

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: IOWA-AMERICAN WATER COMPANY	DOCKET NO. RPU-2009-0004
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**ORDER SETTING TEMPORARY RATES, APPROVING CORPORATE
UNDERTAKING, AND REQUIRING ADDITIONAL INFORMATION**

(Issued July 27, 2009)

On April 30, 2009, Iowa-American Water Company (Iowa-American) filed with the Utilities Board (Board) a proposal for a general rate increase in temporary and final water rates. Iowa-American proposed a temporary increase that would produce additional annual revenue for Iowa-American of approximately \$7.9 million and a permanent increase that would produce additional annual revenue of approximately \$9.4 million. On May 18, 2009, the Board docketed the proposed increases as Docket No. RPU-2009-0004.

On May 29, 2009, the Consumer Advocate Division of the Department of Justice (Consumer Advocate) filed an objection to the request for temporary rates. Iowa-American filed a response to the objection on June 12, 2009.

Iowa Code § 476.6(10) (2009) controls the manner in which temporary rates are set. The statute gives the utility two options. First, the utility can place into effect temporary rates without Board review within ten days after the utility files its request, accompanied by a bond or corporate undertaking agreeing to make appropriate

refunds if temporary rates exceed final rates. This first option has been available since 2003. Second, the utility can ask that the Board determine temporary rates; the Board's decision must be made within 90 days of the utility's request for temporary rates. This is the traditional method of setting temporary rates that has been available since 1983. Iowa-American has chosen this second option, asking the Board to set temporary rates. With respect to the second option, § 476.6(10) provides, in part:

Upon the request of a public utility, the board shall, when required by this subsection, grant the public utility temporary authority to place in effect any or all of the suspended rates, charges, schedules or regulations by filing with the board a bond or other undertaking approved by the board conditioned upon the refund in a manner to be prescribed by the board of any amounts collected in excess of the amounts which would have been collected under rates, charges, schedules or regulations finally approved by the board. In determining that portion of the new or changed rates, charges, schedules or regulations to be placed in effect prior to a final decision, the board shall apply previously established regulatory principles and shall, at a minimum, permit rates and charges which will allow the utility the opportunity to earn a return on common stock equity equal to that which the board held reasonable and just in the most recent rate case involving the same utility or the same type of utility service, provided that if the most recent final decision of the board in an applicable rate case was rendered more than twelve months prior to the day of filing of the request for temporary rates, the board shall in addition consider financial market data that is filed or that is otherwise available to the board and shall adjust the rate of return on common stock equity that was approved in that decision upward or downward as necessary to reflect current conditions.

In Northwestern Bell v. Iowa State Commerce Commission, 359 N.W.2d 491, 496 (Iowa 1984), the Iowa Supreme Court interpreted this portion of the statute and stated, in part:

[I]n the 1983 Code the Assembly telescoped the temporary and permanent rate steps into one procedure, evidently to end the prior problem of a utility's placing its new rates in effect in temporary form under bond and then having little motivation to press forward with the permanent rate aspect. The General Assembly has ended the ability of the utility itself to set the temporary rates in the usual situation; the commission sets them and proceeds to the permanent rates. If instead the utility could obtain judicial review of temporary rates and obtain its desired rates from the courts, as in this case, its motivation to seek permanent rates would be dulled and fulfillment of the legislative scheme would be hampered. To minimize the possibility of harm to the utilities, the legislature started time running from the original filing as to both temporary and permanent rates ...

While permanent rates may ultimately be set higher than the commission's temporary rates, by shortening the time for the commission's final decision to ten months and by streamlining the temporary and permanent rate procedure, the Assembly has demonstrated its desire to minimize utility hardship.

The Board, therefore, is directed by statute to permit Iowa-American to collect rates which, at a minimum, allow the return on common equity equal to that which was held reasonable in the most recent rate case involving the same utility or same type of utility service, provided the Board's decision was rendered within 12 months prior to Iowa-American's request for temporary rates. In addition, the Board is directed to apply established regulatory principles in setting the return on common equity and considering any proposed adjustments. Since the General Assembly directs the Board to establish a temporary rate level by applying established regulatory principles rather than examining an evidentiary record, it is not appropriate for the Board to make detailed findings of fact on each individual issue at this time. That step will be part of the final rate decision.

