I. INTRODUCTION

On May 4, 2007, Aqua Illinois, Inc., ("Aqua," "Company," or "Petitioner") filed a Petition with the Illinois Commerce Commission ("Commission") for a Certificate of Public Convenience and Necessity ("Certificate") pursuant to Section 8-406 of the Illinois Public Utilities Act ("Act"), to provide water service to three areas located in Kankakee County, Illinois. These areas are the Sun River Expansion Area, the Southern Expansion Area, and the Additional Southern Area. The Sun River Expansion Area is an area in and around the Village of Sun River Terrace ("Village"), as fully described in Aqua Exhibit 1.3. On August 17, 2007, Aqua was granted leave to file a Second Amended Petition, which also sought a temporary Certificate for the Sun River Expansion Area.

On July 20, 2007, Aqua filed the direct testimony of Gerard P. Connolly, Paul J. Hanley, and John F. Guastella. On August 17, 2007, Aqua was also granted leave to file the revised Direct Testimony of Gerard P. Connolly. On August 17, 2007, the Commission Staff ("Staff") filed the Verified Statement of Jonathan M. Sperry, in response to the application for a temporary Certificate for the Sun River Expansion Area. On September 26, 2007, the Commission issued an Interim Order in this docket, granting the Company a Temporary Certificate of Public Convenience and Necessity authorizing it to provide water service to the Sun River Expansion Area.

testimony on December 10, 2007.

Pursuant to notice given in accordance with the law and the rules and regulations of the Commission, prehearing conferences were held in this matter on June 7 and August 2, 2007, before a duly authorized Administrative Law Judge of the Commission at its offices in Springfield, Illinois. Thereafter, this matter was called for hearing on December 13, 2007. At the conclusion of the hearing on December 13, 2007, the record was marked “Heard and Taken.”

Aqua provides water and sewer public utility service to the public in certain areas of Kankakee, Vermilion, Champaign, Will, Boone, Knox, Lake, and Lee Counties in the State of Illinois. Aqua is a public utility within the meaning of the Act, 220 ILCS 5/3-105.

II. POSITION OF THE COMPANY

A. Village of Sun River Terrace

Aqua seeks a Certificate for the Village. As Mr. Connolly testified, the Village is located along Route 17, consists of two square miles, and is approximately 6 miles east of Kankakee. At present, the Village serves approximately 200 residential water customers. The Village water system (the "Village System"), currently, derives its water supply from two wells. Both wells are capable of producing sufficient amounts of water; however, customers have complained about "red water" problems in the past. The Village System has one elevated water storage tank that has not been repainted since its construction in 1987, and the water overflow pipe needs to be lowered per Illinois Environmental Protection Agency ("IEPA") requirements. Approximately 50% of the water distribution system consists of 4-inch or less in diameter pipe and leaks on water service lines are common.

Mr. Connolly testified that the Village has requested that Aqua acquire the Village System and provide water service to members of the public within the Village. The terms of the purchase are set forth in the Assets Purchase Agreement. Mr. Connolly testified that Aqua’s acquisition of the Village System is necessary to provide adequate, reliable, and efficient water service to the Village because the Village System is small and is subject to a consent order with the IEPA and the Attorney General’s office. Aqua’s acquisition of the Village System is necessary to help the Village System comply with the consent order.

Mr. Connolly stated that Aqua requests a Certificate in order that it may begin serving the Village’s customers as soon as possible. It is Mr. Connolly’s position that an emergency situation exists justifying a Certificate because the Village is operating under a consent order, and the contract water operator currently operating the Village System would like to retire. Mr. Connolly testified that the Village has requested that Aqua own and operate the Village System immediately, and currently no other water utility company, municipal corporation, or other entity in the area is able or willing to provide water service to the Village.
Mr. Connolly testified that Aqua has the technical, financial, and managerial ability to operate and maintain the public water supply and distribution system for the Village. He further explained that under the Certificate, Aqua proposes that customers in the Village pay the same water rates as customers in Aqua’s Kankakee Division, as now in effect or as subsequently revised.

