

FINANCIAL ANALYSIS DIVISION STAFF REPORT

June 5, 2001

SUBJECT: Staff recommends that the Commission initiate a rulemaking to adopt 83 Ill. Adm. Code 656, "Qualifying Infrastructure Plant Surcharge."

Background

On August 20, 1999, Governor Ryan signed into law P.A. 91-0638, which added Section 9-220.2 to the Public Utilities Act. Section 9-220.2 authorizes water and sewer utilities to impose surcharges for the cost of purchased water, the cost of purchased sewage treatment, other costs difficult to predict, and infrastructure costs, independent of the utilities' revenue requirements. The proposed Part 656 addresses a surcharge to recover a return on, and depreciation expense related to, a utility's investment in qualifying infrastructure plant ("QIP"). The proposed Part 656 is attached to this Staff Report.

At the Bench Session held on April 11, 2000, Staff informed the Commission that it will propose two rules: a rule to address surcharges for purchased water and sewage treatment and a second rule to address QIP costs.¹ The Commission indicated its agreement with Staff's plan.

Summary of Industry Workshops

Staff conducted three workshops to address the QIP surcharge rule. Staff held workshops on June 2, 2000, July 11, 2000, and March 28, 2001. One or more of the workshops were attended by Citizens Utility Company of Illinois, Consumers Water Company, Illinois-American Water Company, the Illinois Chapter of the National Association of Water Companies, and the Illinois Industrial Water Consumers. Throughout the workshop process and since the last workshop, the workshop participants have provided recommendations and suggestions to the proposed Part 656.

Code Part 656 is Ready for Rulemaking

Staff and the workshop participants identified, thoroughly discussed, and resolved the various issues of contention relating to Part 656. No issues remain in dispute. The Illinois Industrial Water Consumers stated that it would not oppose the proposed Part 656. The utility companies through the counsel of the Illinois Chapter of the National Association of Water Companies have "signed off" on the proposed Part 656.

¹ The proposed purchased water and sewage treatment rule, Part 655, is the subject of Docket No. 01-0282.

ILLINOIS
COMMERCE COMMISSION
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Staff believes that the attached proposed Part 656 is ready for a rulemaking proceeding.

Synopsis of Staff Proposed Part 656

Section 656.10, "Applicability," explains that the QIP surcharge shall be applied to bills of customers of water/sewer utilities in the applicable rate zone for which the utility has a QIP surcharge rider on file with the Commission.

Section 656.20, "Definitions," presents the definitions used in Part 656.

Section 656.30, "General Requirements," sets a 5% cap on the QIP surcharge, describes the integration of the QIP surcharge with rate proceedings, and provides notice requirements and other requirements.

Section 656.40, "Qualifying Infrastructure Plant," describes and limits the types of plant additions that qualify as QIP.

Section 656.50, "Recoverable Qualifying Infrastructure Plant Costs," describes the costs recoverable by the QIP surcharge: the pre-tax return and net depreciation expense.

Section 656.60, "Determination of the Qualifying Infrastructure Plant Surcharge Percentage," describes the calculation of the QIP surcharge percentages for annual prospective operation and quarterly historical operation.

Section 656.70, "Rider and Information Sheet Filings," describes filing requirements for the rider and information sheets.

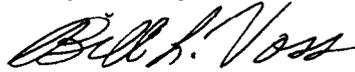
Section 656.80, "Annual Reconciliation," addresses the annual reconciliation process and directs a utility to file a petition seeking approval of the reconciliation when the utility files its annual reconciliation. This Section describes the calculation of the utility-determined reconciliation component and identifies the items that shall be provided when a utility files its annual reconciliation and additional items that shall be provided to the Commission's Manager of the Water Department and to the Commission's Manager of the Accounting Department.

Section 656.90, "Application for Qualifying Infrastructure Plant Surcharge Rider," describes the necessary testimony and exhibits required to implement the QIP Surcharge Rider.

Recommendation

For the reasons set forth above, the Financial Analysis Division recommends that the Commission initiate a rulemaking proceeding to adopt 83 Ill. Adm. Code 656, "Qualifying Infrastructure Plant Surcharge."

