By the Commission:

I. INTRODUCTION

On March 15, 2019, Illinois-American Water Company ("Illinois-American", "IAWC", or the "Company") filed with the Illinois Commerce Commission ("Commission") a Petition pursuant to Section 9-220.2 of the Public Utilities Act ("Act"), 220 ILCS 5/1-101 et seq., and Part 656 of the Commission’s Rules, 83 Ill. Adm. Code 656.10, et seq. ("Part 656"), seeking approval of the Company's Qualifying Infrastructure Plant ("QIP") surcharge reconciliation for the 2018 reconciliation year, January 1, 2018 through December 31, 2018, for its Single Tariff Pricing Rate Zone ("Zone 1"), and its Pekin, Lincoln, and Chicago Metro Waste Water Rate Zones. All of these rate zones are eligible to participate in the QIP program.

Pre-hearing conferences were held on April 10, 2019 and July 17, 2019 before a duly authorized Administrative Law Judge ("ALJ") of the Commission. Counsel for Illinois-American, Commission Staff ("Staff"), the City of Elmhurst, the Village of Bolingbrook, and the Village of Hanna City appeared.

On September 25, 2019, an evidentiary hearing was held. All parties and Staff appeared by counsel. At the hearing, Illinois-American offered IAWC Exhibits 1.00 through 1.11, the pre-filed sworn direct testimony and accompanying exhibits of Mr. Rich Kerckhove, Director, Rates & Regulatory for Illinois-American. Staff offered Staff Exhibit 1.0, the pre-filed sworn direct testimony and accompanying schedules of Ms. Dianna Trost, Accountant in the Accounting Department of the Commission’s Financial Analysis Division. On September 26, 2019, the ALJ marked the record "Heard and Taken."

On November 19, 2019, there being no contested issues among the parties at the time of the evidentiary hearing, Illinois-American submitted a Suggested Order, which had been reviewed and approved by all parties and Staff.

II. STATUTORY AUTHORITY

Section 9-220.2 of the Act authorizes a QIP surcharge. It provides:

(a) The Commission may authorize a water or sewer utility to file a surcharge which adjusts rates and charges to provide for recovery of . . .
costs associated with an investment in qualifying infrastructure plant, independent of any other matters related to the utility's revenue requirement. A surcharge approved under this Section can operate on an historical or a prospective basis.

(b) For purposes of this Section, "costs associated with an investment in qualifying infrastructure plant" include a return on the investment in and depreciation expense related to plant items or facilities (including, but not limited to, replacement mains, meters, services, and hydrants) which (i) are not reflected in the rate base used to establish the utility's base rates and (ii) are non-revenue producing. For purposes of this Section, a "non-revenue producing facility" is one that is not constructed or installed for the purpose of serving a new customer.

(c) On a periodic basis, the Commission shall initiate hearings to reconcile amounts collected under each surcharge authorized pursuant to this Section with the actual prudently incurred costs recoverable for each annual period during which the surcharge was in effect.

220 ILCS 5/9-220.2.

Part 656.20 defines QIP as “certain nonrevenue 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. A nonrevenue producing plant is plant that is not constructed or installed for the purpose of serving a new customer.” Part 656.40 specifies the criteria that must be met for plant additions to be classified as QIP.

Under Part 656.30(a), “[t]he amount of increases billed under the QIP surcharge since the utility's most recent rate order for the rate zone 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.”

Part 656.30(b) provides:

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.

Part 656.30(f) requires a reconciliation of the projected QIP included in the rate base of the utility’s last rate case filing for each rate zone and the actual QIP cost incurred as of the end of the projected test year in the utility’s last rate case filing for each rate zone.

Part 656.60 sets forth formulas for determining the QIP surcharge percentage and the amount added to the customer's bill when the QIP surcharge percentage is applied. Subject to prior balances and the 2.5% annual average increase and 3.5% increase in
any given year caps, amounts recovered through the QIP surcharge may not exceed the authorized dollar return on allowable QIP investment (investment x rate of return) plus depreciation on allowable QIP investment.

Parts 656.70 and 656.80 establish procedures and timelines for rider and information sheet filings and annual reconciliations, respectively. Section 656.80 provides that the annual reconciliation shall include a calculation of the “R” Component (or R Factor) 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. The “O” component (or O Factor) is the Commission-ordered adjustment component necessary to adjust actual revenue collected under the QIP surcharge to the actual level of prudently incurred QIP costs for the reconciliation year.