Mr. Connolly further testified that Aqua proposes to file revised tariff pages for the Kankakee Division, which includes the Sun River Expansion Area, the Southern Expansion Area, and the Additional Southern Area. The tariff pages are identical to the tariff pages currently in effect for the Kankakee Division except for the addition of the Village of Sun River Terrace and a portion of Ganeer Township and, for the reasons described below, the addition of a new tariff page for "Large General Service."

Aqua witness Mr. Paul Hanley explained that in accordance with Commission policy and the Uniform System of Accounts (83 Ill. Admin. Code, Part 605, Accounting Instruction 17), Aqua proposes to record the estimated net original cost of the Village System in the applicable accounts. The estimated net original cost of the Village System is discussed in the testimony of Mr. Guastella. Mr. Guastella estimated the depreciated original cost of the Village System at $444,233. The difference between the cost of the Village System (net of depreciation and applicable contributions) and purchase price would be recorded in Account 114 – Acquisition Adjustments. Aqua proposes to amortize the credit adjustment below the line in Account 421 over a ten-year period. Mr. Hanley testified that this proposal is consistent with the approach authorized in several past orders in which the Commission has approved amortization of credit acquisition adjustments in Account 421 over a period of years.

Mr. Hanley further stated that Aqua will incur costs for inspection and engineering. In addition, Aqua will incur legal costs and fees, as well as other transaction-related expenses, the total of which, together with the inspection and engineering costs, are estimated to be approximately $25,000. The transaction costs, totaling $25,000, are netted against the acquisition adjustment.

Mr. Hanley also testified that Aqua proposes to use, for the Village System, the depreciation rates for the Kankakee Division, as now in effect or subsequently revised.

B. Southern Expansion Area (Ethanol Plant)

Mr. Connolly testified that Aqua has been requested by one applicant, Alternative Energy Sources, Inc. ("AES"), to provide service in the area referred to as the Southern Expansion Area, which is adjacent to Aqua’s current service territory. AES has been given preliminary approval to build a renewable energy plant that would produce ethanol ("Ethanol Plant"). The proposed plant would be located on a 248-acre site in Otto Township. Mr. Connolly stated that the Ethanol Plant will facilitate economic growth in the area by bringing in new jobs, create a greater demand for corn in the region, and serve as alternative fuel.
Pursuant to its construction schedule, AES is requesting water service by the spring of 2008 in order to begin construction of the plant. An ethanol production date is scheduled for the fall of 2009.

Mr. Connolly explained neither a municipal corporation nor other entity is willing or able to provide a water service to the Southern Expansion Area. He further explained that Aqua has the technical, financial, and managerial ability to operate and maintain a public water supply and distribution system for the Southern Expansion Area without adverse financial consequences for the existing customers. The provision of public water service in the Southern Expansion Area will impose no financial burden on either Aqua or existing customers. Also, existing customers would experience benefits from growth of the Aqua system as common costs will be spread over a larger customer base.

According to a preliminary plan to provide water service, Aqua will construct water mains consisting of approximately 2,800 lineal feet of 12-inch pipe; 9,600 lineal feet of 16-inch pipe; 15,500 lineal feet of 24-inch pipe; 25 fire hydrants; and miscellaneous water main valves and fittings. The construction of the water mains to the Ethanol Plant is necessary to meet service requirements, including fire flows. Such construction will be under the direction and management of Aqua. The preliminary cost of the project is estimated at $4,000,000.

Mr. Connolly explained that the main extension is not expected to follow Aqua’s standard main extension rules, but rather be the subject of a non-standard main extension agreement (“Agreement”) with the developer. Therefore, Aqua is requesting a variance from the Standard Main Extension rules. Under the Agreement, the developer of the land for the AES ethanol project will advance Aqua the $4,000,000 to construct the extension. At the time the Ethanol Plant goes into full production, Aqua will pay the $4,000,000 back to the developer. The Company has agreed to this approach because it was necessary to secure the commitment of AES to construct the Ethanol Plant. Mr. Connolly stated that the Ethanol Plant is an economic driver for the surrounding community, and Aqua has therefore sought to support the building of the Ethanol Plant due to its community benefits. The Ethanol Plant also represents a significant source of revenue for Aqua which will have positive benefits for other Aqua customers.