Consumer Advocate's objection to Iowa-American's request for temporary rates and Iowa-American's replies to the objection narrowed the issues to be considered in setting temporary rates to one rate base issue, one expense issue, and the return on equity. In addition to the foregoing issues, the Board will address Iowa-American's request for approval of its corporate undertaking and the applicable rate design for temporary rates, which were not contested for temporary rates. The Board will also require the parties to file information for consideration in final rates. The issues to be addressed are:

- I. COST OF CAPITAL—RETURN ON COMMON EQUITY
- II. OPERATING EXPENSES—PRIOR RATE CASE EXPENSE
- III. RATE BASE—RADIUM TREATMENT PLANT
- IV. RATE DESIGN
- V. ADDITIONAL INFORMATION
- VI. CORPORATE UNDERTAKING

I. COST OF CAPITAL—RETURN ON COMMON EQUITY

Both Iowa-American and Consumer Advocate, consistent with Board precedent, recognize the extent of double leverage in the capital structure. By recognizing double leverage, the weighted average cost of capital of Iowa-American's parent company, American Water Works Company (AWWC), is used as the cost of equity for the regulated subsidiary, Iowa-American.

Iowa-American and Consumer Advocate also agreed that debt and equity issuances planned for May or June 2009 be included in the capital structure if they were consummated prior to the Board's decision on temporary rates. Iowa-American

filed supplemental testimony indicating that those debt and equity issuances did in fact take place. Iowa-American's capital structure will be used, as corrected by Consumer Advocate. The only substantive disagreement between Iowa-American and Consumer Advocate with respect to capital structure is the return on equity.

In setting an allowed rate of return on equity investment, the Board is to balance investor and consumer interests. For example, if rates produce earnings that are below a fair and reasonable level, they are unjust or confiscatory to the owners of the utility property; if rates produce earnings that are above a fair and reasonable level, the rates are oppressive to the utility's ratepayers. Davenport Water Co. v. Iowa State Commerce Comm'n, 190 N.W.2d 583, 604-05 (Iowa 1971). In addition, the U.S. Supreme Court, in FPC v. Hope Natural Gas Company, 320 US 591, (1944) held that "the return to the equity owner [the utility] should be commensurate with returns on investments in other enterprises having corresponding risks. The return, moreover, should be sufficient to assure confidence in the financial integrity of the enterprise so as to maintain credit and attract capital"

Iowa-American initially proposed to use a 12.20 percent cost of equity for its parent, AWWC. Iowa-American's recommendation reflects the application of four different common equity models (discounted cash flow, capital asset pricing model, risk premium model, and comparable earning model), which produced a range of 11.60 to 11.75 percent. Iowa-American arrived at its 12.20 percent recommendation

by applying a business risk and financial risk adjustment. This produces a proposed 10.79 percent cost of equity for Iowa-American after applying double leverage.

Consumer Advocate proposed a 10.08 percent cost of equity for AWWC, which produces a 9.230 percent cost of equity for Iowa-American after applying double leverage. Consumer Advocate based its recommendation on a risk premium methodology that added 250 to 450 basis points to the A-rated utility bond yield average (6.58 percent) for the 12-month period ending March 2009. This produced a range of 9.08 and 11.08 percent, and Consumer Advocate advocated that the midpoint of 10.08 percent be used for AWWC.

Iowa Code § 476.6(10) (2009) requires that the Board review current financial information if a Board decision on the cost of equity for the same type of utility service was rendered more than 12 months prior to the current filing. Iowa-American's most recent water rate case (Docket No. RPU-07-3) was settled, and the Board does not look at settled rate cases for determining the return on common equity for temporary rates. Also, the settlement in that case was approved over 12 months ago; the Board notes that the last fully litigated Iowa-American case was in 1990. Therefore, it is necessary for the Board to consider current market data.