III. IAWC’S POSITION

On December 20, 2017, Illinois-American filed with the Commission 2018 QIP information sheets for the Company’s QIP eligible rate zones in accordance with the terms of its Commission-approved QIP riders and Part 656. The QIP surcharge percentage specified in the information sheets, effective January 1, 2018, was 1.12% for the Zone 1 rate zone, 1.37% for the Pekin rate zone, 1.36% for the Lincoln rate zone, 0.78% for the Chicago Metro Wastewater rate zone – wastewater collection services, and 0.78% for the Chicago Metro Wastewater rate zone – wastewater collection and treatment services.

On March 20, 2018, Illinois-American filed with the Commission QIP information sheets to credit or collect the 2017 reconciliation R and O Components as required by Part 656.80(a). The QIP surcharge percentage specified in the information sheets, effective April 1, 2018, was 2.38% for Zone 1, 2.50% for the Pekin rate zone, 2.50% for the Lincoln rate zone, and 2.50% for the Chicago Metro Wastewater rate zone.

Mr. Kerckhove explained that the exhibits accompanying his testimony support Illinois-American’s reconciliation calculations and he described each exhibit in detail. IAWC Exhibit 1.01 presents the QIP costs for the reconciliation year as required by Part 656.80(f)(1). IAWC Exhibit 1.02 presents the revenues arising through the application of the QIP surcharges during the reconciliation year as required by Part 656.80(f)(2). IAWC Exhibit 1.03 presents the calculation of QIP for 2018. The amounts of QIP on IAWC Exhibit 1.03, along with the QIP revenue collected during 2018, are carried over to IAWC Exhibit 1.10, which presents the reconciliation components determined by Illinois-American showing the amounts to be recovered/(credited) over a nine-month period commencing April 1, 2019, as required by Part 656.80(f)(3). IAWC Exhibit 1.04 presents the schedule of actual rate base and operating income for each of the tariff groups for 2018 as required by Part 656.80(f)(4). IAWC Exhibit 1.05 presents the work papers supporting the 2018 reconciliation as required by Part 656.80(h)(1). IAWC Exhibit 1.06 presents a detailed summary of all invoices supporting the costs for eligible QIP surcharge projects as required by Part 656.80(h)(2). IAWC Exhibit 1.07 presents material supporting the recovery of the QIP surcharge as required by Part 656.80(h)(3). IAWC Exhibit 1.08 presents the detailed worksheet showing the calculation of the utility-determined reconciliation components R as required by Part 656.80(h)(4).
1.09 provides information regarding the prudence of the Company’s investment in QIP as required by Part 656.80(h)(5). IAWC Exhibit 1.10 summarizes the 2018 reconciliation by tariff group and calculates the interest on the outstanding O Factors that were included in QIP rates effective January 1, 2019. Finally, IAWC Exhibit 1.11 presents the earnings test for each of Illinois-American’s tariff groups. Mr. Kerckhove explained that the Company’s last authorized overall rate of return per the final order in its last rate case, Docket 16-0093, was 7.47%. However, as shown on IAWC Exhibit 1.11, the QIP surcharge collected during 2018 did not contribute to the realization of a rate of return above 7.47%.

Mr. Kerckhove also explained Illinois-American’s compliance with other Part 656 requirements. He noted that Part 656.100 requires the Company to submit an internal audit report to the Manager of the Commission’s Accounting Department no later than June 30, 2019. Illinois-American timely submitted that report. Mr. Kerckhove further noted that Illinois-American maintained and kept open for public inspection a copy of the new information sheets in each of its offices in accordance with Part 656.30(c)(1) and 83 Ill. Adm. Code 255.20(a); Illinois-American posted a public notice in each office, giving notice that the Company filed information sheets with the Commission to revise the QIP surcharge, in accordance with Part 656.30(c)(1) and 83 Ill. Adm. Code 255.20(a); and Illinois-American provided an explanation of the QIP surcharge on the initial billing of the new QIP surcharge in accordance with Part 656.30(c)(3). Finally, Mr. Kerckhove noted that the QIP surcharge is presented as a separate line item on Illinois-American’s customers’ bills.