Mr. Connolly further explained that AES has indicated that to support construction of the Ethanol Plant in the Kankakee area in Illinois (instead of constructing the plant in another state), adoption of an appropriate water rate is required. AES has indicated that it would accept application of a rate substantially in the form of the proposed “Large General Service” tariff for Kankakee (ILL. C. C. No. 47, Sec. No. 2, Sheet No. 30). This “Large General Service” tariff is similar to the “Large General Service” now in effect in Aqua’s Vermilion Division. Mr. Connolly testified that the proposed rates for the Southern Expansion Area do not produce a rate of return in excess of Aqua’s last allowed rate of return, and the revenue from the Ethanol Plant (as compared to circumstances if the plant was not built) will reduce future increases in the revenue requirement for Aqua’s Kankakee Division, thus having a positive benefit for customers. Aqua therefore proposes that the Kankakee Division tariff be
amended to add a rate substantially in the form of the "Large General Service" tariff, and that this rate be applied to AES. Mr. Connolly stated that any other charges related to water service in the Southern Expansion Area would be made in accordance with the rates for the Kankakee Division, as amended, or as subsequently revised, including, but not limited to, public and private fire protection charges, returned check charges, late-payment fees, and state and municipal add-on taxes and fees.

Mr. Hanley explained that the preliminary cost of the ethanol plant project is estimated at $4,077,820, and this estimate includes $55,820 for Aqua's internal administrative costs. Aqua is proposing to record the main extension as an Advance for Construction upon the main being placed into service. The accounting treatment to record this main is a debit to Utility Plant in Service, account 300, and a credit to Advances for Construction, account 252. After the main has been placed into service, projected in July 2009, Aqua will make a payment to the developer in an amount not to exceed $4,000,000 to pay for the main extension to the Ethanol Plant. The entry to record this payment would be a debit to Advances for Construction, account 252, and a credit to Cash, account 131. At this point in time, the entire cost of the main will be included in rate base.

Mr. Hanley also testified that Aqua proposes to use, for the Southern Expansion Area, the depreciation rates for the Kankakee Division, as now in effect or subsequently revised.

C. Additional Southern Area

Mr. Connolly testified that the Additional Southern Area consists of eleven square miles and is directly adjacent to, and south of, Aqua’s existing Kankakee service area. The southern boundary of Aqua’s existing service area is bounded by a road, along which Aqua has installed a water main. Currently, Aqua has authority to serve customers north of the road from the existing main, but not south of the road. However, Mr. Connolly explained Aqua expects additional development to commence in the Additional Southern Area due to its proximity to other developing areas. As a result, Aqua seeks authority to serve such developments as they are constructed. At present, there is no water service provided in the Additional Southern Area.

Mr. Connolly further testified that neither a municipal corporation nor other entity is willing or able to provide water service to the Additional Southern Area. He also explained that Aqua has technical, financial, and managerial ability to construct, operate, and maintain water systems for the Additional Southern Area, without adverse financial consequences for existing customers. The provision of public water service in the Additional Southern Area will impose no financial burden on either Aqua or its customers. Also, existing customers would experience benefits from growth of the Aqua system as common costs are spread over a larger customer base.

Aqua proposes that the charges for water service in the Additional Southern Area be the same as the approved rates for the Kankakee Division, as now in effect or as
subsequently revised (including the "Large General Service" tariff described above). All other water charges for the Kankakee Division would apply to service within the Additional Southern Area, including, but not limited to, public and private fire protection charges, returned check charges, late-payment fees, and State and municipal add-on taxes and fees. Mr. Hanley testified that Aqua proposes to use, for the Additional Southern Area, the depreciation rates for the Kankakee Division, as now in effect or subsequently revised.