Iowa-American urged the Board to look at four equity models (discounted cash flow, risk premium, capital asset, and comparable earnings) in determining return on equity for temporary rates. Iowa-American then added basis points for a business risk and financial risk adjustment to arrive at 12.20 percent. The three market-based

models used by Iowa-American produce a range between 9.45 and 11.72 percent; the Board is not persuaded to rely on the comparable earnings model because it is not a market-based model. In addition, any business or financial risk adjustments must be considered in the full rate case and will not be reflected in the return on common equity for temporary rates.

The Board in recent years has placed greater reliance on the risk premium method in determining return on equity. The risk premium model often used by the Board adds 250 to 450 basis points to the most current A-rated utility bond yield, rather than to the 12-month average. The most recent bond yield available is April's rate of 6.49 percent, producing a return on equity range of 8.99 to 10.99 percent, similar to the range developed by Consumer Advocate using the 12-month average bond yield.

In reviewing current market data and the ranges produced by the Board's risk premium analysis and the other market-based models, a return on equity range between 10 and 11 percent appears reasonable. The Board will set the return on common equity for AWWC at the midpoint of this range, 10.5 percent. This becomes, through application of double leverage and use of the agreed-upon capital structure for temporary rate purposes, an allowed return on rate base for Iowa-American of 8.55 percent.

II. OPERATING EXPENSES—PRIOR RATE CASE EXPENSE

Iowa-American initially included rate case expenses from its prior rate case (Docket No. RPU-07-3) and current rate case (Docket No. RPU-2009-0004) in temporary rates. Consumer Advocate objected to their inclusion, and with respect to expenses from the current rate case noted that the Board's rules do not allow estimated rate case expenses in temporary rates. Iowa-American agreed to remove expenses from the current rate case in temporary rates, but argued that the unamortized balance from prior cases should be included because it represents a previously incurred expense approved by the Board as a component of Iowa-American's rates.

The Board will include the unamortized balances from prior cases in temporary rates. These are previously incurred expenses that were included in rates approved by the Board and recovery should continue during the temporary rate period.

III. RATE BASE—RADIUM TREATMENT PLANT

Iowa-American placed into service on April 29, 2009, a \$4.9 million radium treatment plant. Iowa-American maintained that inclusion of the plant in temporary rates is consistent with previously established regulatory principles and Iowa Code § 476.33(4), which provides that the Board is to consider verifiable data that exists within nine months after the conclusion of the test year (here, calendar year 2008), respecting known and measurable changes in costs not associated with a different level of revenue, and known and measurable revenues not associated with a different

level of costs, that are to occur at any time within 12 months after the date of commencement of the proceedings. Iowa-American said the facility was necessary to ensure an adequate water supply that met radium standards.

Consumer Advocate objected to inclusion of the plant in rate base for temporary rates, arguing that the magnitude of the investment requires an exhaustive investigation before it is included in rates, such as consideration of whether the plant was the least-cost alternative. Consumer Advocate also argued that inclusion of the plant in temporary rates would violate the matching principle, which requires a matching of costs and revenues associated with an investment. Consumer Advocate said the addition of the plant could be associated with a different level of revenues.

The Board has allowed capital projects completed prior to the determination of temporary rates to be included in temporary rates, provided that the matching principle is not violated by failure to make an associated revenue adjustment. Here, the radium plant appears to have been constructed to ensure safety and adequacy of supply and is not an income-earning facility, so there is no revenue adjustment directly associated with the plant. The matching principle is not violated by inclusion of the plant in temporary rates because the addition of the plant does not impact water sales revenues in the context of temporary rates.