IV. STAFF’S POSITION

Staff witness Trost reviewed Illinois-American’s reconciliation of its QIP rider in effect during the 2018 reconciliation year and proposed several adjustments, which are summarized on page 1 of her Schedules 1.01 through 1.04 (column (D)). She recommended that page 1 of Schedules 1.01 through 1.04 be attached to the final order in this proceeding as an appendix. Her adjusted reconciliation reflects current year total Factor O refunds of $170,078 for Zone 1 and $1,748 for the Pekin rate zone, and Factor O collections of $1,156 for the Lincoln rate zone and $14,435 for the Chicago Waste Water rate zone. Ms. Trost explained that the Factor O refunds and collection should be included in the QIP surcharges calculated with the first information sheet that Illinois-American files after the final order in this proceeding.

Ms. Trost explained that page 2 of her Schedule 1.01 presents her proposed adjustment to remove 2018 depreciation expense from factor AdjNetDep and 2018 accumulated depreciation and 2018 accumulated deferred income taxes from factor AdjNetQIP (collectively “2018 roll forward”) (AdjNetDep and AdjNetQIP as defined at ILL.C.C. No. 24, Section No. 1, First Revised Sheet No. 18.1.). Ms. Trost testified that the 2018 roll forward is not associated with the 2017 test year used in the Company’s last rate case. She further stated that the adjustments AdjNetQIP and AdjNetDep are intended to adjust the forecast costs used in the Company’s last rate case to result in actual cost recovery of QIP eligible plant. She maintained that if the Company’s test year forecast for QIP eligible plant in Docket No. 16-0093 matched its actual QIP eligible plant at the end of the forecast period 100% perfectly, there would be no AdjNetQIP or AdjNetDep, and the Company’s Rider QIP surcharge would not need to be updated to
reflect difference between forecasted and actual test year QIP depreciation expense, accumulated depreciation and accumulated deferred income taxes on a going forward basis. Ms. Trost testified that the tariff is consistent with this premise (i.e., no additional adjustments to base rates) in that it allows only the adjustment to align the forecast with actual QIP eligible plant at the end of the forecast period. It does not provide for or allow further updates. Therefore, Staff proposed adjustments resulting in a reduction to recoverable QIP costs of $194,322 for Zone 1, which results in a refund of costs to ratepayers. Ms. Trost proposed similar adjustments for the Pekin, Lincoln, and Chicago Waste Water rate zones, as reflected on page 2 of her Schedules 1.02, 1.03, and 1.04, respectively.

Ms. Trost explained that page 3 of her Schedule 1.01 presents her adjustment to reverse the impact to Illinois-American’s calculation of AdjNetQIP for several prior period errors relating to 2016 and 2017. Ms. Trost maintained that the Company’s proposed corrections are outside the timeframe of the 2018 reconciliation period. She further maintained that the compounding nature of tracking and verifying numerous corrections leads to further complication of the QIP surcharge. She explained that the result for Zone 1 is an increase to recoverable QIP costs of $244. The adjustment results in a collection of costs from ratepayers. Ms. Trost proposed similar adjustments for the Pekin, Lincoln, and Chicago Waste Water rate zones, as reflected on page 2 of her Schedules 1.02, 1.03, and 1.04, respectively.

Ms. Trost explained that page 4 of her Schedule 1.01 presents an adjustment to 2018 revenues based on an error discovered in Illinois-American’s annual internal audit. She explained that the result is an increase to recoverable QIP costs of $24,000 for Zone 1. The adjustment results in a collection of costs from ratepayers. Ms. Trost proposed a similar adjustment for the Chicago Waste Water rate zone, as reflected on page 4 of her Schedule 1.04. The adjustment is not applicable to the Pekin and Lincoln rate zones.

Ms. Trost noted that in certain discovery responses, Illinois-American agreed with her reconciliation amounts and had no objections to the adjustments that she proposed.

Ms. Trost made three other recommendations. First, she recommended that when Illinois-American calculates AdjNetQIP after its next rate case, the Company compute the adjustment once by comparing the actual amount of NetQIP as of the end of the QIP forecast period used in its last rate case for the rate zone less the amount of NetQIP the Commission approved to be added to the Company’s rate base as of the end of the QIP forecast period. Second, she recommended that Illinois-American identify in all future information sheets for Rider QIP the specific numerical amounts for AdjNetQIP and AdjNetDep as defined in the tariffs. Third, she recommended that the Commission’s final order in this proceeding include a finding and ordering paragraph that states:

The Commission finds the following amounts to be approved for the AdjNetQIP and AdjNetDep amounts to carry forward to future QIP surcharge and reconciliation filings until these amounts are reestablished after the next rate case cycle:

Zone 1       AdjNetQIP $26,545,080; AdjNetDep $420,303
Pekin        AdjNetQIP $1,446,013; AdjNetDep $24,356
Lincoln AdjNetQIP $758,138; AdjNetDep $12,959
Chicago Waste AdjNetQIP $1,617,517; AdjNetDep $26,887
Water
Illinois-American did not object to any of these recommendations.