III. STAFF’S POSITION

A. Village of Sun River Terrace Acquisition

Mr. Sperry testified regarding the Village System. He explained that because of ongoing problems the Village has had in operating the water system, the Village has agreed to sell its water system assets to the Company.

He noted that on September 26, 2007, the Commission issued an Interim Order in this docket, granting the Company a Temporary Certificate of Public Convenience and Necessity authorizing it to provide water service to the Sun River Expansion Area. The granting of the Temporary Certificate does not create any presumptions with respect to the Certificate now being requested.

Mr. Sperry explained that the Village System has experienced problems with water quality, requires repairs and upgrades, and does not have a certified water operator. The Village does not have the resources to correct these problems, has requested that the Company acquire the Village System, and has entered into an asset purchase agreement with the Company.

Mr. Sperry further explained that water for the Village is supplied by two wells and treated with chlorine gas and fluoride. He noted the Company set out its anticipated improvements to the Village System. These proposed capital improvements are necessary to provide adequate, safe, reliable, and efficient water service to the Village. Due to complaints about water quality, deterioration in water service lines and the water storage tank, and allegations of non-compliance contained in a Consent Order issued by the Office of the Attorney General of the State of Illinois, these improvements will benefit the customers in the Village’s service area.

Mr. Sperry stated he was aware of no entity that has interest in or is currently capable of providing water service in the proposed certificated service areas. According to the Company, no other water utility, municipal corporation, or other entity in the area is able or willing to provide water service in the proposed certificated service areas. He also stated that the Village System has a capacity of 0.289 million gallons per day (“mgd”) and peak demand of approximately 0.04 mgd. The estimated demand for water service for the proposed Sun River Expansion Area is approximately 0.05 mgd. It was his opinion that the Company has adequate capacity to serve customers in and surrounding the Village.
Based on his inspection of the water systems and his review of the Company's testimony and responses to various Staff data requests, Mr. Sperry concluded that the Company is capable of efficiently managing and supervising construction. Aqua has consistently demonstrated that its water systems in Illinois are well operated and efficiently managed and supervised, and that its equipment is well maintained. He also concluded that Aqua's proposal represents the least-cost option. Mr. Sperry recommended that the Company be granted a Certificate for the Sun River Expansion Area and that the area covered by the Certificate include all of the requested area in and surrounding the Village.

Mr. Sperry also recommended that the Commission order Aqua to notify the Commission’s Chiefs Clerk Office of the date of Closing as specified in the Assets Purchase Agreement, Section 2, within seven (7) days after the closing on the proposed acquisition, as a late filed exhibit with a copy of such notification provided to the Manager of the Water Department.

Mr. Sperry also recommended that the proposed rules and regulations contained in Aqua Exhibit 1.11 apply to new customers in the proposed certificated service areas (i.e., the Sun River Expansion Area, the Southern Expansion Area, and the Additional Southern Area). He further recommended that the Commission order the Company to file revised Rules, Regulations, and Conditions of Service tariffs for water service that include the Village and a portion of Ganeer Township in Kankakee County, Illinois, within ten (10) days of the closing of the acquisition, with an effective date of not less than ten (10) working days after the date of filing, for service rendered on and after their effective date, with individual tariff sheets to be corrected within that time period, if necessary.

Ms. Jones explained that the Company commissioned an Original Cost Study ("Study") of the physical assets of the water system, which was presented by Company witness John F. Guastella. She explained that, based on data provided by the Village and its own analysis, Aqua developed an inventory of assets. An estimation of the actual original cost of the assets was then developed by trending current reproduction cost to the year of original installation. Depreciation was calculated based on the age and average service lives of the property. According to the Study, a reasonable estimate of the depreciated original cost is $444,233. Ms. Jones recommended that the Commission approve $444,233 as the depreciated original cost of the Village System.

