

**ILLINOIS COMMERCE COMMISSION**

**DOCKET NO. 12-0201**

**EXHIBIT NO. 1.0**

**DIRECT TESTIMONY OF  
RICH KERCKHOVE**

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**ILLINOIS-AMERICAN WATER COMPANY**

**DIRECT TESTIMONY  
OF  
RICH KERCKHOVE**

**I. WITNESS INTRODUCTION**

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

**A.** My name is Rich Kerckhove. My business address is 100 North Water Works Drive, Belleville, Illinois 62223.

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

**A.** I am employed by American Water Works Service Company (“Service Company”) as a Manager, Rates and Regulation. The Service Company is a subsidiary of American Water Works Company, Inc. (“American”) that provides shared services to American’s water utility subsidiaries, including Illinois-American Water Company (“Illinois-American” or “Company”).

**Q. Please describe your background and professional affiliation.**

**A.** I earned a Bachelor of Business Administration degree from the University of Iowa, majoring in Accounting and Insurance. In addition, I earned a Master of Business Administration degree from the University of Minnesota’s Carlson School of Management, with concentrations in Management Information Systems and Finance. I am a Registered Certified Public Accountant in the State of Illinois and I am a member of the American Institute of Certified Public Accountants. My prior financial experience includes five years as a staff accountant in public accounting and five years in accounting and computer operations for community banks. Subsequent to my public accounting and banking experience, I joined the Staff of the Illinois Commerce Commission (“ICC” or “Commission”) where I attained the position of Senior Analyst during my

23 eight years at the Commission. After obtaining my MBA, I served as a Senior  
24 Financial Analyst for defense contractors United Defense LLP (now BAE  
25 Systems Inc.) and Alliant Techsystems, Inc. Prior to joining American Water, I  
26 was employed as a Financial Consultant for Xcel Energy Inc., responsible for the  
27 compilation of the annual budget and monthly forecasts for the \$3.8 billion Public  
28 Service Company of Colorado subsidiary. My present duties with American  
29 Water consist primarily of preparing rate-related filings for Illinois-American.

30 **Q. Please summarize your responsibilities as Manager, Rates & Regulations.**

31 **A.** My responsibilities as Manager, Rates and Regulation, involve providing the  
32 following services to Illinois-American:

- 33 1) Preparing and presenting all rate change applications and supporting  
34 documents and exhibits as prescribed by management policies, guidelines  
35 and regulatory commission requirements;
- 36 2) Preparing rate analyses and studies to evaluate the effect of proposed  
37 rates on the revenues, rate of return and tariff structures;
- 38 3) Executing the implementation of rate orders, including development of the  
39 revised tariff pricing necessary to produce the proposed revenue level;
- 40 4) Overseeing the preparation of revenue and capital requirements analyses;
- 41 5) Providing support for financial analysis of proposed acquisitions and  
42 expansion of service territory, including preparation of applicable  
43 regulatory commission filings.

44 **Q. Have you testified before any regulatory agencies with respect to**  
45 **regulatory matters?**

46 **A.** Yes, I have testified several times before the Illinois Commerce Commission.

47 **II. PURPOSE OF TESTIMONY**

48 **Q. What is the purpose of your testimony in this case?**

49 **A.** The purpose of my testimony is to discuss the Qualified Infrastructure Plant  
50 (“QIP”) reconciliation submitted by Illinois-American on March 15, 2012, for  
51 calendar year 2011 in compliance with 83 Illinois Administrative Code Section  
52 656.80.

53 **Q. Are you generally familiar with the operations, books, and records of**  
54 **Illinois-American?**

55 **A.** Yes.

56 **Q. Please describe the service districts included in the Company’s Single**  
57 **Tariff Pricing (“STP”) Zone, Zone 1.**

58 **A.** There are nine service districts within the Single Tariff Pricing Zone and three of  
59 the nine (Champaign, Sterling, and South Beloit) participated in the QIP program  
60 for the first time in 2011. Approval to expand QIP to all of the Company’s service  
61 districts was granted by the Commission March 16, 2010, in Docket No. 09-0251.  
62 I will briefly describe the nine service districts below:

63 Alton – The Alton service district consists of approximately 17,700  
64 residential, commercial, industrial, public authority, sales for resale, and fire  
65 service customers located in Madison and Jersey counties. The district provides  
66 water service to the communities of Alton, Elsay, Fosterburg Township, Godfrey,  
67 and Woodriver Township.