V. COMMISSION ANALYSIS AND CONCLUSION
The Commission finds that the QIP surcharge reconciliations for the 2018 reconciliation year as recommended by Staff and accepted by Illinois-American, which are shown in the attached Appendix, are reasonable and should be approved. The types of costs recovered and the period in which they were incurred meet the criteria set forth in Part 656. The Commission further finds that the resulting Factor O refunds and collection should be included in the QIP surcharges calculated with the first information sheet that Illinois-American files after this Order. Subject to the adjustments adopted above, the record also indicates that the costs recovered through the QIP surcharge were prudently incurred within the meaning of Section 9-220.2(c) of the Act.

VI. FINDINGS AND ORDERING PARAGRAPHS
The Commission, having considered the entire record and being fully advised in the premises, is of the opinion and finds that:

(1) Illinois-American Water Company provides water and sewer public utility services to the public in certain areas in the State of Illinois and is a public utility within the meaning of Section 3-105 of the Public Utilities Act, 220 ILCS 5/3-105;
(2) the Commission has jurisdiction over Illinois-American Water Company and the subject matter of this proceeding;
(3) the facts recited and conclusions reached in the prefatory portions of this Order are supported by the record and are hereby adopted as findings of fact;
(4) the QIP surcharge reconciliations for Illinois-American Water Company’s Zone 1 and Pekin, Lincoln, and Chicago Metro Waste Water Districts summarized in the appendix to this Order are approved for the reconciliation period;
(5) the resulting Factor O refunds and collection should be included in the QIP surcharges calculated with the first information sheet that Illinois-American files after this Order;
(6) the Commission finds the following amounts to be approved for the AdjNetQIP and AdjNetDep amounts to carry forward to future QIP surcharge and reconciliation filings until these amounts are reestablished after the next rate case cycle:

<table>
<thead>
<tr>
<th>Location</th>
<th>AdjNetQIP</th>
<th>AdjNetDep</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zone 1</td>
<td>$26,545,080</td>
<td>$420,303</td>
</tr>
<tr>
<td>Pekin</td>
<td>$1,446,013</td>
<td>$24,356</td>
</tr>
<tr>
<td>Lincoln</td>
<td>$758,138</td>
<td>$12,959</td>
</tr>
</tbody>
</table>
Chicago Waste AdjNetQIP $1,617,517; AdjNetDep $26,887
Water; and

(7) any motions, petitions, objections, or other matters in this proceeding that remain unresolved should be resolved consistent with the conclusions contained herein.

IT IS THEREFORE ORDERED that the QIP surcharge reconciliations for Illinois-American Water Company’s Zone 1 and Pekin, Lincoln, and Chicago Metro Waste Water Rate Zones summarized in the Appendix to this Order are approved for the reconciliation period.

IT IS FURTHER ORDERED that the resulting Factor O refunds and collection should be included in the QIP surcharges calculated with the first information sheet that Illinois-American files after this Order.

IT IS FURTHER ORDERED that the following amounts are approved for the AdjNetQIP and AdjNetDep amounts to carry forward to future QIP surcharge and reconciliation filings until these amounts are reestablished after the next rate case cycle:

<table>
<thead>
<tr>
<th></th>
<th>AdjNetQIP</th>
<th>AdjNetDep</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zone 1</td>
<td>$26,545,080</td>
<td>$420,303</td>
</tr>
<tr>
<td>Pekin</td>
<td>$1,446,013</td>
<td>$24,356</td>
</tr>
<tr>
<td>Lincoln</td>
<td>$758,138</td>
<td>$12,959</td>
</tr>
<tr>
<td>Chicago Waste</td>
<td>$1,617,517</td>
<td>$26,887</td>
</tr>
</tbody>
</table>

Water

IT IS FURTHER ORDERED that all motions, petitions, objections, or other matters in this proceeding that remain unresolved are hereby resolved consistent with the conclusions contained herein.

IT IS FURTHER ORDERED that pursuant to Section 10-113(a) of the Public Utilities Act and 83 Ill. Adm. Code 200.880, any application for rehearing shall be filed within 30 days after service of the Order on the party.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 19th day of December, 2019.

(SIGNED) CARRIE ZALEWSKI

Chairman