Ms. Jones analyzed the journal entries relating to the Village acquisition for compliance with the Uniform System of Accounts for Water Utilities, 83 Ill. Adm. Code 605 ("USOA"). According to USOA Accounting Instruction #21, purchased utility plant is to be recorded at the original cost. An estimate may be used if the original cost is not known.

Ms. Jones proposed an adjustment to replace the Company’s proposed Contributions In-Aid of Construction ("CIAC") with the amount of a United States Department of Agriculture Farmers Home Administration Grant ("Grant") that the Village received in 1986 to fund improvements to its water system. The Village spent the entire grant amount on the water
system, and it is not legally obligated to repay any portion of the Grant. She noted that the Company agrees with Staff that the Grant is a CIAC.

Ms. Jones also proposed to adjust the Accumulated Amortization of CIAC proposed by the Company to reflect that 21% of the CIAC has been amortized. Ms. Jones noted that the Company’s response to a Staff data request indicates that the Grant was used to fund mains. The Original Cost Study commissioned by the Company indicates that mains installed in 1986, the year that the Grant was received, have depreciated 21%. Therefore, the appropriate amount to record as Accumulated Amortization of CIAC is 21% of CIAC.

Ms. Jones also proposed an adjustment to organization costs. This removes costs incurred as a result of the purchase of the Village System that the Company proposes to record as organization costs. Ms. Jones stated that the costs the Company has or expects to incur are more accurately defined as incidental costs of the acquisition, not organization costs.

Overall, the effect of Staff’s proposed adjustments to CIAC, Accumulated Amortization of CIAC, and Organization Costs is a reduction to the Company’s acquisition adjustment credit. Ms. Jones also testified that, since the amount of the acquisition adjustment has changed, the amount of the annual amortization expense related to the acquisition adjustment has also changed. Ms. Jones also noted that the Company agrees that the acquisition adjustment related to the purchase of the Village System will not be included in the calculation of rate base for ratemaking purposes.

Regarding the Company’s proposed journal entries to record the main extension into the Southern Expansion Area, Ms. Jones testified that the Company’s journal entries are incomplete, in that there is a balance in account 252, Advances for Construction, after the Company records the refund to the developer as per Journal Entry #4 on Aqua Exhibit 2.2. Ms. Jones therefore presented a journal entry #5 to transfer the balance in account 252, Advances for Construction, to account 271, CIAC.

With regard to the Village acquisition, Ms. Jones recommended that the Commission: (i) approve $444,233 as the depreciated original cost of the Village System; (ii) approve the journal entries for the acquisition of the Village System as proposed by Staff on Schedule 3.1; and (iii) require the Company to file with the Commission the actual journal entries for each of the transactions (acquisition of Village System and main extension project) within six months of closing the respective transaction, with a copy to the Commission’s Manager of Accounting. She further recommended that, if a transaction has not been consummated within six months of the date on which an order is entered in this proceeding, the Company be required to file with the Commission a report indicating the status of the acquisition.

Mr. McNally testified that the Company would be capable of financing the proposed purchase of the water distribution system in the Village without significant adverse financial consequences for the Company or its customers. The total cost to Aqua with respect to the
Village System acquisition will be $373,500, which includes the $95,000 purchase price, $25,000 of transactions costs, and $253,500 of related costs to upgrade the existing water facilities. The Company states that it will be able to finance the proposed purchase with cash on hand. In addition, the total cost of the proposed purchase would be minimal relative to the Company’s total utility plant and operating revenue. The Company’s utility plant had a net value of $192,888,636 as of December 31, 2006; its total utility operating revenues for the twelve months ended December 31, 2006 was $36,573,773. The $373,500 total cost represents 0.19% of the Company’s net utility plant and 1.03% of the Company’s total utility operating revenue. Therefore, Mr. McNally concluded that the Company is capable of financing the proposed purchase of the Village System without significant adverse financial consequences for the Company or its customers.