68 Streator – The Streator service district consists of approximately 7,500  
69 residential, commercial, industrial, public authority, and fire service customers

70 located in LaSalle and Livingston counties. The district provides water service to  
71 the communities of Kangley and Streator.

72 Cairo – The Cairo service district consists of approximately 1,100  
73 residential, commercial, industrial, public authority, and fire service customers  
74 located in Alexander County. The district provides water service to the  
75 community of Cairo.

76 Interurban – The Interurban service district consists of approximately  
77 68,600 residential, commercial, industrial, public authority, sales for resale, and  
78 fire service customers located in St. Clair, Madison, Macoupin, and Monroe  
79 counties. The district provides water service to the communities of Alorton,  
80 Belleville, Bond, Brighton, Brooklyn, Cahokia, Canteen, Canteen Township,  
81 Caseyville, Centreville, Columbia, East St. Louis, Fairmont City, Fairview  
82 Heights, Granite City, Lovejoy, Madison, Mitchell, Millstadt, Nameoki, Nameoki  
83 Township, National City, O’Fallon, Pontoon Beach, Sauget, Shiloh, Smithton  
84 Township, St. Clair, Stites Township, Stookey, Swansea, Venice, Washington  
85 Park, and Waterloo.

86 Pontiac – The Pontiac service district consists of approximately 4,400  
87 residential, commercial, industrial, public authority, and fire service customers  
88 located in Livingston County. The district provides water service to the  
89 communities of Pontiac and Saunemin.

90 Peoria – The Peoria service district consists of approximately 52,000  
91 residential, commercial, industrial, public authority, sales for resale, and fire  
92 service customers located in Peoria County. The district provides water service

93 to the communities of Bartonville, Bellevue, Chillicothe, Dunlap, Edelstein,  
94 Edwards, Hanna City, Lake Camelot, Mossville, Peoria, Peoria Heights, Rome,  
95 and West Peoria, as well as an unincorporated area outside of Peoria.

96 Champaign – The Champaign service district consists of approximately  
97 50,800 residential, commercial, industrial, public authority, sales for resale, and  
98 fire service customers located in Champaign and Douglas counties. The district  
99 provides water service to the communities of Arcola, Bondville, Champaign,  
100 Pesotum, Philo, Savoy, Sidney, St. Joseph, Tolono, Tuscola, and Urbana, as  
101 well as the Seymour Water District and the Embarras Area Water District.

102 Sterling – The Sterling service district consists of approximately 6,400  
103 residential, commercial, industrial, public authority, and fire service customers  
104 located in Whiteside County. The district provides water service to the  
105 community of Sterling.

106 South Beloit – The South Beloit service district consists of approximately  
107 2,800 residential, commercial, industrial, public authority, and fire service  
108 customers located in Winnebago County. The district provides water service to  
109 the communities of Rockton and South Beloit, as well as Rockton and Roscoe  
110 townships.

111 **Q. Please describe the Pekin service district.**

112 **A.** The Pekin service district participated in the QIP program for the first time in  
113 2011, as provided for by the Commission's order in Docket No. 09-0251  
114 described previously. The Pekin service district consists of approximately 13,900  
115 residential, commercial, industrial, public authority, and fire service customers

116 located in Tazewell County. The district provides water service to the community  
117 of Pekin.

118 **Q. Please describe the Lincoln service district.**

119 **A.** The Lincoln service district participated in the QIP program for the first time in  
120 2011, as provided for by the Commission's order in Docket No. 09-0251  
121 described previously. The Lincoln service district consists of approximately  
122 5,700 residential, commercial, industrial, public authority, and fire service  
123 customers located in Logan County. The district provides water service to the  
124 community of Lincoln.