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TITLE 83: PUBLIC UTILITIES
CHAPTER I: ILLINOIS COMMERCE COMMISSION
SUBCHAPTER e: WATER AND SEWER UTILITIES

PART 656
QUALIFYING INFRASTRUCTURE PLANT SURCHARGE

Section	
656.10	Applicability
656.20	Definitions
656.30	General Requirements
656.40	Qualifying Infrastructure Plant
656.50	Recoverable Qualifying Infrastructure Plant Costs
656.60	Determination of the Qualifying Infrastructure Plant Surcharge Percentage
656.70	Rider and Information Sheet Filings
656.80	Annual Reconciliation
656.90	Application for Qualifying Infrastructure Plant Surcharge Rider

AUTHORITY: Implementing Section 9-220.2 and authorized by Section 10-101 of the Public Utilities Act [220 ILCS 5/9-220.2 and 10-101].

SOURCE: Adopted at ___ Ill. Reg. _____, effective _____.

Section 656.10 Applicability

- a) The qualifying infrastructure plant surcharge (QIP surcharge) shall be applied to water/sewer bills of customers of water/sewer utilities in the rate zone where qualifying infrastructure plant (QIP) is installed by utilities having an effective QIP surcharge rider and information sheet in effect and on file with the Illinois Commerce Commission (Commission).
- b) The purpose of the QIP surcharge is to recover a return on, and depreciation expense related to, the utility's investment in QIP as described in Section 656.40 of this Part. The QIP surcharge rider is authorized by Section 9-220.2 of the Public Utilities Act [220 ILCS 5/9-220.2].
- c) Each QIP surcharge percentage shall be determined in accordance with Section 656.60 of this Part.

Section 656.20 Definitions

"Act" means the Public Utilities Act [220 ILCS 5].

“Information sheet” means a tariff sheet filed in accordance with this Part to initiate or modify a QIP surcharge percentage.

“Operation year” means the calendar year (or portion thereof) during which a QIP Surcharge Percentage is applied to customer bills.

“QIP surcharge percentage” is the percentage determined in accordance with Section 656.60 of this Part for filing in an information sheet.

“QIP-related costs” or “QIP costs” mean costs that are recoverable through the QIP surcharge percentage as determined in accordance with Sections 656.50 and 656.60 of this Part.

“Qualifying infrastructure plant surcharge” or “QIP surcharge” means the amount added to a customer bill when the QIP surcharge percentage is applied in accordance with Section 656.60(a) of this Part.

“Qualifying infrastructure plant” means certain non-revenue producing eligible plant that is not reflected in the rate base used to establish the utility's base rates and is consistent with the terms of Section 656.40 of this Part. Non-revenue producing plant is plant that is not constructed or installed for the purpose of serving a new customer.

“Rate zone” means the entire service area to which a particular base rate applies but does not include areas that have different base rates even though such areas may be served by the utility.

“Reconciliation year” means the calendar year period for which actual QIP costs and revenues associated with the QIP surcharge are to be reconciled.

“Test year” means the test year period used by the utility in its last rate case as defined in 83 Ill. Adm. Code 285.150.

Section 656.30 General Requirements

- a) The QIP surcharge shall be capped at 5% of the base rates billed to customers. The QIP surcharge shall not be applied to any add-on taxes, to any revenues attributable to the Purchased Water and Sewage Treatment Surcharges developed pursuant to 83 Ill. Adm. Code 655, or to any other revenues not recorded in a Water Operating Revenue Account under 83 Ill. Adm. Code 605 or in a Sewer Operating Revenue Account under 83 Ill. Adm. Code 650.

- b) On the effective date of new base rates that provide for the recovery of the costs that had previously been recovered under the QIP surcharge rider, the QIP surcharge percentage for the applicable rate zone shall be reset to zero.
- c) A utility shall provide notice as required by Section 9-201(a) of the Act [220 ILCS 5/9-201(a)] after the filing of each information sheet. An explanation of the QIP surcharge shall be stated on or included with the initial billing of a QIP surcharge. The utility also shall post notice of such filing in accordance with the requirements of 83 Ill. Adm. Code 255. Unless filed as part of a general rate increase, notice of the filing of a QIP surcharge rider also shall be given in the manner required by this subsection for the filing of information sheets. No other notice of the filing of an information sheet or QIP surcharge rider shall be required, except as may be provided by law or by Order of the Commission.
- d) The QIP surcharge shall be presented as a separate line item on customer bills.
- e) The revenues resulting from each QIP surcharge rider shall be recorded in a separate revenue subaccount for each rate zone.