Mr. Luth addressed whether Aqua should charge Village customers the rates effective for the Kankakee Water Division and whether the acquisition of the Village System by Aqua will adversely impact rates paid by current Kankakee customers. Mr. Luth testified that, assuming the Village is aware that rates will have increased at Kankakee three times over the past six years, the increase to Village customers under Aqua billing compared to the $20.00 per month charged by the Village should not affect whether the Commission approves the acquisition. The Village President signed the agreement to sell the assets of the water system to Aqua and should have been aware of the rate impacts that would result from the sale. Mr. Luth further testified that it does not appear that the acquisition of the Village System will adversely affect the rates paid by current Kankakee customers to a significant extent because the size of the Village System relative to the rest of the Kankakee system is fairly small.

Mr. Luth concluded that it is reasonable for Aqua to charge Sun River customers Kankakee rates from the time of acquisition until the next Kankakee rates docket. Mr. Luth recommended, however, that the Commission should require Aqua to separately account for Sun River Terrace revenues and additions to plant in service. If Aqua’s estimates of rate base and O&M in the Village are accurate, then it does not appear that the acquisition of the Village System will significantly adversely affect rates paid by current Kankakee customers. Mr. Luth explained that any difference in actual results compared to estimates changes the analysis of whether the acquisition of the Village System adversely affects rates paid by current Kankakee customers. Mr. Luth further explained that in order to provide a measure of certainty concerning the effect of an acquisition of the Village System upon rates paid by current Kankakee customers, the Commission should require Aqua to separately account for Village revenues and additions to plant in service.

Mr. Johnson explained that Aqua is proposing to use the same water depreciation rates that are currently in effect or as subsequently revised, for the Kankakee Division, as shown in Aqua Exhibit 2.3. Mr. Johnson stated that since the Sun River Expansion Area, the Southern Expansion Area, and the Additional Southern Area are adjacent to the Kankakee Division and will essentially be operated by Kankakee Division personnel he had no objection to Aqua using the same water depreciation rates for those areas.
B. Southern Expansion Area (Ethanol Plant) and the Additional Southern Area

Mr. Sperry explained that the proposed certificated service area for the Southern Expansion Area and the Additional Southern Area includes 17 square miles of mostly agricultural land. The Iroquois River establishes a physical barrier between the east and west portions of the proposed Additional Southern Area. The Southern Expansion Area and the portion of the Additional Southern Area west of the Iroquois River includes land for the proposed ethanol plant, land required for a water main extension to the ethanol plant, and a residential area south of the Greater Kankakee Airport. There is no development on the portion of the Additional Southern Area east of the Iroquois River.

Mr. Sperry recommended that the Commission approve Aqua’s proposed certificated service area for the entire Southern Expansion Area and for the following portion of the Additional Southern Area: Sections 35 and 36 of Township 30 North, Range 14 West of the 2nd Principal Meridian; Sections 29, 30, 31, and 32 of Township 30 North, Range 13 West of the 2nd Principal Meridian; and the portion of Section 28 of Township 30 North, Range 13 West of the 2nd Principal Meridian west of the Iroquois River.

Mr. Sperry explained that the Company and the Developer, Town & Country Utilities, Inc. ("Developer"), have an agreement on the financing of the proposed water main extension, and the Company is requesting a waiver from the Commission’s rule that requires the applicant for the new water main, in this case, AES, to make a formulated contribution to the Company for construction with future refunds to the applicant. Mr. Sperry stated that it is normally expected that AES would pay the initial advance. As customers attach to Aqua’s water distribution system in the proposed certificated service area, AES would then be entitled to refunds for a 10 year period, but not in excess of the amount of the original advance. Mr. Sperry further stated that the Developer will advance the cost of construction ($4,000,000) to the Company, or pay all costs itself with the review and approval of the Company. The Company will refund the Developer up to a maximum of $4,000,000, at the time the ethanol plant goes into full production, on or before December 31, 2010. Based on this agreement, AES would make no contribution to the cost of the water main extension.

