether all costs recovered under this rider were prudently incurred, just and reasonable. If the Commission finds, after hearing, that any amounts were incorrectly debited or credited to the rider during the applicable Effective Period, the Commission may by order require that the rider be adjusted by appropriate credits or debits thereto. Any adjustments so ordered shall be reflected as Factor O in the ICR Charge Percentage formula in Section F over a succeeding Effective Period. Amounts either collected or refunded through the O component shall accrue interest at the rate established by the Commission under 83 Ill. Adm. Code Sec. 280.70(e)(1). Interest on the O component shall be applied from the end of the reconciliation year until the O component is refunded or charged to ratepayers through the ICR Charge. Notwithstanding the foregoing, if this rider is to be or has been remanded by any Court of competent jurisdiction to the Commission for further proceedings, the Company (i) shall not file a petition, testimony and reconciliation statement seeking initiation of an annual reconciliation hearing as otherwise required by this paragraph and shall not determine a RA as defined in this Section A until further directed by the Commission in a final order on remand and (ii) shall determine any subsequent adjustments arising from charges billed under this rider in a manner ordered by the Commission, provided that no such adjustments or other filings shall be required prior to the later of June 30, 2012, or 90 days after the Commission issues a final order on remand.

(b) Any adjustment made through the RA component shall be in effect for nine months commencing on the April 1 immediately following submittal of the annual reconciliation.

(c) If the QIP Costs exceeded the QIP Baseline and an ICR Charge Percentage was computed for the reconciliation year as described under Section F(c) of this rider, the Company shall calculate the RA component using the following formula:

RA = (ActNetQIP x PTR) + ActNetDep – ActSav - ActICRRev + RApy + Opy

Where:

RA = Company-determined reconciliation component.

ActNetQIP = The average actual cost of the investment in QIP for the reconciliation year net of the Actual Allocated QIP Baseline, less actual accumulated depreciation of QIP for the reconciliation year. The average actual cost of the investment in QIP, net of the Actual Allocated QIP Baseline and depreciation, shall be computed by using an average of year end balances of QIP, net of the Actual Allocated QIP Baseline and accumulated depreciation for December 31 of the year preceding the reconciliation year and December 31 of the reconciliation year. For the purposes of this rider, the actual cost of the investment in QIP for Accounts 381 and 383 in any

Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1, 2, 4 and 8

Section H - Annual Reconciliation – continued

** reconciliation year shall equal the average actual cost of the total investment for each Account for the reconciliation year net of the Actual Allocated QIP Baseline less actual accumulated depreciation, all multiplied times the actual QIP Percent. The actual QIP Percent will be determined separately for Accounts 381 and 383 by dividing the actual number of units installed during the reconciliation year under the Company's main replacement program by the total number of units purchased during the reconciliation year. The Company will submit data to the Commission with its filing which supports the determination of the actual QIP Percent.

The Actual Allocated QIP Baseline shall be the amount defined in Section B of this rider, as allocated based upon the actual dollar amount of QIP plant additions under each respective account described in Section D of this rider in the reconciliation year. For Accounts 381 and 383, the Actual Allocated QIP Baseline shall be based on the actual amounts adjusted by the actual QIP Percent.

PTR = Pre-tax return as described in Section E (1) of this rider.

ActNetDep = Actual depreciation expense related to the average investment in each category of QIP for the reconciliation year. Depreciation expense shall be calculated monthly by multiplying the actual investment in QIP by plant account by the approved depreciation rates, including removal and salvage, to the beginning and ending month average QIP and related retirements, net of the Actual Allocated QIP Baseline and related retirements, for the respective accounts as described in Section D of this rider. For Accounts 381 and 383, Depreciation Expense shall be applied to the QIP adjusted for its respective QIP Percent.

ActSav = Actual savings, which is determined as $6,000.00 times the actual number of miles of cast iron and ductile iron main abandoned in the reconciliation year. The Company shall update ActSav no less than every three years. The first such update shall be required in the Company's third annual reconciliation proceeding.

ActICRRev = Actual ICR revenues billed during the reconciliation year through the ICR Charge.

RApy = The RA component from the previous reconciliation year.

Opy = The sum of the O component and the calculated interest attributable to the O component included in the calculation of the ICR Charge Percentage during the previous reconciliation year.

(d) If the QIP Costs did not exceed the QIP Baseline and an ICR Charge Percentage was computed for the reconciliation year as described under Section F(d) of this rider, the Company shall calculate the RA component using the following formula:

RA = ICRRev - ActICRRev

Rider ICR

Infrastructure Cost Recovery

Applicable to Service Classification Nos. 1, 2, 4 and 8

Section H - Annual Reconciliation – continued

** Where:

ICRRev = The revenue amount that should have been recovered under the rider during the reconciliation year. ICRRev shall be determined by multiplying the ICR Charge Percentage effective during the reconciliation year times the BRR used in the determination of such ICR Charge Percentage under Section F of this rider.

ActICRRev = Actual ICR revenues billed during the reconciliation year through the ICR Charge.

*** Section I – Annual Internal Audit**

The Company shall submit annually to the Manager of the Accounting Department of the Commission's Financial Analysis Division, no later than September 1, an internal audit report that determines whether the ICR Charge and information provided in Section H have been calculated in accordance with this rider. The initial internal audit under this rider shall be submitted no later than September 1, 2012. All internal audits conducted under this rider shall include at least the following tests:

(1) A test that costs recovered through Rider ICR are not recovered through other approved tariffs;
(2) A test of customer bills to confirm that all Rider ICR Adjustments are being properly billed to customers in the correct time periods;
(3) A test that Rider ICR revenues are properly stated;
(4) A test that actual costs are being identified and recorded properly to be reflected in the calculation of the ICR Charge Percentage and the annual reconciliation completed under this rider; and
(5) A test to verify that the QIP Baseline was calculated and applied correctly to the ICR Charge Percentage.

Notwithstanding the foregoing, if this rider is to be or has been remanded by any Court of competent jurisdiction to the Commission for further proceedings, in lieu of the audit requirement in this Section I, the Company shall submit an audit, if any, in a manner ordered by the Commission's final order on remand.

Section J - Independent Audit

The Company shall submit each five years to the Manager of the Accounting Department of the Commission's Financial Analysis Division and to the Commission an independent audit of the Company's infrastructure replacement plan, which audit shall include a review of the number of miles of cast iron and ductile iron main replaced and the infrastructure installed to support such replacement each year during the audit period. The first such independent audit shall be due no later than September 1, 2016.