125 **Q. Please describe the Chicago Metro Water service district.**

126 **A.** The Chicago Metro Water service district participated in the QIP program for the  
127 first time in 2011, as provided for by the Commission's order in Docket No. 09-  
128 0251 described previously. The Chicago Metro Water service district consists of  
129 approximately 44,300 residential, commercial, industrial, public authority, sales  
130 for resale, and fire service customers located in Cook, DuPage, Grundy, Kane,  
131 Kendall, McHenry, and Will counties. The district provides water service to the  
132 communities of Arlington Heights, Bolingbrook, Carol Stream, Chicago, Darien,  
133 Des Plaines, Downers Grove, Elgin, Elk Grove Village, Elmhurst, Glen Ellyn,  
134 Homer Glen, Lemont, Lisle, Lockport, Lombard, Mokena, Morris, Mount  
135 Prospect, Naperville, Northbrook, Norwood Park, Orland Hills, Orland Park,  
136 Oswego, Plainfield, Prairie Grove, Prospect Heights, Romeoville, Sandwich, St.  
137 Charles, Villa Park, Wheaton, Wheeling, Winfield, and Woodridge.

138 **Q. Please describe the Chicago Metro Waste Water service district.**

139 **A.** The Chicago Metro Water service district participated in the QIP program for the  
140 first time in 2011, as provided for by the Commission's order in Docket No. 09-  
141 0251 described previously. The Chicago Metro Water service district consists of  
142 approximately 31,600 residential, commercial, industrial, and public authority,  
143 customers located in Cook, DuPage, Grundy, Kane, Kendall, McHenry, and Will  
144 counties. The district provides water service to the communities of Arlington  
145 Heights, Bolingbrook, Chicago, Crystal Lake, Darien, Des Plaines, Downers  
146 Grove, Elgin, Elmhurst, Frankfort, Glen Ellyn, Glenview, Homer Glen, Lemont,  
147 Lisle, Lockport, Lombard, Mokena, Morris, Mount Prospect, Northbrook,  
148 Norwood Park, Orland Hills, Orland Park, Oswego, Plainfield, Prairie Grove,  
149 Prospect Heights, Romeoville, Sandwich, St. Charles, Wheeling, and Woodridge.

150 **Q. Please describe the QIP rates in effect during calendar year 2011.**

151 **A.** During the first three months of 2011, beginning January 6, 2011, the QIP  
152 surcharge percentage was 0.88% for the Zone 1 service districts, 0.65% for the  
153 Pekin service district, 0.61% for the Lincoln service district, 0.79% for the  
154 Chicago Metro Water service district, 2.03% for the Chicago Metro Wastewater  
155 service district – wastewater collection services, and 0.72% for the Chicago  
156 Metro Wastewater service district - wastewater collection and treatment services.  
157 On March 15, 2010, Illinois-American submitted to the Commission the annual  
158 reconciliation and petition seeking initiation of the annual reconciliation hearings  
159 as required under section 656.80, 83 Ill. Adm. Code, Part 656. In addition,  
160 copies of the reconciliation were provided to the Commission's Manager of the  
161 Water Department and to the Commission's Manager of the Accounting

162 Department. The reconciliation, which reflected actual qualified infrastructure  
163 plant expenditures and QIP revenues for 2010, indicated that the QIP was under  
164 collected by \$335,146 for the STP tariff group. The reconciliation filing only  
165 impacted the six Zone 1 districts that had participated in the QIP prior to the  
166 Commission order that approved the extension of QIP to all districts in Illinois.  
167 On March 18, 2011, Illinois-American filed certain QIP information sheets with  
168 the Commission to collect the 2010 Reconciliation R Component as required by  
169 83 Ill. Adm. Code, Part 656.80 a). The QIP surcharge percentage specified in  
170 the information sheets, effective April 1, 2011, was 1.30% for the Alton, Streator,  
171 Cairo, Interurban, Pontiac, and Peoria service districts.