Section 656.40 Qualifying Infrastructure Plant

- a) To be classified as QIP, the plant additions must meet the following criteria:
 - 1) The plant additions must be replacements of existing plant items from the accounts listed in subsections (b) and (c) below;
 - 2) Such replacements must be non-revenue producing;
 - 3) Such replacements are installed to replace facilities that are worn out or in deteriorated condition;
 - 4) Such replacements are installed after the conclusion of the test year in the utility's latest rate case; and
 - 5) Such replacements were not included in the calculation of the rate base in the utility's last rate case.
- b) For water utilities, the plant additions shall include items from the following accounts pursuant to 83 Ill. Adm. Code 605:
 - 1) Account 331, Transmission and Distribution Mains;

- 2) Account 333, Services;
 - 3) Account 334, Meters and Meter Installations; and
 - 4) Account 335, Hydrants.
- c) For sewer utilities, the plant additions shall include items from the following accounts pursuant to 83 Ill. Adm. Code 650:
- 1) Account 360, Collecting Sewers - Force;
 - 2) Account 361, Collecting Sewers - Gravity (including costs associated with manholes); and
 - 3) Account 363, Services to Customers.
- d) In addition to replacements, qualifying mains (Account 331 for water utilities) shall also include main extensions to eliminate dead ends. Additionally, the unreimbursed costs associated with relocations of mains, services, hydrants, and sewers occasioned by street or highway construction shall be included in the appropriate accounts.
- e) QIP shall include only plant additions installed on or after January 1 of the year in which the utility files its initial QIP surcharge rider in accordance with Sections 656.70 and 656.90 of this Part.

Section 656.50 Recoverable Qualifying Infrastructure Plant Costs

- a) QIP costs shall include the pre-tax return on QIP and the net depreciation expense applicable to QIP.
- 1) The pre-tax return is calculated using the weighted cost of debt and weighted cost of equity determined in the utility's last rate case. The weighted cost of equity is multiplied by the gross revenue conversion factor (GRCF). The product is then added to the weighted cost of debt to obtain the pre-tax return. The pre-tax return is calculated using the following formulas:

$$\text{GRCF} = \frac{1}{(1 - \text{PPRT})(1 - \text{SIT})(1 - \text{FIT})}$$

$$\text{PTR} = ((\text{WCCE} + \text{WCPE}) \times \text{GRCF}) + \text{WCLTD} + \text{WCSTD}$$

Where:

- GRCF = Gross Revenue Conversion Factor.
- PPRT = Illinois personal property replacement tax rate in effect at the time of the initial, annual, or quarterly filing.
- SIT = Illinois state income tax rate in effect at the time of the initial, annual, or quarterly filing.
- FIT = Federal income tax rate in effect at the time of the initial, annual, or quarterly filing.
- PTR = Pre-tax return.
- WCCE = Weighted cost of common equity from the utility's last rate case.
- WCPE = Weighted cost of preferred equity from the utility's last rate case.
- WCLTD = Weighted cost of long-term debt from the utility's last rate case.
- WCSTD = Weighted cost of short-term debt from the utility's last rate case.

- 2) Net depreciation expense shall be calculated by applying the utility's approved depreciation rate to each category of QIP. The depreciation expense for QIP shall be reduced by the depreciation expense on the plant being replaced.

Section 656.60 Determination of the Qualifying Infrastructure Plant Surcharge Percentage

- a) The QIP surcharge percentage shall be expressed as a percentage carried to two decimal places. The QIP surcharge percentage shall be applied to the total amount billed to each customer located in the same rate zone based on the utility's otherwise applicable rates and charges. The QIP surcharge percentage shall not be applied to the exclusions listed in Section 656.30(a) of this Part.
- b) In calculating the QIP surcharge percentage, the utility may choose either annual prospective operation or quarterly historical operation based on QIP investment data for a prior three-month period. Annual prospective

operation may be selected only if the utility's immediately preceding rate case utilized a future test year as defined in 83 Ill. Adm. Code 285 and the utility submits the information required by Section 656.70(d)(6) of this Part.

