

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 13-0210

IAWC EXHIBIT NO. 1.00

**DIRECT TESTIMONY OF
RICH KERCKHOVE**

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, 2013, for
51 calendar year 2012 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. I will briefly
59 describe the nine service districts below:

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

65 Streator – The Streator service district consists of approximately 7,500
66 residential, commercial, industrial, public authority, and fire service customers
67 located in LaSalle and Livingston counties. The district provides water service to
68 the communities of Kangley and Streator.

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

73 Interurban – The Interurban service district consists of approximately
74 68,600 residential, commercial, industrial, public authority, sales for resale, and
75 fire service customers located in St. Clair, Madison, Macoupin, and Monroe
76 counties. The district provides water service to the communities of Alorton,
77 Belleville, Bond, Brighton, Brooklyn, Cahokia, Canteen, Canteen Township,
78 Caseyville, Centreville, Columbia, East St. Louis, Fairmont City, Fairview
79 Heights, Granite City, Lovejoy, Madison, Mitchell, Millstadt, Nameoki, Nameoki
80 Township, National City, O’Fallon, Pontoon Beach, Sauget, Shiloh, Smithton
81 Township, St. Clair, Stites Township, Stookey, Swansea, Venice, Washington
82 Park, and Waterloo.

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

87 Peoria – The Peoria service district consists of approximately 52,000
88 residential, commercial, industrial, public authority, sales for resale, and fire
89 service customers located in Peoria County. The district provides water service
90 to the communities of Bartonville, Bellevue, Chillicothe, Dunlap, Edelstein,

91 Edwards, Hanna City, Lake Camelot, Mossville, Peoria, Peoria Heights, Rome,
92 and West Peoria, as well as an unincorporated area outside of Peoria.

93 Champaign – The Champaign service district consists of approximately
94 50,800 residential, commercial, industrial, public authority, sales for resale, and
95 fire service customers located in Champaign and Douglas counties. The district
96 provides water service to the communities of Arcola, Bondville, Champaign,
97 Pesotum, Philo, Savoy, Sidney, St. Joseph, Tolono, Tuscola, and Urbana, as
98 well as the Seymour Water District and the Embarras Area Water District.

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

103 South Beloit – The South Beloit service district consists of approximately
104 2,800 residential, commercial, industrial, public authority, and fire service
105 customers located in Winnebago County. The district provides water service to
106 the communities of Rockton and South Beloit, as well as Rockton and Roscoe
107 townships.

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

109 **A.** The Pekin service district consists of approximately 13,900 residential,
110 commercial, industrial, public authority, and fire service customers located in
111 Tazewell County. The district provides water service to the community of Pekin.

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

113 **A.** The Lincoln service district consists of approximately 5,700 residential,
114 commercial, industrial, public authority, and fire service customers located in
115 Logan County. The district provides water service to the community of Lincoln.

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

117 **A.** The Chicago Metro Water service district consists of approximately 44,300
118 residential, commercial, industrial, public authority, sales for resale, and fire
119 service customers located in Cook, DuPage, Grundy, Kane, Kendall, McHenry,
120 and Will counties. The district provides water service to the communities of
121 Arlington Heights, Bolingbrook, Carol Stream, Chicago, Darien, Des Plaines,
122 Downers Grove, Elgin, Elk Grove Village, Elmhurst, Glen Ellyn, Homer Glen,
123 Lemont, Lisle, Lockport, Lombard, Mokena, Morris, Mount Prospect, Naperville,
124 Northbrook, Norwood Park, Orland Hills, Orland Park, Oswego, Plainfield, Prairie
125 Grove, Prospect Heights, Romeoville, Sandwich, St. Charles, Villa Park,
126 Wheaton, Wheeling, Winfield, and Woodridge.