Inclusion of the radium facility in temporary rates does not mean that there will be no investigation of the issues raised by Consumer Advocate, such as whether the plant is the least-cost alternative and an otherwise prudent investment. Those issues

will be thoroughly examined in the full rate proceeding where Iowa-American's final rates are determined. Iowa-American's customers are protected because if some or all of the plant investment is disallowed in final rates and the amount collected by Iowa-American in temporary rates is more than the company will collect in final rates, customers receive a refund, with interest. The interest rate for refunds is two percent above the average quarterly interest rate at commercial banks for 24-month loans for personal expenditures. Iowa Code § 476.6(10). Adding two percent to the current 24-month personal rate results in a rate of 13.25 percent, which discourages utilities from using over collection of temporary rates as a cheap source of short-term utility financing.

Prior to 1983, there was a more rigorous examination by the Board of temporary rates, and those orders were appealable to court. There was no limit on rate case filings, and utilities often pancaked rate requests such that several rate requests for the same utility could be before the Board or on court appeal. The statutory scheme was changed in 1983. Temporary orders are no longer appealable to the courts but they must be based on established regulatory principles. To protect customers, the new statutory scheme provided for refunds with interest if temporary rates were greater than final rates.

The temporary rate order issued on September 8, 1983, in Docket No. RPU-83-24 was one of the first to address the new statutory scheme and involved an issue similar to Iowa-American's radium treatment plant. Iowa Power and Light Company

(Iowa Power) sought to include the costs, expenses, and revenues associated with the new Louisa Generating Station (Louisa) in temporary rates. Louisa was placed in service after Iowa Power's rate case filing. Consumer Advocate and others objected to including Louisa in temporary rates because the data concerning Louisa and its costs, expenses, and revenues were not verifiable on the date of the filing of the rate case.

The Board examined Iowa Code § 476.33(4) and noted that at the time of the statute's enactment, the General Assembly was considering mandatory use of a projected or future test year but instead adopted criteria to ensure that the most current data available is used to determine just and reasonable rates. In addition to verifiable data known at the commencement of the hearing, the Board said the statute allowed them to consider other evidence in determining just and reasonable rates. For purposes of temporary rates, the Board said that if a pro forma adjustment occurs within 12 months of the rate case filing date, it could be included in temporary rates.

The Board elaborated on its rate principles in another case involving Louisa, Docket No. RPU-83-27. The Board said that Iowa Code § 476.33(4) does not require the data presented for temporary rates to be verifiable at the time so long as the data is verifiable sometime during the rate case proceeding to set final rates. The Board said that to do otherwise "could result in the Company being deprived of income to

which it may be entitled." The Board noted that the refund provisions protected customers.

Another example of prior Board precedent is an Iowa-American rate proceeding, Docket No. RPU-01-4. The Board's July 16, 2001, temporary rate order allowed capital projects placed in-service after the rate case was filed but prior to the temporary rate decision to be included in temporary rates. Allowing Iowa-American to include the costs of the radium treatment plant in temporary rates in this proceeding is consistent with over 25 years of Board precedent and previously-established regulatory principles.

IV. RATE DESIGN

Rate design for temporary rates is not contested. However, because Iowa-American's rate design for temporary rates is not consistent with Board precedent in setting temporary rates, the rate design proposal will be rejected and the Board will establish a temporary rate design consistent with the principles first established in Docket No. RPU-95-8. The change in rate design will not impact the overall revenue collected by Iowa-American in temporary rates but merely the allocation of the temporary increase between the two districts.

Iowa-American proposed a 55.6 percent temporary increase for the Clinton district and a 23.9 percent increase for the Quad Cities district, largely based on Iowa-American's proposed final rates. That is, the individual volumetric and fixed rate design elements were uniformly set to within 4 to 5 percent of Iowa-American's

proposed final rates, with the exception of some miscellaneous charges such as service activation charges, which are set at full final proposed rate levels. Iowa-American is proposing to maintain separate rates for the two districts, although Iowa-American also proposes to continue reducing the private fire service rate differentials between the two districts.