1) Annual Prospective Operation

Utilities choosing annual prospective operation shall determine the QIP surcharge percentage for the operation year using the following formula:

$$S\% = \frac{(\text{NetQIP} \times \text{PTR}) + \text{NetDep} + (\text{R} \times 1.33) + ((\text{O} + \text{INT}) \times \text{Om})}{\text{PAR}} \times 100\%$$

Where:

S% = QIP surcharge percentage.

NetQIP = The average forecasted cost of the investment in QIP for the rate zone for the operation year less forecasted accumulated depreciation in QIP for the rate zone for the operation year. The average forecasted cost of QIP, net of depreciation, shall be computed by using an average of thirteen end-of-month balances of QIP and accumulated depreciation for the period from December 31 of the year preceding the operation year through December 31 of the operation year.

PTR = Pre-tax return as described in Section 656.50(a)(1) of this Part.

NetDep = Net depreciation expense related to the average investment in QIP for the rate zone for the operation year. Depreciation expense shall be calculated by multiplying the forecasted investment in QIP by plant account, net of retirements, by the approved depreciation rates for the respective accounts in which the specific items included in the average QIP investment are recorded.

R = Utility-determined reconciliation component (R component) calculated for the reconciliation year under the reconciliation feature as described in Section 656.80(d) of this Part. The reconciliation component

shall be collected over nine months from April through December.

O = The Commission-ordered adjustment component (O component).

INT = The calculated interest attributable to the O component. This interest shall be calculated as described in Section 656.80 (i) of this Part.

Om = The Commission-ordered O component multiplier is a timing factor applied to the O component and the INT to allow for the collection of the O component and the INT over the remainder of the operation year. For example, if the O component and the INT were included in the QIP surcharge percentage on January 1, the Om would be 1.00. Similarly, if the O component and the INT were included in the QIP surcharge percentage on April 1, the Om would be 1.33.

PAR = The projection of total water or sewer operating revenues, as applicable, for the rate zone for the period from January 1 through December 31. The projected revenue shall not include the exclusions listed in Section 656.30(a) of this Part.

2) Quarterly Historical Operation

Utilities choosing quarterly historical operation shall determine the QIP surcharge percentage for the quarter using the following formula:

$$S\% = \frac{(\text{NetQIP} \times \text{PTR} \times .25) + \text{NetQDep} + (\text{R} \times .33) + ((\text{O} + \text{INT}) \times \text{Om})}{\text{PQR}} \times 100\%$$

Where:

S% = QIP surcharge percentage.

NetQIP = Original cost of QIP less accumulated depreciation for the rate zone. NetQIP shall be the level of investment in QIP existing at the end of the calendar month preceding the month in which an information sheet is filed.

- PTR = Pre-tax return as described in Section 656.50(a)(1) of this Part.
- NetQDep = Net Quarterly depreciation expense applicable to NetQIP less the quarterly depreciation applicable to plant being retired.
- R = Utility-determined reconciliation component calculated for the reconciliation year under the reconciliation feature as described in Section 656.80(d) of this Part. The reconciliation component shall be collected over nine months from April through December. No reconciliation component amount shall be included for the January through March quarter.
- O = Commission-ordered adjustment component.
- INT = The calculated interest attributable to the O component. This interest shall be calculated as described in Section 656.80(i) of this Part.
- Om = The Commission-ordered O component multiplier is a timing factor applied to the O component and the INT to allow for the collection of the O component and the INT over the remainder of the operation year. For example, if the O component and the INT were included in the QIP surcharge percentage on January 1, the Om would be 0.25. Similarly, if the O component and the INT were included in the QIP surcharge percentage on April 1, the Om would be 0.33.
- PQR = Projected quarterly water or sewer operating revenues for the rate zone during the calendar quarter when the QIP surcharge percentage shall be in effect. The projected quarterly revenue shall not include the exclusions listed in Section 656.30(a) of this Part.

