

Illinois American Water Company  
 Incentive Compensation Adjustment  
 For the Test Year Ending September 30, 2013  
 (In Dollars)

Line No.	Description (a)	Zone 1 (b)	Chicago Metro Water (c)	Chicago Metro Waste Water (d)	Pekin (e)	Lincoln (f)
1	Additional Incentive Pay per Company	\$103,558	\$21,403	\$1,741	\$4,634	\$2,598
2	Additional Incentive Pay per Staff	-	-	-	-	-
3	Staff Proposed Adjustments to Labor Expense	<u>(\$103,558)</u>	<u>(\$21,403)</u>	<u>(\$1,741)</u>	<u>(\$4,634)</u>	<u>(\$2,598)</u>

(1) Source: Company Response to Staff Data Request DLH-1.22

Illinois American Water Company  
 Pension Asset Adjustment  
 For the Test Year Ending September 30, 2013  
 (In Dollars)

Line No.	Description (a)	Zone 1 (b)	Chicago Metro Water (c)	Chicago Metro Waste Water (d)	Pekin (e)	Lincoln (f)
1	Pension Asset per Company (1)	\$8,134,971	\$1,681,283	\$136,775	\$364,033	\$204,111
2	Pension Asset per Staff	-	-	-	-	-
3	Staff Proposed Adjustments to Rate Base	<u>(\$8,134,971)</u>	<u>(\$1,681,283)</u>	<u>(\$136,775)</u>	<u>(\$364,033)</u>	<u>(\$204,111)</u>
4	ADIT related to Pension Asset per Company (2)	(\$1,299,307)	(\$326,991)	(\$221,743)	(\$48,516)	(\$34,106)
5	ADIT related to Pension Asset per Staff	-	-	-	-	-
6	Staff Proposed Adjustments to ADIT	<u>\$1,299,307</u>	<u>\$326,991</u>	<u>\$221,743</u>	<u>\$48,516</u>	<u>\$34,106</u>
7	Net Staff Proposed Adjustments to Rate Base	<u>(\$6,835,664)</u>	<u>(\$1,354,292)</u>	<u>\$84,968</u>	<u>(\$315,517)</u>	<u>(\$170,005)</u>

Sources:

(1) Company Schedule B-2.2

(2) Company Revised Response to DLH-18.02

Illinois American Water Company  
 Business Transformation Costs Adjustment  
 For the Test Year Ending September 30, 2013  
 (In Dollars)

Line No.	Description (a)	Zone 1 (b)	Chicago Metro Water (c)	Chicago Metro Waste Water (d)	Pekin (e)	Lincoln (f)
1	Additional Business Transformation Costs per Company	\$70,248	\$10,612	\$4,152	\$4,711	\$1,925
2	Additional Business Transformation Costs per Staff	-	-	-	-	-
3	Staff Proposed Adjustments to Operating Expense	<u>(\$70,248)</u>	<u>(\$10,612)</u>	<u>(\$4,152)</u>	<u>(\$4,711)</u>	<u>(\$1,925)</u>

(1) Source: Sch. 2.03, p. 2, line 5

Illinois American Water Company  
 Business Transformation Costs Adjustment  
 For the Test Year Ending September 30, 2013  
 (In Dollars)

**\*\*PUBLIC VERSION\*\***

Line No.	Description (a)	Zone 1 (b)	Chicago Metro Water (c)	Chicago Metro Waste Water (d)	Pekin (e)	Lincoln (f)
1	BT Cost Savings (1)					
2	Hardware Lease Costs Outside of Test Year (2)	\$47,567	\$5,846	\$4,152	\$3,190	\$1,303
3	Non-Regulated Costs-myCareer Solutions (3)					
4	Non-Regulated Customer Relationship and Billing (4)					
5	Total BT Operating Expense Adjustments	<u>\$70,248</u>	<u>\$10,612</u>	<u>\$4,152</u>	<u>\$4,711</u>	<u>\$1,925</u>

Sources:

- (1) Placeholder for Company update
- (2) Co. Resp. to AG-4.1, using allocation factors from DLH-1.02
- (3) Co. Resp. to DLH-19.02
- (4) Co. Resp. to DLH-19.02 at 100% rather than 50%