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

128 **A.** The Chicago Metro Water service district consists of approximately 31,600
129 residential, commercial, industrial, and public authority, customers located in
130 Cook, DuPage, Grundy, Kane, Kendall, McHenry, and Will counties. The district
131 provides water service to the communities of Arlington Heights, Bolingbrook,
132 Chicago, Crystal Lake, Darien, Des Plaines, Downers Grove, Elgin, Elmhurst,
133 Frankfort, Glen Ellyn, Glenview, Homer Glen, Lemont, Lisle, Lockport, Lombard,
134 Mokena, Morris, Mount Prospect, Northbrook, Norwood Park, Orland Hills,

135 Orland Park, Oswego, Plainfield, Prairie Grove, Prospect Heights, Romeoville,
136 Sandwich, St. Charles, Wheeling, and Woodridge.

137 **Q. Please describe the QIP rates in effect during calendar year 2012.**

138 **A.** During the first three months of 2012, beginning January 1, 2012, the QIP
139 surcharge percentage was 2.73% for the Zone 1 service districts, 1.54% for the
140 Pekin service district, 1.72% for the Lincoln service district, 2.71% for the
141 Chicago Metro Water service district, 3.54% for the Chicago Metro Wastewater
142 service district – wastewater collection services, and 1.12% for the Chicago
143 Metro Wastewater service district - wastewater collection and treatment services.
144 On March 15, 2013, Illinois-American submitted to the Commission the annual
145 reconciliation and petition seeking initiation of the annual reconciliation hearings
146 as required under section 656.80, 83 Ill. Adm. Code, Part 656. In addition,
147 copies of the reconciliation were provided to the Commission's Manager of the
148 Water Department and to the Commission's Manager of the Accounting
149 Department. The reconciliation, which reflected actual qualified infrastructure
150 plant expenditures and QIP revenues for 2012, indicated that the QIP was over
151 collected by \$256,948 for the STP tariff group and under collected by \$17,357,
152 \$4,983, \$1,789, and \$75,824 for the Pekin, Lincoln, Chicago Water, and Chicago
153 Waste Water districts, respectively. On March 20, 2012, Illinois-American filed
154 QIP information sheets with the Commission to collect the 2011 Reconciliation R
155 Component as required by 83 Ill. Adm. Code, Part 656.80 a). The QIP surcharge
156 percentage specified in the information sheets, effective April 1, 2012, was
157 2.99% for the Zone 1 service districts, 1.12% for the Pekin service district, 1.66%

158 for the Lincoln service district, 3.48% for the Chicago Metro Water service
159 district, 2.77% for the Chicago Metro Wastewater service district – wastewater
160 collection services, and 0.87% for the Chicago Metro Wastewater service district
161 - wastewater collection and treatment services. On September 21, 2012, Illinois-
162 American filed QIP information sheets with the Commission to reset all of the QIP
163 rates to 0.00% as required by 83 Ill. Adm. Code, Part 656.30 b). The QIP rates
164 were reset to zero effective October 1, 2012, as new base rates from the
165 Company's last rate case were effective on that date and the costs that had
166 previously been recovered under the QIP surcharge rider have been recovered
167 under the resulting rate case base rates.

168 **Q. Have you revised the QIP surcharge calculation in any district from the**
169 **reconciliations provided with the petition for reconciliation filed March 15,**
170 **2013?**

171 **A.** Yes. For the Pekin service district, the QIP surcharge was reduced by \$302 for
172 the \$3,234.56 cost of the installation of a new water main. The cost was incurred
173 in 2011 and carried forward to 2012 in the determination of QIP revenues.
174 Therefore, the project, quantified in the Company's response to Staff Data
175 Request DLH 5.01 in Docket No. 12-0201, must also be removed from the 2012
176 reconciliation. IAWC Exhibit 1.15 performs the requisite calculations to
177 determine the monetary impact on the present reconciliation. The correction is
178 also reflected on page 2 of IAWC Exhibit 1.10.