172 **Q. Have you revised the QIP surcharge calculation in any district from the**  
173 **reconciliations provided with the petition for reconciliation filed March 15,**  
174 **2012?**

175 **A.** Yes. For the Peoria service district, the amount of service additions for the  
176 months of August, September, and November 2011 were reduced a total of  
177 \$4,160.72 for two service line replacement projects that were reimbursed by the  
178 customers. This results in a reduction of recoverable QIP surcharge in the  
179 amount of \$167 as shown on page 1 of Exhibit 1.10. Exhibit 1.10 will be  
180 described later in my testimony. For the Chicago Metro Waste Water service  
181 district, the Sewer Services depreciation rate was revised to 4.95% consistent  
182 with the rate approved by the Commission in Docket No. 07-0507. The  
183 reconciliation filed with the Commission on March 15, 2012, used an incorrect  
184 rate of 2.69%. The correction results in an increase to the recoverable QIP

185 surcharge in the amount of \$2,366 as shown on page 5 of Exhibit 1.10. All of the  
186 exhibits attached to my direct testimony reflect the above corrections.

187 **Q. Please describe Illinois-American Exhibit 1.1.**

188 **A.** Illinois-American Exhibit 1.1 presents the QIP costs for the reconciliation year as  
189 required by Section 656.80(f)(1) 83 Ill. Adm. Code, Part 656. The first document  
190 is the Summary of QIP Eligible Expenses by District, which shows the project  
191 values, depreciation amounts, and depreciation rates for mains, services, meter  
192 replacements, meter installations, and hydrants by district in matrix format for  
193 2011. The services lines for Peoria, Zone 1, and Total Company reflects the  
194 correction I described on lines 188 through 191 above.

195 The last set of documents present the monthly and thirteen-month  
196 average of accumulated QIP expenditures by QIP asset type by service district  
197 for 2011. The 2011 thirteen-month average of accumulated QIP expenditures is  
198 carried forward to the QIP surcharge calculation performed on the reconciliations  
199 included in Exhibit 1.3 and Exhibit 1.8. Included under the Meters section are  
200 two additional lines: the first is to remove the purchase of meters 2 inches and  
201 smaller, and the second is to add back the installation of meters 2 inches and  
202 smaller. Purchases of meters 2 inches and smaller are unitized when received.  
203 The adjustments are required so that the QIP reconciliation only reflects meters  
204 that have been installed. Meters larger than 2 inches are placed into inventory  
205 when purchased and unitized when installed, so no adjustments are necessary  
206 for the larger-sized meters. The accumulated expenditures for Peoria and Zone

207 1 also reflect the adjustment described on lines 188 through 191 of my direct  
208 testimony.

209 **Q. Please describe Illinois-American Exhibit 1.2.**

210 **A.** Illinois-American Exhibit 1.2 presents the revenues arising through the  
211 application of the QIP surcharges during the reconciliation year as required by  
212 Section 656.80(f)(2) 83 Ill. Adm. Code, Part 656. This set of documents presents  
213 the monthly and annual district-specific actual QIP revenues billed to customers  
214 during 2011 and segregates the QIP revenues by customer class: Residential,  
215 Commercial, Industrial, Public Authority, Sales for Resale, and Other  
216 Miscellaneous Sales.

217 **Q. Please describe Illinois-American Exhibit 1.3.**

218 **A.** Illinois-American Exhibit 1.3 presents the reconciliation components determined  
219 by Illinois-American showing the amounts to be recovered/(refunded) over a  
220 nine-month period commencing April 1, 2012, as required by section 656.80(f)(3)  
221 83 Ill. Adm. Code, Part 656. This set of documents presents the qualifying  
222 infrastructure plant surcharge reconciliations for 2011 for each of the service  
223 districts and for each tariff district. The top left section of each page shows the  
224 depreciation rate for each type of qualifying infrastructure plant as well as the  
225 historical retirement ratio for each type of qualifying infrastructure plant. The  
226 depreciation rates were approved by the Commission in Docket No. 07-0507, as  
227 noted previously, for all of the service districts, except for South Beloit. Because  
228 South Beloit was combined into the Zone 1 tariff group on August 1, 2010,  
229 pursuant to the Commission's order in Docket No. 09-0319 dated April 13, 2010,