Section 656.70 Rider and Information Sheet Filings

- a) A utility shall file a proposed QIP surcharge rider consistent with this Part pursuant to Section 9-201 of the Act. After a QIP surcharge rider is in effect, the QIP surcharge percentage shall be filed on an information sheet with supporting data no later than the 20th day of the month preceding the

effective date of the QIP surcharge percentage. An information sheet with supporting data filed after that date, but prior to the effective date, shall be accepted only if it corrects an error or errors from a timely filed information sheet for the same effective date. Any other information sheet with supporting data shall be accepted only if submitted as a special permission request to become effective on less than 45 days notice under the provisions of Section 9-201(a) of the Act.

- b) For utilities electing annual prospective operation, the effective date of a new QIP surcharge percentage is January 1 (and April 1 if the R component is modified). A utility may, at its option, file an information sheet modifying the surcharge percentage, with an effective date of the first day of any month during the operation year, when necessary to recognize a material change in assumptions used in developing the QIP surcharge percentage (including, but not limited to a change in depreciation rates). The utility shall also file an information sheet to implement a Commission-ordered O component.
- c) For utilities electing quarterly historical operation, a new surcharge percentage may become effective on April 1, July 1, October 1, and January 1 (with a new R component becoming effective, if required, on April 1). A utility may elect not to file an information sheet showing an increased QIP surcharge percentage for any quarter provided that the QIP costs that would have been reflected for that quarter in excess of the level reflected in developing the QIP surcharge percentage in effect for the quarter are disregarded in calculating the R component and O component for the affected reconciliation year.
- d) A utility electing annual prospective operation shall provide the following with the filing of each information sheet to become effective on January 1:
 - 1) A calculation of the QIP surcharge percentage, PTR, and GRCF for each rate zone for which a QIP surcharge rider is in effect;
 - 2) A schedule showing for each rate zone for which a QIP surcharge rider is in effect the amount of forecasted expenditures for QIP during the operation year by plant account;
 - 3) A description for each rate zone for which a QIP surcharge rider is in effect of the projects included in each plant account by type of project;
 - 4) A detailed description for each rate zone for which a QIP surcharge rider is in effect of individual QIP projects with a forecasted cost in excess of \$100,000;

- 5) A detailed schedule showing the calculation of depreciation expense for each rate zone for which a QIP surcharge rider is in effect; and
- 6) A statement verified by an officer of the utility that, in the belief of management:
 - A) The forecast used in developing the QIP surcharge percentage was prepared in accordance with the Guidelines for Presentation of Projected Financial Information (April 1, 1999) established by the American Institute of Certified Public Accountants, Inc., 1211 Avenue of the Americas, New York NY 10036-8775; and
 - B) The accounting treatment applied to events and transactions in the forecast is the same as the accounting treatment to be applied in recording the events once they occur.
- e) A utility electing quarterly historical operation shall submit with each information sheet:
 - 1) A calculation of the QIP surcharge percentage, PTR, and GRCF for each rate zone for which a QIP surcharge rider is in effect;
 - 2) A detailed schedule showing for each rate zone for which a QIP surcharge rider is in effect QIP closed to utility plant. This schedule shall provide the following information for each QIP eligible project:
 - A) Plant account number and title;
 - B) Category of project;
 - C) Project name;
 - D) Description of project;
 - E) Work order number;
 - F) Dollar amount in the month of closing; and
 - G) Month and year of closing; and

- 3) A detailed schedule showing the calculation of depreciation expense for each rate zone for which a QIP surcharge rider is in effect.