179 For the Peoria service district, which is included in the Zone 1 tariff district,
180 the QIP surcharge was reduced by \$148 for the 2012 cost in the amount of

181 \$3,160.05 for a service line replacement that was reimbursed. The project and
182 related reimbursement were described in the Company's response to Staff Data
183 Request DLH 2.01 in this proceeding, and the financial impact is presented on
184 IAWC Exhibit 1.11. Also in Peoria, the QIP surcharge was reduced by \$20 for
185 the 2012 cost in the amount of \$935.49 for a fire hydrant replacement that was
186 reimbursed. The project and related reimbursement were described in the
187 Company's response to Staff Data Request DLH 2.02 in this proceeding, and the
188 financial impact is presented on IAWC Exhibit 1.12. Two other projects in Peoria
189 were also reimbursed and the QIP surcharge was reduced by \$543 and \$69,
190 respectively, for 2012 costs in the amount of \$215.02 and \$1,558.43. Similar to
191 the Pekin project described above, the Company incurred most of the cost of the
192 first project in 2011 and those costs carried forward in the determination of the
193 2012 QIP surcharge. The projects and related reimbursements were described
194 in the Company's response to Staff Data Request DLH 2.03 in this proceeding,
195 and the financial impacts are presented on IAWC Exhibit 1.13 and IAWC Exhibit
196 1.14. The corrections are summarized on page 1 of IAWC Exhibit 1.10.

197 For the Chicago Metro Waste Water service district, the Sewer Services
198 depreciation rate was revised to 4.95% consistent with the rate approved by the
199 Commission in Docket No. 07-0507. The reconciliation filed with the
200 Commission on March 15, 2013, used an incorrect rate of 2.69%. The correction
201 results in an increase to the recoverable QIP surcharge in the amount of \$9,054
202 as shown on page 5 of IAWC Exhibit 1.10.

203 All of the exhibits attached to my direct testimony have been updated to
204 reflect the above corrections.

205 **Q. Please describe IAWC Exhibit 1.01.**

206 **A.** IAWC Exhibit 1.01 presents the QIP costs for the reconciliation year as required
207 by Section 656.80(f)(1) 83 Ill. Adm. Code, Part 656. The first document is the
208 Summary of QIP Eligible Expenses by District, which shows the project values,
209 depreciation amounts, and depreciation rates for mains, services, meter
210 replacements, meter installations, and hydrants by district in matrix format for
211 2012.

212 The last set of documents present the monthly and thirteen-month
213 average of accumulated QIP expenditures by QIP asset type by service district
214 for 2012. The 2012 thirteen-month average of accumulated QIP expenditures is
215 carried forward to the QIP surcharge calculation performed on the reconciliations
216 included in IAWC Exhibit 1.03 and IAWC Exhibit 1.08. Included under the Meters
217 section are two additional lines: the first is to remove the purchase of meters 2
218 inches and smaller, and the second is to add back the installation of meters 2
219 inches and smaller. Purchases of meters 2 inches and smaller are unitized when
220 received. The adjustments are required so that the QIP reconciliation only
221 reflects meters that have been installed. Meters larger than 2 inches are placed
222 into inventory when purchased and unitized when installed, so no adjustments
223 are necessary for the larger-sized meters.

224 **Q. Please describe IAWC Exhibit 1.02.**

225 **A.** IAWC Exhibit 1.02 presents the revenues arising through the application of the
226 QIP surcharges during the reconciliation year as required by Section 656.80(f)(2)
227 83 Ill. Adm. Code, Part 656. This set of documents presents the monthly and
228 annual district-specific actual QIP revenues billed to customers during 2012 and
229 segregates the QIP revenues by customer class: Residential, Commercial,
230 Industrial, Public Authority, Sales for Resale, and Other Miscellaneous Sales.

