

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

PART 656
QUALIFYING INFRASTRUCTURE PLANT SURCHARGE

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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 25 Ill. Reg. 16258, effective December 19, 2001; amended at 40 Ill. Reg. _____, effective _____.

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 base rate revenues" mean revenues recorded in the certain accounts and their sub-accounts described in 83 Ill. Adm. Code 605, the Uniform System of Accounts for Water Utilities, and 83 Ill. Adm. Code 650, the Uniform System of Accounts for Sewer Utilities. For water utilities, QIP base rate revenues shall include revenues recorded in accounts 460, 461, 462, 464, 465, 466 and 469 as described in 83 Ill. Adm. Code 605. For sewer utilities, QIP base rate revenues shall include revenues recorded in accounts 521, 522, 523, 524 and 530 as described in 83 Ill. Adm. Code 650. QIP base rate revenues, however, shall not include revenues resulting from the QIP surcharge or any revenues attributable to Purchased Water and Sewage Treatment Surcharges developed pursuant to 83 Ill. Adm. Code 655.

"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 ~~nonrevenue~~ ~~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~~. ~~A nonrevenue~~ ~~Non-revenue~~ producing plant is a 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 ~~those 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 for the rate zone as defined in 83 Ill. Adm. Code 287 ~~285-150~~.

(Source: Amended at 40 Ill. Reg. _____, effective _____)

Section 656.30 General Requirements

- a) The amount of increases billed under the QIP surcharge since the utility's most recent rate order for the rate zone shall be capped at 5% shall not exceed an annual average 2.5% of the QIP base rate revenues, but shall not exceed 3.5% in any given year for the rate zone 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 QIP base rate revenues account as described in Section 656.20 ~~of this Part~~.
- 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 NetQIP component of the QIP surcharge percentage for the applicable rate zone shall not include costs associated with qualifying infrastructure investment that were included in the rate base used to establish the utility's base rates. The utility may

continue to charge or refund any reconciliation adjustment associated with the qualifying infrastructure investment that is included in the rate base used to establish the utility's base rates.~~QIP surcharge percentage for the applicable rate zone shall be reset to zero.~~

- c) The utility shall provide notice of the QIP surcharge rider and subsequent filings and billing as follows:
- 1) The utility shall maintain and keep open for public inspection a copy of each filing of a QIP surcharge rider and subsequent information sheets and shall post public notice in each office of the utility in accordance with 83 Ill. Adm. Code 255.20(a).
 - 2) For the initial filing of a QIP surcharge rider, each utility, regardless of size, shall provide notice by newspaper publication in accordance with 83 Ill. Adm. Code 255.20(f)(1) and by mailing a notice of the filing to each of its customers.
 - 3) In connection with the initial billing of each change in a QIP surcharge percentage as specified in an information sheet (other than a change to a zero percentage), including information sheets resulting from the annual reconciliation and Commission-ordered adjustments, the utility shall provide an explanation of the QIP surcharge to be stated on, or included with, the initial billing of the new QIP surcharge percentage.
 - 4) Except as noted in this subsection (c) above, no other notice of the filing or billing of the QIP surcharge rider or an information sheet 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.
- f) QIP shall also include a reconciliation of the projected QIP plant included in the rate base of the utility's last rate case filing for the rate zone and the actual cost of the QIP plant incurred as of the end of the projected test year in the utility's last rate case filing for the rate zone.

(Source: Amended at 40 Ill. Reg. _____, effective _____)