230 and the QP surcharge calculation takes place at the Zone 1 level, the Company  
231 applied the Commission-approved Illinois-American Water depreciation rates to  
232 the total Zone 1 QIP investment. The top right section of each page calculates  
233 the pretax return percentage based upon the weighted cost of debt and equity  
234 approved by the Commission in Docket No. 09-0319. This section also provides  
235 the Company's Illinois and Federal income tax rates from Docket No. 09-0319  
236 and the calculation of the gross revenue conversion factor, also in agreement  
237 with the gross revenue conversion factor in Docket No. 09-0319. The bottom half  
238 of each schedule presents the 2011 QIP surcharge calculation and the schedules  
239 at the tariff group level present the reconciliations and calculate the utility-  
240 determined reconciliation component ("R component") as described in Section  
241 656.80(d) 83 Ill. Adm. Code, Part 656. The first column lists the QIP by account.  
242 The second column, QIP Adds, presents the thirteen-month average of QIP  
243 additions for 2011. The third column, QIP Rets, calculates the QIP retirements  
244 by multiplying QIP Adds by the respective Historical Retirement Ratio. QIP Rets  
245 is necessary only to calculate depreciation expense, which is described later.  
246 The fourth column, QIP Investment, nets QIP Adds and QIP Rets. The fifth  
247 column, QIP Rets, is the inverse of the third column, QIP Rets, because the fifth  
248 column, QIP Rets, are added back to determine net QIP plant after being  
249 reduced by the third column, QIP Rets. The sixth column, QIP Accum Depr,  
250 reflects the accumulated depreciation resulting from 2011 depreciation calculated  
251 in the ninth column. This calculation complies with Section 656.50(a)(2) 83 Ill.  
252 Adm. Code, Part 656, which specifies that depreciation expense for QIP shall be

253 reduced by the depreciation expense on the plant being replaced. The seventh  
254 column, Net QIP, nets QIP Investment, QIP Rets (fifth column), and QIP Accum  
255 Depr. Net QIP represents NetQIP as described in Section 656.60(b)(1) 83 Ill.  
256 Adm. Code, Part 656. The eighth column, Net QIP X PTR, calculates the pretax  
257 return on QIP investment by multiplying Net QIP by the pretax return PTR  
258 determined at the top right section of the schedule. The ninth column, QIP Depr  
259 Exp, calculates depreciation expense on the investment in QIP. The amount in  
260 the fourth column, QIP Investment, is multiplied by the respective depreciation  
261 rate with the result reflected in QIP Depr Exp. QIP Depr Exp is the inverse of  
262 QIP Accum Depr because QIP Depr Exp is an addition to the return on  
263 investment in QIP used to determine the total QIP surcharge while QIP Accum  
264 Depr is a subtraction from QIP Adds to determine Net QIP. The tenth column,  
265 Total, is the amount of QIP surcharge to be collected from customers and is  
266 calculated by adding Net QIP X PTR and QIP Depr Exp. Total for each asset  
267 type is summed on the Grand Total line. Billed QIP Revenues for Period,  
268 presented on the tariff group schedules, is the amount of QIP revenues billed  
269 from customers during 2011. Utility-Determined Reconciliation Component R  
270 from 2010 Reconciliation presents the Component R from the prior year 2010  
271 QIP reconciliation. This line only appears on the Zone 1 reconciliation since  
272 2011 was the first year that the QIP was available to the Pekin, Lincoln, Chicago  
273 Water, and Chicago Waste Water districts. Utility-Determined Reconciliation  
274 Component R from Initial 2011 Reconciliation, presented on the tariff group  
275 schedules, represents the inverse of the Utility-Determined Reconciliation

276 Component R as calculated initially and provided with the Petition for  
277 Reconciliation. This line item is necessary to determine the Company's  
278 recommendation for the Commission-ordered O Factors, which reflects the  
279 changes to the reconciliation for the Peoria service reimbursements and Chicago  
280 Metro Waste Water depreciation rate correction as described previously. I  
281 recommend that the Commission order the Utility-Recommended Commission-  
282 Determined Reconciliation Component O as the Reconciliation Component O for  
283 the Zone 1 and Chicago Metro Waste Water reconciliations.