231 **Q. Please describe IAWC Exhibit 1.03.**

232 **A.** IAWC Exhibit 1.03 presents the reconciliation components determined by Illinois-
233 American showing the amounts to be recovered/(refunded) over a nine-month
234 period commencing April 1, 2012, as required by section 656.80(f)(3) 83 Ill. Adm.
235 Code, Part 656. This set of documents presents the qualifying infrastructure
236 plant surcharge reconciliations for 2012 for each of the tariff districts. The top left
237 section of each page shows the depreciation rate for each type of qualifying
238 infrastructure plant as well as the historical retirement ratio for each type of
239 qualifying infrastructure plant. The depreciation rates were approved by the
240 Commission in Docket No. 07-0507, as noted previously, for all of the service
241 districts, except for South Beloit. Because South Beloit was combined into the
242 Zone 1 tariff group on August 1, 2010, pursuant to the Commission's order in
243 Docket No. 09-0319 dated April 13, 2010, and the QP surcharge calculation
244 takes place at the Zone 1 level, the Company applied the Commission-approved
245 Illinois-American Water depreciation rates to the total Zone 1 QIP investment.
246 The top right section of each page calculates the pretax return percentage based
247 upon the weighted cost of debt and equity approved by the Commission in

248 Docket No. 09-0319. This section also provides the Company's Illinois and
249 Federal income tax rates from Docket No. 09-0319 and the calculation of the
250 gross revenue conversion factor, also in agreement with the gross revenue
251 conversion factor in Docket No. 09-0319. The bottom half of each schedule
252 presents the 2012 QIP surcharge calculation and calculates the utility-determined
253 reconciliation component ("R component") as described in Section 656.80(d) 83
254 Ill. Adm. Code, Part 656. The first column lists the QIP by account. The second
255 column, QIP Additions, presents the thirteen-month average of QIP additions for
256 2012. The third column, QIP Retirements, calculates the QIP retirements by
257 multiplying QIP Adds by the respective Historical Retirement Ratio. QIP
258 Retirements is necessary only to calculate depreciation expense, which is
259 described later. The fourth column, Net QIP Investment, nets QIP Additions and
260 QIP Retirements. The fifth column, QIP Retirements, is the inverse of the third
261 column, QIP Retirements, because the fifth column, QIP Retirements, are added
262 back to determine net QIP plant after being reduced by the third column, QIP
263 Retirements. The sixth column, 2012 QIP Depreciation, reflects the 2012
264 depreciation resulting from 2012 depreciation calculated in the eleventh column.
265 This calculation complies with Section 656.50(a)(2) 83 Ill. Adm. Code, Part 656,
266 which specifies that depreciation expense for QIP shall be reduced by the
267 depreciation expense on the plant being replaced. The seventh column, 2011
268 QIP Accum Depr, reflects the 2011 depreciation carried forward from the 2011
269 reconciliation. The eighth column, QIP Accum Depr, represents the accumulated
270 depreciation through 2012 and is the sum of columns six and seven. The ninth

271 column, Net QIP, nets Net QIP Investment, QIP Retirements (fifth column), and
272 QIP Accum Depr. Net QIP represents NetQIP as described in Section
273 656.60(b)(1) 83 Ill. Adm. Code, Part 656. The tenth column, Net QIP X PTR,
274 calculates the pretax return on QIP investment by multiplying Net QIP by the
275 pretax return PTR determined at the top right section of the schedule. The
276 eleventh column, QIP Depr Exp, calculates depreciation expense on the net
277 investment in QIP. The amount in the fourth column, Net QIP Investment, is
278 multiplied by the respective depreciation rate with the result reflected in QIP Depr
279 Exp. QIP Depr Exp is the inverse of 2012 QIP Depreciation because QIP Depr
280 Exp is an addition to the return on investment in QIP used to determine the total
281 QIP surcharge while 2012 QIP Depreciation is a subtraction from QIP Additions
282 to determine Net QIP. The twelfth column, Total, is the amount of QIP surcharge
283 to be collected from customers and is calculated by adding Net QIP X PTR and
284 QIP Depr Exp. Total for each asset type is summed on the Grand Total line.
285 Billed QIP Revenues for Period is the amount of QIP revenues billed from
286 customers during 2012. Utility-Determined Reconciliation Component R from
287 2011 Reconciliation presents the Component R from the prior year 2011 QIP
288 reconciliation. Utility-Determined Reconciliation Component R for 2012
289 Reconciliation represents the inverse of the Utility-Determined Reconciliation
290 Component R as calculated initially and provided with the Petition for
291 Reconciliation. This line item is necessary to determine the Company's
292 recommendation for the Commission-ordered O Factors, which reflects the
293 changes to the reconciliation for the Pekin new main, the Peoria service and