**ILLINOIS-AMERICAN WATER COMPANY**  
**RESPONSE TO ILLINOIS COMMERCE COMMISSION**  
**DATA REQUEST NUMBER DLH-15.01**

Witness Responsible:	<u>Scott Rungren</u>
Title:	<u>Financial Analyst III</u>
Phone No.:	<u>(314) 996-2454</u>
Date Received:	<u>December 29, 2011</u>
Docket No.:	<u>11-0767</u>

**DLH-15.01**

Referring to the Company's Ex. 6.0, p. 5, lines 100-106, please explain specifically the source of the funds used to fund "more into its pension plans under the ERISA requirements than the amount IAWC is collecting in rates under SFAS 87." Please provide all supporting documents, calculations, and workpapers. To the extent applicable, all documents and workpapers should be provided in Excel format with working formulas.

**RESPONSE**

To the extent that the Company is funding an amount greater than that which it is recovering through rates, all else equal, the source of the funds to fund that difference will be in the form of reduced earnings available to its shareholders.

**Date Response Provided:** January 23, 2012

**ILLINOIS-AMERICAN WATER COMPANY**  
**RESPONSE TO ILLINOIS COMMERCE COMMISSION**  
**DATA REQUEST NUMBER DLH-16.02**

Witness Responsible:	<u>Rich Kerckhove</u>
Title:	<u>Manager, Rates and Regulation</u>
Phone No.:	<u>(314) 996-2366</u>
Date Received:	<u>December 30, 2011</u>
Docket No.:	<u>11-0767</u>

**DLH-16.02**

Referring to the Company's Ex. 6.0, p. 5, lines 100-106:

- a) Please state whether the source of the funds used to fund "more into its pension plans under the ERISA requirements than the amount IAWC is collecting in rates under SFAS 87" were internally or externally generated.
- b) Please state which company made the contributions i) reflected in the Company's workpaper WPB-2.2a and ii) in the Company's response to Staff DR DGK-1.02, workpaper 2012-2016 pension contributions projection 2.21.xlsx for the AWW Service Company.
- c) Please provide all supporting documents, calculations, and workpapers for this DR. To the extent applicable, all documents and workpapers should be provided in Excel format with working formulas.

**RESPONSE**

- a) Please see the Company's response to ICC Staff Data Request DLH-15.01.
- b) Please see the Company's response to ICC Staff Data Request DLH-14.06. The pension contributions reflected in Company workpaper WPB-2.2a are, or will be, provided by IAWC. The funding source for the AWW Service Company pension contributions reflected in the Company's response to Staff DR DGK-1.02, workpaper 2012-2016 pension contributions projection 2.21.xlsx, are, or will be, provided by the AWW Service Company. The AWW Service Company recovers its pension expense through overhead charges, which are included in the cost for Business Support Services provided to, and reimbursed by American Water Company's operating subsidiaries, including IAWC.
- c) Please see response to a) and b).

**Date Response Provided:** January 23, 2012

**ILLINOIS-AMERICAN WATER COMPANY**  
**REVISED RESPONSE TO ILLINOIS COMMERCE COMMISSION**  
**DATA REQUEST NUMBER DLH-15.02**

Witness Responsible:	<u>Andrew Twadelle</u>
Title:	<u>Vice President of Business Transformation</u>
Phone No.:	<u>(856) 568-5875</u>
Date Received:	<u>December 29, 2011</u>
Docket No.:	<u>11-0767</u>

**DLH-15.02**

Ill. Adm. 83 Part 285.3215 Schedule C-22 (“Schedule C-22”) requires the Company to provide information concerning any cost savings program that is anticipated to result in annual jurisdictional savings in excess of the lesser of \$1,000,000 or .1% of operations and maintenance (“O&M”) expenses in the year preceding the initiation of the program and whose initial costs are sought to be recovered in the test year. Using the Total Company Schedule C-4 at September 2012, this threshold computes to \$171,577, or .1% of \$171,576,988 (sum of lines 2, 3 and 4)

The Company’s response to Staff Data Request (“DR”) DLH-12.02, confidential Attachment 1, p. 14, reflects XXXX REDACTED XXXX.

The Company’s response to Staff DR DLH-12.01, confidential Attachment 1, p. 8, reflects XXXX REDACTED XXXXX. Similar figures are reflected on p. 63 of the attachment.