284 **Q. Please describe Illinois-American Exhibit 1.4.**

285 **A.** Illinois-American Exhibit 1.4 presents the schedule of actual rate base and  
286 operating income for each of the tariff groups for 2011 as required by 656.80(f)(4)  
287 83 Ill. Adm. Code, Part 656. The top section of the schedule calculates the  
288 thirteen-month average of actual rate base for 2011 in accordance with the  
289 Commission-determined rate base in the Company's last rate case preceding the  
290 2011 QIP. The bottom section presents the Company's actual Net Utility Income  
291 for 2011 (including billed QIP), the effect of interest synchronization as required  
292 by 656.80(f)(4) 83 Ill. Adm. Code, Part 656, and Net Utility Income Adjusted for  
293 Interest Synchronization. The rate of return shown in the column Return was  
294 computed by dividing Net Utility Income Adjusted for Interest Sync., Utility  
295 Operating Income, by Thirteen-Month Average Total Rate Base, and shows that  
296 Illinois-American is earning less than the 10.38% return authorized in Docket No.  
297 09-0319 for each tariff group. Even when the R component is added to actual

298 net income, as shown in the QIP R Factor and Net Utility Income Including R  
299 Factor columns, Illinois-American is still under earning in each tariff group.

300 **Q. Please describe Illinois-American Exhibit 1.5.**

301 **A.** Illinois-American Exhibit 1.5 presents the workpapers supporting the 2011  
302 reconciliation as required by Section 656.80(h)(1) 83 Ill. Adm. Code, Part 656.  
303 The first workpaper presents the net plant allocation of Illinois-American  
304 corporate net plant to each rate zone. Corporate net plant includes Corporate,  
305 Northern, Eastern, and Southern districts. Northern and Southern net assets  
306 pertain to Peoria and Interurban service districts, respectively. Eastern net  
307 assets pertain to the Champaign service district that is included in Zone 1.  
308 Corporate allocation is described in the discussion of the third workpaper below.  
309 The second workpaper presents the thirteen-month average of materials and  
310 supplies inventory, reduced by the underlying accounts payable as prescribed by  
311 the order in Docket No. 07-0507. Since accounts payable are maintained at the  
312 corporate level, the accounts payable to total inventory ratio was applied to the  
313 individual service district inventory monthly balances. The third workpaper  
314 calculates the customer allocations for the year for all Illinois-American service  
315 districts. The next set of workpapers, pages 4 through 6, provides a schedule of  
316 meters purchased during the reconciliation period while pages 7 and 8 provide a  
317 schedule of meters that were both purchased and installed during the  
318 reconciliation period. The next workpaper, page 9, explains the differences  
319 between the original forward-looking schedules filed with the Commission  
320 supporting the 2011 QIP surcharge and the actual QIP resulting from Illinois-

321 American's investment in QIP during 2011. Line 5 shows the amount of  
322 difference attributable to the difference between originally forecasted QIP  
323 additions and actual QIP additions. Line 8 shows the amount of difference  
324 attributable to the difference between originally forecasted depreciation (a  
325 function of forecasted QIP additions) and actual depreciation (similarly, a function  
326 of actual QIP additions). Line 11 shows the amount of difference attributable to  
327 the difference between originally forecasted QIP surcharge collections (a function  
328 of forecasted 2011 water revenues) and actual QIP surcharge collections (a  
329 function of actual 2011 water revenues). The remainder of the workpapers  
330 itemizes QIP additions by district and is sorted by time for 2011. As noted above,  
331 the QIP additions listing removes the additions pertaining to the Peoria service  
332 lines that were reimbursed by the customers.

333 **Q. Please describe Illinois-American Exhibit 1.6.**

334 **A.** Illinois-American Exhibit 1.6 presents a detailed summary of all invoices  
335 supporting the costs for eligible QIP surcharge projects as required by Section  
336 656.80(h)(2) 83 Ill. Adm. Code, Part 656. The schedules itemize QIP-eligible  
337 expenditures by district and are sorted by task order number. The listing is also  
338 subtotaled for each task order. Similar to the workpapers included in Exhibit 1.5,  
339 the QIP additions listing removes the additions pertaining to the Peoria service  
340 lines that were reimbursed by the customers.