294 hydrant reimbursements, and the Chicago Metro Waste Water depreciation rate
295 correction as described previously.

296 **Q. Please describe IAWC Exhibit 1.04.**

297 **A.** IAWC Exhibit 1.04 presents the schedule of actual rate base and operating
298 income for each of the tariff groups for 2012 as required by 656.80(f)(4) 83 Ill.
299 Adm. Code, Part 656. The top section of the schedule calculates the thirteen-
300 month average of actual rate base for 2012 in accordance with the Commission-
301 determined rate base in the Company's last rate case preceding the 2012 QIP.
302 The bottom section presents the Company's actual Net Utility Income for 2012
303 (including billed QIP), the effect of interest synchronization as required by
304 656.80(f)(4) 83 Ill. Adm. Code, Part 656, and Net Utility Income Adjusted for
305 Interest Synchronization. The rate of return shown in the column Return was
306 computed by dividing Net Utility Income Adjusted for Interest Sync., Utility
307 Operating Income, by Thirteen-Month Average Total Rate Base, and shows that
308 Illinois-American is earning less than the 10.38% return authorized in Docket No.
309 09-0319 for each tariff group. Even when the R component is added to actual
310 net income, as shown in the QIP R Factor and Net Utility Income Including R
311 Factor columns, Illinois-American is still under earning in each tariff group.

312 **Q. Please describe IAWC Exhibit 1.05.**

313 **A.** IAWC Exhibit 1.05 presents the workpapers supporting the 2012 reconciliation as
314 required by Section 656.80(h)(1) 83 Ill. Adm. Code, Part 656. The first seven
315 pages present the net plant allocation of Illinois-American corporate net plant to
316 each rate zone. Corporate allocation is described in the discussion of the third

317 workpaper below. The eighth page presents the thirteen-month average of
318 materials and supplies inventory, reduced by the underlying accounts payable as
319 prescribed by the order in Docket No. 07-0507. Since accounts payable are
320 maintained at the corporate level, the accounts payable to total inventory ratio
321 was applied to the individual service district inventory monthly balances. The
322 ninth page calculates the plant allocations for the year for all Illinois-American
323 service districts. The next workpaper, page 10, explains the differences between
324 the original forward-looking schedules filed with the Commission supporting the
325 2012 QIP surcharge and the actual QIP resulting from Illinois-American's
326 investment in QIP during 2012. Line 5 shows the amount of difference
327 attributable to the difference between originally forecasted QIP additions and
328 actual QIP additions. Line 8 shows the amount of difference attributable to the
329 difference between originally forecasted depreciation (a function of forecasted
330 QIP additions) and actual depreciation (similarly, a function of actual QIP
331 additions). Line 11 shows the amount of difference attributable to the difference
332 between originally forecasted QIP surcharge collections (a function of forecasted
333 2012 water and sewer revenues) and actual QIP surcharge collections (a
334 function of actual 2012 water and sewer revenues). The remainder of the
335 workpapers itemizes QIP additions by district and is sorted by time for 2012. As
336 noted above, the QIP additions listing removes the additions pertaining to the
337 Peoria service lines and hydrants that were reimbursed by the customers.