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 (e);
 - 2) ~~The~~ Such replacements must be nonrevenue ~~non-revenue~~ producing;
 - 3) ~~The~~ Such replacements are installed to replace facilities that are worn out or deteriorated or to replace facilities that are obsolete and at the end of their useful service lives due to a change in law or a change in the regulations of a governmental agency;
 - 4) ~~The~~ Such replacements are installed after the conclusion of the test year in the utility's latest rate case for the rate zone; and
 - 5) ~~The~~ Such replacements were not included in the calculation of the rate base in the utility's last rate case for the rate zone.
- b) Qualifying Infrastructure Plant ~~For water utilities, the plant additions shall include plant items or facilities, except for land, from the following accounts 304 through 336 (see, pursuant to 83 Ill. Adm. Code 605.:-1) for water utilities), 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 354 through 382 (see, pursuant to 83 Ill. Adm. Code 650 for sewer utilities). Qualifying plant shall not include land, intangibles or a tangible plant classified as a General and Administrative plant.:~~
- 1) ~~Account 360, Collecting Sewers—Force;~~
 - 2) ~~Account 361, Collecting Sewers—Gravity (including costs associated with manholes); and~~
 - 3) ~~Account 363, Services to Customers.~~
- c) In addition to replacements, the following items may be classified as QIP: water main lining and related rehabilitation projects to eliminate water loss from water main breaks, as well as main extensions recorded in Account 331 for water utilities that are constructed to eliminate dead ends and the unreimbursed costs recorded in the appropriate accounts listed in subsections (b) and (e) that are associated with relocations of mains, services, hydrants, and sewers occasioned by street or highway construction.
- d) In addition to replacements, the following items may be classified as QIP: sewer collection main and manhole lining/grouting for sewer utilities that are rehabilitating collection systems to eliminate inflow and infiltration, as well as

rehabilitation of sewer structures and receiving wells when rehabilitated as part of the scope of eliminating inflow and infiltration.

- 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~~. However, QIP shall also include a reconciliation of the projected QIP plant included in the rate base of the utility's last rate case filing for the rate zone with the actual cost of the QIP plant incurred as of the end of the projected test year in the utility's last rate case filing for the rate zone.

(Source: Amended at 40 Ill. Reg. _____, effective _____)

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.

- a1) 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 for the rate zone. 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:

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

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

Where:

- GRCF = Gross Revenue Conversion Factor.
 PPTRIT = Illinois Personal Property Tax Replacement Income 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 for the rate zone.
 WCPE = Weighted cost of preferred equity from the utility's last rate case for the rate zone.
 WCLTD = Weighted cost of long term debt from the utility's last rate case for the rate zone.
 WCSTD = Weighted cost of short term debt from the utility's last

rate case for the rate zone.

- b2) 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.

(Source: Amended at 40 Ill. Reg. _____, effective _____)

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 for the rate zone utilized a future test year as defined in 83 Ill. Adm. Code ~~287285~~ and the utility submits the information required by Section 656.70(d) ~~(76) 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:

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

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 and accumulated deferred income taxes (ADIT) in QIP for the rate zone for the operation year. The average forecasted cost of QIP, net of depreciation and any ADIT liabilities (net of deferred tax assets) resulting from the QIP, shall be computed by using an average of 13 end-of-month balances of QIP, ~~less and~~ accumulated depreciation and ADIT for the period from December 31 of the year preceding the operation year through December 31 of the operation year.
- AdjNetQIP = The actual amount of netQIP as of the end of the QIP forecast period used in the utility's last rate case for the rate zone less the amount of NetQIP the Commission approved to be added to the utility's rate base as of the end of the QIP forecast period.
- PTR = Pre-tax return as described in Section 656.50(a)(1) ~~of this Part.~~
- Net Dep = Net depreciation expenses related to the average investment in QIP for the rate zone for the operation year. Depreciation expenses shall be calculated by multiplying the average forecasted cost of the 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. The average forecasted cost of the investment in QIP by plant account, net of retirements, shall be computed by using an average of 13 end-of-the-month balances of QIP by plant account and retirements for the period from December 31 of the year preceding the operation year through December 31 of the operation year.
- AdjNetDep = The actual amount of NetDep applicable to the QIP forecast period used in the utility's last rate case for the rate zone less the amount of NetDep that the Commission approved for the QIP forecast period used in the utility's last rate case for the rate zone.
- 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. Om 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 projected project of total water or sewer QIP base rate 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~~.