The Board's principles on temporary rate design were first articulated in an Interstate Power Company gas rate case, Docket No. RPU-95-8, and have been generally applied to subsequent temporary rates set for gas and electric utilities. As is true here, Docket No. RPU-95-8 involved a utility with two separate rate districts based on two separate independent distribution systems and two separate class cost-of-service studies. The three principles enunciated by the Board to guide rate design in temporary rates were:

1. Rate codes with proposed final rate reductions should receive no temporary rate increases.
2. No rate code should receive a temporary rate increase larger than the increase proposed for final rates.
3. The temporary increases should otherwise be applied on a uniform percentage basis to all non-fuel and non-energy efficiency cost recovery (EECR) clause rate elements. (Because water utilities are not required to participate in energy efficiency programs, Iowa-American does not have an EECR clause.)

Iowa-American uses a single rate structure in each district for all customer classes served under general metered service, which means there are no separate class rate codes. Consistent with the Board's long-standing principles for temporary rates, Iowa-American will be required to apply a uniform across-the-board percentage increase to each rate element in the Clinton and Quad Cities districts, with the added caveat that no individual rate element is to receive a temporary increase larger than the increase proposed for final rates.

Application of the Board's established regulatory principles regarding temporary rate design has a levelizing rate impact between the two districts. The overall temporary rate percentage increase is decreased for the Clinton district from Iowa-American's proposed 55.5 percent increase to about 25.0 percent, while the overall temporary rate increase for the Quad Cities district is increased from 23.9 to about 25.3 percent, which is still lower than the Quad Cities increase proposed for final rates.

V. ADDITIONAL INFORMATION

Although this is not an issue relevant to the setting of temporary rates, the discussion of the principles used by the Board for rate design in temporary rates provides an opportunity to raise the issue of rate equalization for consideration in Iowa-American's full rate case. As was true in its prior rate case (Docket No. RPU-07-3), Iowa-American in its testimony filed in Docket No. RPU-2009-0004 opposes rate equalization between its Clinton and Quad Cities districts at this time, noting that

the two districts operate as separate water distribution systems and are not physically interconnected by a pipeline. The districts are separated by about 18 miles at their nearest point, although central controls for the Clinton district are monitored and adjusted by plant operators in the Quad Cities district. Iowa-American bases its rates for each district on separate class cost-of-service studies. Iowa-American does, however, propose to further reduce the rate differentials between the two districts for private fire service.

The Board has a long-standing policy of eliminating geographic rate differences within the service territories of Iowa gas and electric utilities, resulting in similarly situated customers paying the same rates for the same service, regardless of their geographic location within the utility's service territory. The Board has applied this policy to gas utilities with separate distribution systems and separate class cost-of-service studies. It is not clear whether that policy should be applied to a water utility with only two districts; that is an issue the Board intends to consider in this docket.

Under Iowa-American's proposed final revenue requirement, rates between the two districts could be fully equalized with an average additional billing impact for the Quad Cities district of about 6 percent over proposed final rates. This method of equalization applies the proposed final rates of the Quad Cities district to the Clinton district, and increases both sets of rates by a uniform percentage until they produce the \$9.4 million proposed final increase. Specifically, this involves: 1) applying the

Quad Cities final rates for private fire service to the Clinton district and increasing both sets of rates by a uniform percentage until they produce the target revenue for private fire service; and 2) applying the Quad Cities final rates for general metered service to the Clinton district and increasing both sets of rates by a uniform percentage as necessary to produce the remainder of the \$9.4 million proposed final increase. The Quad Cities rates are used as the starting point because Quad Cities is the predominate district in terms of sales and number of customers.

For Iowa-American, it appears rate equalization would eliminate instances where the Clinton district receives significantly higher rate increases than the Quad Cities district. Because of the disproportionate sizes of the two rate districts, large cost increases in the smaller Clinton district can be spread to the much larger Quad Cities district, with significant mitigating effects for Clinton rates and relatively moderate impacts on Quad Cities rates. However, the Board recognizes that if the situation is reversed, and the large cost increases are in the Quad Cities district, much of the rate impact will also be experienced in the Clinton district with only moderate mitigation. Iowa-American's future construction plans may be relevant as the Board considers this issue.