Finally, pp. 49-50 of the same attachment reflects XXXXX REDACTED XXXXX. These dates agree with the Company’s testimony at Ex. 9.00, p. 12, lines 266-268.

- a) Given the aforementioned disclosures concerning projected cost savings due to the BT program, the requirements of Schedule C-22, and the fact that the Company is projecting full implementation of all three subsystems of the BT program in its revenue requirement calculations, please explain further why “only after the alignment of future roles and future processes is understood, can we evaluate how those roles are staffed relative to the organization’s geographic footprint and positions” and the position that IAWC has not included cost savings due to the implementation of the BT project in the Company’s schedules. (Company response to Staff DR DLH-6.03).
- b) Is it the Company’s position that implementation of the BT program in Illinois will result in less than \$171,577 in cost savings on a total Company basis? If no, fully explain why Schedule C-22 was not provided originally and provide the schedules for all rate zones. If the Company objects, fully explain the basis of the Company’s objection.

## **REVISED RESPONSE**

- a) As the responses to the data requests cited above indicate, the Service Company does not anticipate savings from the BT program prior to 2014. Because the Service Company is still unable to confirm the amount of potential savings that may be realized from the BT program, is unable to specifically identify how potential savings will be attained (as discussed in the Company's response to data request DLH-6.03), and because the projected savings will not occur until subsequent to IAWC's test year, it would not be appropriate to reflect such Service Company savings in the Company's revenue requirement calculations. To the extent that the deployment of the new Business Transformation systems produces productivity savings, they will manifest themselves as the new solutions are fully implemented. Further, as discussed below in response to subpart b, III. Adm. 83 Part 285.3215 Schedule C-22, is not applicable to the BT program.

As part of its ongoing efforts to control costs and mitigate rate increases for customers, however, IAWC recently determined that it will be able to achieve certain reductions in test year levels of utility O&M expense through organizational changes made in anticipation of the implementation of BT solutions. IAWC intends to reflect such reductions in the update filing made in accordance with the schedule in this case.

- b) No. As indicated above, IAWC now anticipates some test year O&M expense reductions related to the implementation of BT, and those reductions will be reflected in the Company's update filing. To the extent IAWC's projected O&M costs savings constitute a "cost savings program." IAWC will submit a Schedule C-22 as appropriate at the time of the update. With respect to IAWC's initial Part 285 filing, the BT program is not a "cost savings program" per se. Rather, as explained by Mr. Twadelle, the primary purpose of the BT program is to replace legacy systems near the end of their useful lives; promote operating excellence, efficiency and economies of scale; enhance the customer experience; and increase employee effectiveness and satisfaction. (See IAWC Ex. 9.00, Twadelle Direct, p. 2.) Therefore, a C-22 schedule was not provided in the initial filing.

**Date Response Provided:** January 24, 2012

**CLASSIFICATION OF SERVICE**  
**REVENUE ADJUSTMENT CLAUSE (RAC) RIDER**

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**Applicable to all Metered Customers**

All metered water customer accounts will be subject to an automatic revenue adjustment by way of a surcharge, or credit, based on the difference between the actual net revenues (actual operating water revenues less production costs based on the previous Commission Order) and the net water revenue target (Target Level) as authorized in the most recent rate case. The percentage difference is then surcharged (or credited) and recovered (or refunded) on the customer's bill over a twelve month period. In this tariff rider, target levels for revenues and production costs were set in the previous Commission Order and will be carried forward and used for all future RAC calculations until new target levels are set in the next rate case proceeding.

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The surcharge/credit for each year ending twelve calendar months after the anniversary date of the Order ("Revenue Period") is calculated as follows:

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The actual net revenue for the Revenue Period is compared to the Target Level set forth above. The difference will result in a percentage that will be applied as a surcharge/credit to a customer's water bill portion for the succeeding twelve months.

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The percentage to be surcharged/refunded to customers derived from the calculation described above, during the ensuing year ending twelve months from the Order anniversary date is computed as follows:

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Section A-Definitions and Determination of SC %

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~~Production costs include fuel and power, chemicals, and waste disposal expense not recovered through a sewer surcharge.~~

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~~SC% = Surcharge/Credit % =  $SC\% = (TR / AR) - 1$~~

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~~PC = Production Cost / 1,000 Gallons = Per Order Production Cost / Per Order Water Sales (TG) = PC~~

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Production Cost shall include only the following ICC Accounts: 615, Purchased Power; 616, Fuel for Power Production; and 618, Chemicals, and the portion of 675, Miscellaneous Expense attributable to waste disposal.