Section 656.80 Annual Reconciliation

- a) On or before March 15 of each year, a utility that had a QIP surcharge in effect for all or part of the immediately preceding calendar year shall submit to the Commission an annual reconciliation regarding the results for the previous reconciliation year. The annual reconciliation shall be verified by an officer of the utility. As required by this Section, the annual reconciliation shall include a calculation of the R component necessary to adjust revenue collected under the QIP surcharge rider in effect for the rate zone during the reconciliation year to an amount equivalent to the actual level of prudently-incurred QIP cost for the reconciliation year. In the event that the earnings report filed under this Section for the rate zone shows that the utility's actual rate of return has exceeded the level authorized in the utility's last water or sewer general rate proceeding, as applicable, then the R component shall include the credit required by subsections (c) and (d) below. Any adjustment made through the R component shall be in effect for nine months commencing on the April 1 immediately following submittal of the annual reconciliation.
- b) With the annual reconciliation, the utility shall file a petition seeking initiation of the annual reconciliation hearings required by Section 9-220.2 of the Act. After the hearing, the Commission shall determine the amount of the adjustment, if any, that should be made (through the O component) to the level of revenue collected by operation of the QIP surcharge rider during the reconciliation year, so that the amount of such revenue is equal to the actual level of prudently-incurred QIP cost for the reconciliation year (to the extent that such adjustment has not already been reflected through an adjustment made by the utility to the R component of the QIP surcharge percentage).
- c) In the annual reconciliation, the utility shall include for each rate zone in which a QIP surcharge has been in effect data showing operating income and rate base for the reconciliation year, such data being developed in accordance with subsection (f)(4) below. If, for any such rate zone, the actual rate of return on rate base for the reconciliation year exceeds the overall rate of return allowed in the utility's last water or sewer general rate proceeding, revenues collected under the QIP surcharge rider shall be reflected as a credit through the R component of the QIP surcharge to the extent that such revenues contributed to the realization of a rate of return above the last approved level. A credit value for the R component will result in a reduction of the QIP surcharge percentage. To the extent, if

any, that a required adjustment for a reconciliation year has not been already made by the utility (through the R component), the Commission shall require (through the O component) that such an adjustment be made after the annual reconciliation hearing.

- d) Utilities shall calculate the R component using the following formula:

$$R = (\text{ActNetQIP} \times \text{PTR}) + \text{ActNetDep} - \text{QIPRev} + \text{Rpy} + \text{Opy} - \text{EEA}$$

Where:

R = Utility-determined reconciliation component.

ActNetQIP = The average actual cost of the investment in QIP for the rate zone for the reconciliation year less actual accumulated depreciation of QIP for the rate zone for the reconciliation year. The average actual cost of QIP, net of depreciation, shall be computed by using an average of thirteen end-of-month balances of QIP and accumulated depreciation for the period from December 31 of the year preceding the reconciliation year through December 31 of the reconciliation year. (For utilities electing quarterly historical operation, the amount of the ActNetQIP shall be limited by the provisions of Section 656.70(c) of this Part.)

PTR = Pre-tax return as described in Section 656.50(a)(1) of this Part.

ActNetDep = Actual net depreciation expense related to the average investment in QIP for the rate zone for the reconciliation year. Depreciation expense shall be calculated by multiplying the actual investment in QIP by plant account, net of retirements, by the approved depreciation rates for the respective accounts in which the specific items included in the average QIP investment are recorded. (For utilities electing quarterly historical operation, the amount of the ActNetDep shall be limited by the provisions of Section 656.70(c) of this Part.)

QIPRev = Actual QIP revenues collected during the reconciliation year through the QIP.

Rpy = The R component from the previous reconciliation year.

Opy = The sum of the O component and the calculated interest attributable to the O component, or the sum of any O

components and the calculated interest attributable to the O components, included in the calculation of the QIP surcharge percentage during the reconciliation year.

EEA = Excess earnings amount calculated in accordance with subsections (a), (c), and (g)(4) of this Section. There will only be an EEA when the utility's actual rate of return for the reconciliation year exceeds the overall rate of return authorized by the Commission in the utility's last water or sewer rate proceeding.

- e) Any adjustment made by Order of the Commission under subsections (b) or (c) above shall be included in the O component and be in effect for either twelve months or nine months, beginning on the next January 1 (if twelve months) or April 1 (if nine months) following the Order of the Commission, or such other period as the Commission may direct in the Order requiring that an adjustment be made.
- f) Each annual reconciliation shall include the following schedules:
 - 1) A schedule showing for each rate zone for which a QIP surcharge rider was in effect the QIP costs for the reconciliation year;
 - 2) A schedule showing for each rate zone for which a QIP surcharge rider was in effect the revenues arising through the application of the QIP surcharge during the reconciliation year;
 - 3) A schedule showing for each rate zone for which a QIP surcharge rider was in effect the reconciliation component determined by the utility showing the amount to be recovered or refunded over a nine-month period commencing on April 1; and
 - 4) Schedules showing the utility's calculation of actual operating income and thirteen-month average rate base for the reconciliation year by rate zone. This calculation of actual operating income and thirteen-month average rate base shall be adjusted for any applicable adjustments accepted by the Commission in the utility's last rate case. In calculating the amount of federal and state income tax expense reflected in operating income, the utility shall reflect as deductible interest expense for tax purposes the product which results when the weighted embedded cost-of-debt reflected in the overall rate of return calculation used in the utility's last rate proceeding is multiplied by the rate base for the applicable rate zone as shown in the annual reconciliation. In the event that the actual rate of return for any rate zone exceeds the rate of return allowed