The Board has no predetermined goal or opinion regarding rate equalization for IowA-American but believes a record should be developed regarding this issue so that customers will have a better understanding of how their rates are set and why there are differences in rates between the two districts, if equalization is not adopted. The Board invites parties to this proceeding to submit comments regarding whether or not rate equalization should be required, including the pros and cons of rate equalization for IowA-American's customers in each district, and how IowA-American's separate systems might be significantly different from the separate distribution systems of a gas utility. Parties are also invited to comment on: 1) how rate equalization might best proceed, such as immediately in the current rate proceeding or phased-in over time; and 2) what methods might be used to equalize IowA-American's rates, including the method described above or other alternative methods.

VI. CORPORATE UNDERTAKING

IowA-American filed a corporate undertaking with its temporary rate application. IowA-American has agreed to refund any temporary rates, with interest, which are collected that exceed final rates ultimately approved by the Board. This corporate undertaking is sufficient to ensure payment of any required refund and will be approved.

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. Temporary rates based on this order shall become effective as of the date of this order, pursuant to Iowa Code § 476.6(10) (2009). On or before 20 days from the date of this order, Iowa-American Water Company shall file revised tariff sheets that produce revenue not to exceed \$33,855,042 and consistent with the rate design decisions contained in this order. Attached to this order, and incorporated by reference, are attachments A through D, reflecting a total water company revenue requirement, rate base, weighted cost of capital, and income statement for temporary rates.

2. Iowa-American Water Company's corporate undertaking is approved.

3. Parties shall file testimony or comments regarding rate equalization, as detailed in this order, on or before August 28, 2009; reply testimony or comments may be filed on or before September 16, 2009.

UTILITIES BOARD

/s/ Robert B. Berntsen

/s/ Krista K. Tanner

ATTEST:

/s/ Judi K. Cooper
Executive Secretary

/s/ Darrell Hanson

Dated at Des Moines, Iowa, this 27th day of July, 2009.

**Iowa-American Water Company
Revenue Requirement
Docket Number RPU-2009-0004
Temporary Rates**

Line No.	Description	Quad Cities District Amount (A)	Clinton District Amount (B)	Total Iowa-American Amount (C)
1	Rate Base	\$ 64,704,892	\$ 20,598,784	\$ 85,303,676
2	Rate of Return	8.550%	8.550%	8.550%
3	Allowed Return	\$ 5,532,268	\$ 1,761,196	\$ 7,293,464
4	Adjusted Test Year Net Income	\$ 1,871,007	\$ (125,450)	\$ 1,745,557
5	Additional Income Required	\$ 3,661,261	\$ 1,886,646	\$ 5,547,907
6		\$ -	\$ -	\$ -
7	Income Tax Effect	\$ 868,648	\$ 401,397	\$ 1,270,045
8	Revenue Deficiency/(Excess)	\$ 4,529,909	\$ 2,288,043	\$ 6,817,952
9	Adjusted Test Year Revenue	\$ 22,489,902	\$ 4,547,188	\$ 27,037,090
10	Revenue Requirement	\$ 27,019,811	\$ 6,835,231	\$ 33,855,042

Iowa-American Water Company
Adjusted Rate Base
Docket Number RPU-2009-0004
Temporary Rates

Line No.	Description	Quad Cities District Amount (A)	Clinton District Amount (B)	Total Iowa-American Amount (C)
1	Utility Plant in Service	\$ 109,582,014	\$ 28,017,156	\$ 137,599,170
2	Capital Leases (net of accum. amort.)	\$ -	\$ -	\$ -
3	Accum. Depreciation	\$ (32,180,507)	\$ (6,448,574)	\$ (38,629,081)
4	Net Utility Plant	<u>\$ 77,401,507</u>	<u>\$ 21,568,582</u>	<u>\$ 98,970,089</u>
				\$ -
5	Accumulated Deferred ITC-pre 1971	\$ (44,022)	\$ (4,946)	\$ (48,968)
6	Customer Advances for Construction	\$ (4,048,436)	\$ (170,262)	\$ (4,218,698)
7	Contributions in Aid of Construction	\$ (2,818,579)	\$ (200,820)	\$ (3,019,399)
8	Deferred Taxes-Liberalized Depr.	\$ (8,447,197)	\$ (1,553,260)	\$ (10,000,457)
9	Customer Deposits	\$ -	\$ -	\$ -
10	Allowance for Doubtful Accounts	\$ (140,666)	\$ (28,210)	\$ (168,876)
11	Materials and Supplies	\$ -	\$ -	\$ -
12	Prepayments	\$ -	\$ -	\$ -
13	Cash Working Capital	\$ 2,585,600	\$ 987,700	\$ 3,573,300
14	Post in Service AFUDC	\$ 216,684		\$ 216,684
15	Total	<u>\$ 64,704,891</u>	<u>\$ 20,598,784</u>	<u>\$ 85,303,675</u>

