**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, the 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:

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| --- | --- | --- |
| R | = | ((ActNetQIP + AdjNetQIP) x PTR) + (ActNetDep + AdjNetDep) - QIPRev + Rpy + Opy - EEA |

Where:

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| --- | --- | --- |
| 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 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 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).) |
| AdjNetQIP | = | 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. |
| PTR | = | Pre-tax return as described in Section 656.50(a)(1). |
| 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).) |
| AdjNetDep | = | 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. |
| 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). 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 for the rate zone. |

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 9 months, beginning on the next January 1 (if 12 months) or April 1 (if 9 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). 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.

(Source: Amended at 40 Ill. Reg. 9467, effective July 1, 2016)