341 **Q. Please describe Illinois-American Exhibit 1.7.**

342 **A.** Illinois-American Exhibit 1.7 presents material supporting the recovery of the QIP  
343 surcharge as required by Section 656.80(h)(3) 83 Ill. Adm. Code, Part 656. This

344 schedule is a pivot table, by month, of the results of monthly queries for QIP  
345 revenues of the Company's ECIS billing system.

346 **Q. Please describe Illinois-American Exhibit 1.8.**

347 **A.** Illinois-American Exhibit 1.8 presents the detailed worksheet showing the  
348 calculation of the utility-determined reconciliation components R as required by  
349 Section 656.80(h)(4) 83 Ill. Adm. Code, Part 656. These schedules are identical  
350 to those provided with in Exhibit 1.3.

351 **Q. Please describe Illinois-American Exhibit 1.9.**

352 **A.** Illinois-American Exhibit 1.9 provides information regarding the prudence of the  
353 utility's investment in QIP as required by Section 656.80(h)(5) 83 Ill. Adm. Code,  
354 Part 656. In addition, a listing has been provided that briefly describes every task  
355 order included as a QIP addition.

356 **Q. Please describe Illinois-American Exhibit 1.10.**

357 **A.** Illinois-American Exhibit 1.10 summarized the 2011 reconciliation by tariff group.  
358 The top one-third of the schedule brings forward into 2011 the 2010 R Factor (for  
359 Zone 1 since QIP applied to Zone 1 only prior to 2011) and the 2010 O Factor  
360 and related interest. The middle one-third presents the current year recoverable  
361 QIP charges as originally filed on March 15, 2012, the adjustments resulting from  
362 the removal from the reconciliation reimbursed service lines in Peoria and from  
363 the correction of the sewer service line depreciation rate in Chicago Metro Waste  
364 Water, and the adjusted current year recoverable QIP charges as filed with my  
365 direct testimony. This section also shows the amount of QIP recovered through  
366 the surcharge in 2011, and the resulting balances at year end. The bottom one-

367 third of the schedule segregates the current year original R Factor, the 2010 O  
368 Factor and interest that was refunded in 2012, and the 2011 Company-  
369 recommended O Factor that the Commission should order to be refunded or  
370 collected from the respective tariff group customers when the Commission issues  
371 its final order in this proceeding.

372 **Q. Has the Company maintained and kept open for public inspection a copy of**  
373 **the new information sheets in each office of the utility in accordance with**  
374 **83 Ill. Adm. Code 255.20(a) and Section 656.30(c)(1) 83 Ill. Adm. Code, Part**  
375 **656?**

376 **A.** Yes.

377 **Q. Has the Company posted a public notice in each office, giving notice that**  
378 **information sheets have been filed with the Commission to revise the QIP**  
379 **surcharge in accordance with 83 Ill. Adm. Code 255.20(a) and Section**  
380 **656.30(c)(1) 83 Ill. Adm. Code, Part 656?**

381 **A.** Yes.

382 **Q. Has the Company provided an explanation of the QIP surcharge on the**  
383 **initial billing of the new QIP surcharge in accordance with Section**  
384 **656.30(c)(3) 83 Ill. Adm. Code Part 656?**

385 **A.** Yes. In addition to providing an explanation of the QIP surcharge on the initial  
386 billing of the new QIP surcharge, the Company provided notice by newspaper  
387 publication that information sheets have been filed with the Commission to revise  
388 the QIP surcharge.

389 **Q. Is the QIP surcharge presented as a separate line item on customer bills?**

390 **A.** Yes.

391 **Q.** **What is your recommendation?**

392 **A.** I recommend that the Commission approve Illinois-American's 2011 QIP  
393 reconciliation presented in Exhibit 1.10.

394 **Q.** **Does this conclude your direct testimony?**

395 **A.** Yes.