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~~TR = Target Revenues, net of Production Costs per Order = TR~~

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~~AR = Actual Revenues, net of Production Costs (PC times actual revenue period sales) = AR~~

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Actual Revenues shall include only the following ICC Accounts: 461.1, Residential; 461.2, Commercial; 461.3, Industrial; 461.4, Other Public Authority; 466, Sales for Resale. AR shall exclude revenues received for the sales of purchased water and for revenue earned under the Qualifying Infrastructure Plant Surcharge Rider (QIP) surcharge.

TA = Target Amount to be recovered = TA

~~$SC\% = (TR / AR) - 1$~~

TA = TR - AR

The SC% will be applied as an addition to each metered customer's water bill for a period of one year. The initiation of the SC% will be effective upon the filing of an information sheet on or before the 20<sup>th</sup> day of the second month following the first twelve-month period following the implementation of new base rates resulting from a proceeding for the determination of new base rates and annually thereafter. The initial filing shall be made November 20, 2013 and will be placed into effect December 1, 2013, no later than 60 days after the end of The twelve month period being measured in the first SC% calculation shall be October 1, 2012 through September 30, 2013. The Company shall file any corrections from a timely filed information sheet on or before December 1, 2013 for its first informational filing or December 1 annually thereafter. Any filing after that date will be accepted only if submitted as a special permission request under the provisions of Section 9-201 (a) of the Public Utilities Act [220 ILCS 5/9-201 (a)].

The company will track the amount of actual RAC revenues collected with the SC% during the year a SC% is in effect, and if the SC% results in revenue collected above the target amount (TA) to be recovered, the over collected amount, (Reconciliation Adjustment), will be refunded to customers as described in Section B. in the earliest month, as administratively practical, of the following quarter.

The SC% will be capped and will not exceed 5% nor will it be less than -5% in any recovery period. SC% amounts greater than 5% and less than -5% shall be excluded from future recovery or refund.

#### Section B Reports and Reconciliations

The Company shall file with the Commission annually, beginning no later than the 15<sup>th</sup> day of the third month following the year a SC% is in effect, a statement of the Reconciliation Adjustment based upon the actual RAC revenues collected or credited during the twelve months the SC% was in effect. The first Reconciliation Adjustment therefore is based on the twelve months ending November 30, 2014, and the statement of Reconciliation Adjustment shall be filed with the Commission no later than February 15, 2015. The Reconciliation Adjustment, if resulting in a refund, shall be refunded in rates effective March 1 annually. If the Reconciliation Adjustment results in SC% revenue collected below the Target Amount (TA), such amounts shall be forfeited by the Company and not recovered from ratepayers.

At this same time the Company files its statement of the Reconciliation Adjustment, the Company shall also submit a report which provides the Company's rate of return with and without the effect of Rider RAC. Further, at this same time, the Company shall also file a petition and testimony with the Commission seeking initiation of an annual reconciliation to determine the accuracy of the statement. The reconciling amount from such proceeding (Factor O) plus interest shall be recovered or refunded in the manner determined by the Commission in the annual reconciliation proceeding.

#### Section C Audit

The Company shall annually conduct an internal audit of the distribution revenue requirements recovered or refunded pursuant to this rider. The internal audit shall determine if: 1) the actual amount of revenues that exceed or fall short of any approved Target Revenue (TA) collected through base rate distribution charges are correctly reflected in the calculations; 2) the revenues are not collected through other approved tariffs; 3) Rider RAC adjustments are being properly billed to customers; and 4) Rider RAC revenues are recorded in the appropriate accounts. The above list of determinations does not limit the scope of the audit. The Company shall submit the audit report to the Commission's Manager of the Accounting Department, no later than May 1 of each year. Such report shall be verified by an officer of the Company.

#### Section D Compliance Filing

The Company shall submit as a public document, in any rate case compliance filing, the per Order Production Cost, per Order Water Sales, and Target Revenues for each district arising from the approved revenue requirement in the rate case.