Following the final order in each rate case, and before the Effective Month that will initiate the inclusion of AdjNetQIP and AdjNetDep, the utility shall file a public document in the rate case that provides the calculation of AdjNetQIP and AdjNetDep, including each component used to determine AdjNetQIP and AdjNetDep.

- 2) Quarterly Historical Operation
Utilities choosing quarterly historical operation shall determine the QIP surcharge percentage for the quarter using the following formula:

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

Where:

- S% = QIP surcharge percentage.
- NetQIP = Original cost of QIP less accumulated depreciation and any accumulated deferred income tax (ADIT)

- liabilities net of deferred tax assets resulting from the QIP for the rate zone. NetQIP shall be the level of investment in QIP existing at the end of the calendar month ~~the month~~ in which an investment sheet is filed, net of depreciation and any ADIT liabilities (net of deferred tax assets) resulting from the QIP.
- AdjNetQIP = The actual amount of NetQIP as of the end of the QIP forecast period used in the utility's last rate case for the rate zone less the amount of NetQIP the Commission approved to be added to the utility's rate base as of the end of the QIP forecast period.
- 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 the plant being retired.
- AdjNetDep = The actual amount of NetDep applicable to the QIP forecast period used in the utility's last rate case for the rate zone less the amount of NetDep that the Commission approved for the QIP forecast period used in the utility's last rate case for the rate zone.
- 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. Om 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 .33.
- PQR = Projected~~Project~~ quarterly water or sewer QIP base rate revenues, as applicable, 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~~.

Following the final order in each rate case, and before the Effective Month that will initiate the inclusion of AdjNetQIP and AdjNetDep, the utility shall file a public document in the rate case that provides the calculation of AdjNetQIP and AdjNetDep, including each component used to determine AdjNetQIP and AdjNetDep.

(Source: Amended at 40 Ill. Reg. _____, effective _____)

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, a utility may file its initial information sheet with a QIP surcharge percentage for the initial operation year with an effective date of the first day of any month. The effective date of any subsequent information sheet with a 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 QIP 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 QIP 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 are 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 detailed schedule showing the calculation of accumulated deferred income taxes associated with QIP for each rate zone for which a QIP surcharge rider is in effect; and
 - 76) 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 2012 Prospective Guidelines for Presentation of Projected Financial Information Guide (November 1, 2012) ~~(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, for each rate zone for which a QIP surcharge rider is

in effect, providing the following information for each completed QIP eligible project whose cost has been transferred to utility plant with the closing of the QIP eligible project's work order:

- 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; and.
- 4) A detailed schedule showing the calculation of accumulated deferred income taxes associated with QIP for each rate zone for which a QIP surcharge rider is in effect.

(Source: Amended at 40 Ill. Reg. _____, effective _____)

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 include testimony and schedules that support the accuracy and the prudence of the qualifying infrastructure investment for the reconciliation year, and shall be verified by an officer of the utility. The schedules included with the annual reconciliation shall reflect all carry forward adjustments from prior QIP surcharge reconciliation Orders, and the testimony shall address how adjustments ordered in prior QIP surcharge reconciliations are reflected in the current reconciliation. 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 for the rate zone, as applicable, then

the R component shall include the credit required by subsections (c) and (d). 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, ~~these~~ data being developed in accordance with subsection (f)(4). 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 for the rate zone, 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:

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

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 and any accumulated deferred income tax (ADIT) liabilities net of deferred tax assets resulting from the ~~of~~ QIP for the rate zone for the reconciliation year. The average actual cost of QIP, net of depreciation and ADIT, shall be computed by using an average of 13 end-of-month balances of QIP ~~less~~ and

accumulated depreciation and associated ADIT 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.~~)

<u>AdjNetQIP</u>	≡	<u>AdjNetQIP as defined in Section 656.60. The effective date of the AdjNetQIP will be as disclosed in the document required following a rate case as described in Section 656.60.</u>
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.)
<u>AdjNetDep</u>	≡	<u>AdjNetDep as defined in Section 656.60. The effective date of the AdjNetDep will be as disclosed in the document required following a rate case as described in Section 656.60.</u>
QIPRev	=	Actual QIP revenues collected during the reconciliation year through the QIP surcharge.
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 (f)(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 <u>for the rate zone.</u>