338 **Q. Please describe IAWC Exhibit 1.06.**

339 **A.** IAWC Exhibit 1.06 presents a detailed summary of all invoices supporting the
340 costs for eligible QIP surcharge projects as required by Section 656.80(h)(2) 83
341 Ill. Adm. Code, Part 656. The schedules itemize QIP-eligible expenditures by
342 district and are sorted by task order number. The listing is also subtotaled for
343 each task order. Similar to the workpapers included in IAWC Exhibit 1.05, the
344 QIP additions listing removes the additions pertaining to the Peoria hydrants and
345 service lines that were reimbursed by the customers.

346 **Q. Please describe IAWC Exhibit 1.07.**

347 **A.** IAWC Exhibit 1.07 presents material supporting the recovery of the QIP
348 surcharge as required by Section 656.80(h)(3) 83 Ill. Adm. Code, Part 656. This
349 schedule is a pivot table, by month, of the results of monthly queries for QIP
350 revenues of the Company's ECIS billing system.

351 **Q. Please describe IAWC Exhibit 1.08.**

352 **A.** IAWC Exhibit 1.08 presents the detailed worksheet showing the calculation of the
353 utility-determined reconciliation components R as required by Section
354 656.80(h)(4) 83 Ill. Adm. Code, Part 656. These schedules are identical to those
355 provided with in IAWC Exhibit 1.03.

356 **Q. Please describe IAWC Exhibit 1.09.**

357 **A.** IAWC Exhibit 1.09 provides information regarding the prudence of the utility's
358 investment in QIP as required by Section 656.80(h)(5) 83 Ill. Adm. Code, Part
359 656. In addition, a listing has been provided that briefly describes every task
360 order included as a QIP addition.

361 **Q. Please describe IAWC Exhibit 1.10.**

362 **A.** IAWC Exhibit 1.10 summarized the 2012 reconciliation by tariff group. The top
363 one-third of the schedule brings forward into 2012 the 2011 R Factor, the
364 anticipated 2011 O Factor, since the Commission has yet to issue a final order in
365 the 2011 reconciliation case, and the 2010 O Factor, including related interest, as
366 ordered by the Commission October 17, 2012. The middle one-third presents
367 the current year recoverable QIP charges as originally filed on March 15, 2013,
368 the adjustments resulting from the removal from the reconciliation new main in
369 Pekin, reimbursed hydrants and service lines in Peoria, and from the correction
370 of the sewer service line depreciation rate in Chicago Metro Waste Water, and
371 the adjusted current year recoverable QIP charges as filed with my direct
372 testimony. This section also shows the amount of QIP recovered through the
373 surcharge in 2012, and the resulting balances at year end. The bottom one-third
374 of the schedule segregates the current year original R Factor, the anticipated
375 2011 O Factor, the 2010 O Factor and related interest that ordered by the
376 Commission October 17, 2012, and the 2012 Company-recommended O Factor
377 that the Commission should order to be refunded or collected from the respective
378 tariff group customers when the Commission issues its final order in this
379 proceeding.

380 IAWC Exhibit 1.11 through IAWC Exhibit 1.15 have previously been
381 described in my testimony.

382 **Q. Has the Company maintained and kept open for public inspection a copy of**
383 **the new information sheets in each office of the utility in accordance with**

384 **83 Ill. Adm. Code 255.20(a) and Section 656.30(c)(1) 83 Ill. Adm. Code, Part**
385 **656?**

386 **A.** Yes.

387 **Q. Has the Company posted a public notice in each office, giving notice that**
388 **information sheets have been filed with the Commission to revise the QIP**
389 **surcharge in accordance with 83 Ill. Adm. Code 255.20(a) and Section**
390 **656.30(c)(1) 83 Ill. Adm. Code, Part 656?**

391 **A.** Yes.

392 **Q. Has the Company provided an explanation of the QIP surcharge on the**
393 **initial billing of the new QIP surcharge in accordance with Section**
394 **656.30(c)(3) 83 Ill. Adm. Code Part 656?**

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

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

400 **A.** Yes.

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

402 **A.** I recommend that the Commission approve Illinois-American's 2012 QIP
403 reconciliation presented in IAWC Exhibit 1.10.

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

405 **A.** Yes.