**Iowa-American Water Company
Rate of Return
Docket Number RPU-2009-0004
Temporary Rates**

Parent: American Water Works Company

Line No.	Description	Amount (A)	Ratio (B)	Cost Rate (C)	Weighted Cost (D)
1	Long-Term Debt	\$1,199,019,474	22.308%	6.270%	1.399%
2	Preferred Equity	\$0	0.000%	0.000%	0.000%
3	Common Equity	\$4,175,735,866	77.692%	10.500%	8.158%
4	Total	<u>\$5,374,755,340</u>	100.000%		9.557%

Subsidiary: Iowa-American Water Company

Line No.	Description	Amount (A)	Ratio (B)	Cost Rate (C)	Weighted Cost (D)
1	Long-Term Debt	\$47,760,672	54.579%	7.710%	4.208%
2	Preferred Equity	\$0	0.000%	0.000%	0.000%
3	Common Equity	\$39,746,578	45.421%	9.557%	4.341%
4	Total	<u>\$87,507,250</u>	100.000%		8.549%
	Authorized Return on Rate Base				8.550%

**Iowa-American Water Company
Adjusted Income Statement
Docket Number RPU-2009-0004
Temporary Rates**

Line No.	Description	Quad Cities District Amount (A)	Clinton District Amount (B)	Total Iowa-American Amount (C)
1	Operating Revenues	\$ 27,019,811	\$ 6,835,231	\$ 33,855,042
2	Oper. and Maint. Expense	\$ 14,093,064	\$ 3,141,765	\$ 17,234,829
3	Depreciation	\$ 3,170,201	\$ 870,321	\$ 4,040,522
4	Amort. of Limited Term Plant	\$ 11,112	\$ -	\$ 11,112
5	Amort. of Post-in-Service AFUDC	\$ 29,716	\$ 5,959	\$ 35,675
6	Amort. of Reg. Asset-AFUDC	\$ 11,115	\$ 2,229	\$ 13,344
	Taxes other than Income Taxes			
7	Real and Personal Property	\$ 1,986,845	\$ 403,447	\$ 2,390,292
8	Utility Division Fees	\$ 18,523	\$ 3,833	\$ 22,356
9	Other General Taxes	\$ 3,551	\$ 712	\$ 4,263
10	Federal Unemployment	\$ 2,951	\$ 591	\$ 3,542
11	FICA	\$ 228,765	\$ 43,857	\$ 272,622
12	State Unemployment	\$ 12,707	\$ 2,646	\$ 15,353
	Income Taxes			
13	Fed Income - Current	\$ 350,131	\$ 236,782	\$ 586,913
14	State Income - Current	\$ 468,953	\$ 140,578	\$ 609,531
15	Deferred Fed Income	\$ 1,109,363	\$ 213,637	\$ 1,323,000
16	Deferred State Income	\$ 27,182	\$ 8,242	\$ 35,424
17	Amort. Investment Tax Credit	\$ (36,636)	\$ (564)	\$ (37,200)
18	Total Operating Expenses	<u>\$ 21,487,543</u>	<u>\$ 5,074,035</u>	<u>\$ 26,561,578</u>
19	Net Operating Income	<u>\$ 5,532,268</u>	<u>\$ 1,761,196</u>	<u>\$ 7,293,464</u>