- e) Any adjustment made by Order of the Commission under subsection (b) or (c) shall be included in the O component and be in effect for either 12 months or nine months, beginning on the next January 1 (if 12 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 13-month average rate base for the reconciliation year by rate zone. This calculation of actual operating income and 13-month average rate base shall be adjusted for any applicable adjustments accepted by the Commission in the utility's last rate case for the rate zone. 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 that results when the weighted embedded cost-of-debt reflected in the overall rate of return calculation used in the utility's last rate proceeding for the rate zone 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 for the rate zone, 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 for the rate zone 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 ~~280.40(g)(1)~~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.~~

(Source: Amended at 40 Ill. Reg. _____, effective _____)

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 the 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 that data are available, or based upon estimates if records are not available:
 - A) Wells, including the age, type of construction and casing, depth,

diameter, number and capacity;

- B) Generators, including age, fuel type, size and number;
- C) Pumping equipment, including the age, capacity, number and purpose;
- D) Water treatment equipment, including the age, capacity and description;
- E) Distribution reservoirs and standpipes, including the age, type, size, capacity and material;
- FA) Transmission and distribution mains, including the age, footage, size and material;
- ~~GB)~~ Services, including the age, ~~number~~ footage, and material;
- ~~HC)~~ Meters and meter installations, including the age, size, and number; and
- ~~ID)~~ Hydrants, including the age, number, and ~~size~~ 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 that data are available, or based upon estimates if records are not available:

- A) Generators, including age, fuel type, size and number;
- ~~BA)~~ Collecting sewers – force, including the age, footage, size and material;
- ~~CB)~~ Collecting sewers – gravity, including the age, footage, size and material number; and
- ~~DC)~~ Services to customers, including the age, ~~number~~ footage, and material;
- E) Lift stations, including the age, size and capacity;
- F) Manholes, including the age, size, material and number;
- G) Pumping equipment, including the age, capacity, number and

purpose; and

H) Treatment and disposal equipment, including the age, capacity and description.

- 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 their 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) 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.
- 8) All utilities shall provide bill comparisons showing the effect of the QIP surcharge for each class of customer at the average customer usage level, at five usage levels above the average customer usage level, and at five usage levels below the average customer usage level. The bill comparisons shall present the current bill, the proposed bill, the difference between the current bill and the proposed bill, and the percentage change between the current bill and the proposed bill. For the purposes of this subsection (b)(8), the bill comparison shall include only QIP base rate revenues, exclusive of revenue attributable to public/private fire protection service. All utilities shall also provide supporting schedules showing the billing units, charges, and revenues used in calculating the bill comparison.

(Source: Amended at 40 Ill. Reg. _____, effective _____)

Section 656.100 Annual Internal Audit

The utility shall submit annually to the Commission's Manager of the Accounting Department, no later than June 30 for the previous calendar year, an internal audit report that determines whether the QIP surcharge and information provided under the Annual Reconciliation in Section 656.80 have been calculated in accordance with this Part. The initial internal audit report shall be

submitted no later than June 30 of the year following the effective date of the QIP surcharge rider. Internal audits conducted under this Part shall determine whether:

- a) Internal controls are effectively preventing the double recovery of costs through the QIP surcharge and other approved tariffs;
- b) Costs recovered through the QIP surcharge are recorded in the appropriate accounts;
- c) Costs recovered through the QIP surcharge are properly reflected in the calculation of the QIP surcharge percentage and the annual reconciliation;
- d) The QIP surcharge percentage and annual reconciliation properly reflect all applicable adjustments from prior QIP surcharge reconciliation Orders;
- e) The QIP surcharges are properly calculated; and
- f) The QIP surcharge percentage is being properly billed to customers.

(Source: Added at 40 Ill. Reg. _____, effective _____)