in the utility's last water or sewer general rate proceeding, a schedule showing the extent to which revenues provided by operation of the QIP surcharge contributed to the difference between the actual and last-authorized rate of return also shall be provided. The amount of the revenues provided by the QIP surcharge that contributed to the actual rate of return exceeding the overall rate of return authorized by the Commission in the utility's last water or sewer rate proceeding shall be included as a credit in the calculation of the R component.

- g) The first reconciliation year shall begin on the effective date of the first QIP surcharge information sheet and end on December 31 of the calendar year in which the first information sheet became effective. Each subsequent reconciliation year shall end on December 31.
- h) When the utility files its annual reconciliation, the utility shall provide copies of the following items to the Commission's Manager of the Water Department and to the Commission's Manager of the Accounting Department:
 - 1) Copies of all workpapers pertaining to the reconciliation;
 - 2) A detailed summary of all invoices supporting the costs for eligible QIP surcharge projects;
 - 3) Copies of the applicable general ledger or comparable material supporting the recovery of the QIP surcharge;
 - 4) A detailed worksheet showing the calculation of any utility-determined reconciliation component (R component) amount based upon the annual reconciliation; and
 - 5) Information regarding the prudence of the utility's investment in QIP.
- i) Amounts either collected or refunded through the O component shall accrue interest at the rate established by the Commission under 83 Ill. Adm. Code 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 QIP Surcharge.
- j) If, for a rate zone, the annual reconciliation filed by a utility shows that the revenues collected by application of the QIP surcharge rider exceed actual QIP costs for three or more consecutive reconciliation years, the Commission may initiate hearings under Section 9-250 of the Act [220

ILCS 5/9-250] to determine whether the utility's QIP surcharge rider for the rate zone should be canceled.

Section 656.90 Application for Qualifying Infrastructure Plant Surcharge Rider

- a) A utility's filing seeking initial approval of a QIP surcharge rider for a rate zone shall be accompanied with the necessary testimony and exhibits justifying such rider.
- b) Required testimony and exhibits:
 - 1) A water utility shall prepare and provide a history of current replacement rates of qualifying plant, as well as history of failure, by location, for the qualified rate zone. The water utility shall provide 5 years of data by year for the following categories, based upon utility records to the extent that records of such data are available, or based upon estimates if records are not available:
 - A) Transmission and distribution mains including the age, footage, and material;
 - B) Services including the age, footage, and material;
 - C) Meters and meter installations including the age, size, and number; and
 - D) Hydrants including the age, number, and manufacturer.
 - 2) A sewer utility shall prepare and provide a history of current replacement rates of qualifying plant, as well as a history of failure, by location, for the qualified rate zone. The sewer utility shall provide 5 years of data by year for the following categories, based upon utility records to the extent that records of such data are available, or based upon estimates if records are not available:
 - A) Collecting sewers-force including the age, footage, and material;
 - B) Collecting sewers-gravity including the age and number; and
 - C) Services to customers including the age, footage, and material.

- 3) All utilities shall provide the reason for each increase in the rate of replacement and include specific data to justify the replacement rate for each plant account.
- 4) All utilities shall provide its specific plans for future replacements. The utilities shall provide a schedule showing the replacement projects listed by priority. This schedule shall include an explanation and justification for the prioritization.
- 5) All utilities shall provide detailed computations of expected revenue effects of investment in QIP for the shorter of the time period covered by the plans submitted in response to subsection (b)(4) above or five years.
- 6) All utilities proposing to use the annual prospective method shall provide explanations for any changes in the expected rates of investment in QIP for the forecasted period as compared to the historical period.
- 7) All utilities shall provide any other information and data that supports the approval of the proposed QIP surcharge rider.