Mr. Sperry concluded that a waiver of the customer advance requirement is appropriate. Since AES is the only applicant for the proposed certificated service area, there are no anticipated new customers within the first 10 years with which to generate refunds to AES. In addition, the Company will be making a substantial investment in plant. Mr. Sperry stated that the water main extension agreement will be beneficial to the Company and its customers, and therefore, he recommended that the requested variance to 83 Ill. Adm. Code 600.370 be approved.

With regard to capacity of Aqua’s system, Mr. Sperry noted that peak demand on the Company’s Kankakee Division water system is approximately 17 mgd, while the initial estimated demand for water service from new customers in the proposed Southern Expansion Area is 2.0 mgd. Furthermore, he noted that the capacity of the Company's
Kankakee Division water treatment plant is 22 mgd, and therefore the Company has adequate capacity to serve new customers in the proposed Southern Expansion Area. Water and the Additional Southern Area. Mr. Sperry also testified that he inspected the Kankakee water treatment plant in July 2007 and found that it is well maintained and capable of producing adequate and safe water to serve the needs of Aqua’s customers.

Mr. Sperry noted that the Company proposed that, due to the large flow requirements for the proposed ethanol plant and good engineering practice, the water main extension in the Southern Expansion Area will consist of 12-inch, 16-inch, and 24-inch in diameter pipes. The proposed construction of the water mains to the ethanol plant is necessary to meet service requirements, including fire flows. Mr. Sperry also testified that the Company recognizes that the cost of the larger sized pipe will ultimately be paid by Aqua, under the water main extension agreement. Mr. Sperry agreed that it is necessary to construct water mains larger than eight inches in diameter to adequately serve customer(s) in the proposed Southern Expansion Area.

Mr. Sperry stated he was aware of no entity that has interest in or is currently capable of providing water service in the proposed Southern Expansion Area or the Additional Southern Area. According to the Company, no other water utility, municipal corporation, or other entity in the area is able or willing to provide water service in the proposed certificated service areas. He recommended that the area covered by the Certificate include approximately 11? of the requested 17 square miles in the Southern Expansion Area and the Additional Southern Area.

Regarding the Company’s proposed journal entries to record the main extension into the Southern Expansion Area, Ms. Jones testified that the Company’s journal entries are incomplete, in that there is a balance in account 252, Advances for Construction, after the Company records the refund to the developer as per Journal Entry #4 on Aqua Exhibit 2.2. Ms. Jones therefore presented a journal entry #5 to transfer the balance in account 252, Advances for Construction, to account 271, CIAC.

With regard to the main extension, Ms. Jones recommended that the Commission: (i) approve the additional journal entry related to the main extension into the Southern Expansion Area as proposed by Staff on Schedule 3.6; and (ii) require the Company to file with the Commission the actual journal entries for each of the transactions (acquisition of Village System and main extension project) within six months of closing the respective transaction, with a copy to the Commission’s Manager of Accounting. She further recommended that, if a transaction has not been consummated within six months of the date on which an order is entered in this proceeding, the Company be required to file with the Commission a report indicating the status of the acquisition.

Mr. McNally testified the Company would be capable of financing the proposed construction of the main extension to service the Southern Expansion Area without significant adverse financial consequences for the Company or its customers. Mr. McNally
stated that Aqua will not finance the construction of the main extension to the Southern Expansion Area. Rather, Aqua will reimburse the developers at the time the main extensions are put into service. Thus, Aqua’s investment in the proposed main extensions would immediately produce new revenue. Mr. McNally noted that the Company forecasts that, after the completion of the proposed transactions, it will produce a positive net income. Thus, the proposed transactions would allow the Company to produce sufficient funds to cover its operating expenses and debt expenses and still have funds available to pay equity investors. Moreover, Aqua is capable of raising the investment funding required for the proposed main extensions. Aqua intends to finance the capital costs through internally generated funds and debt financing. The Company notes that it has bank lines of credit totaling $20 million available to finance capital investment needs.

Mr. McNally added that the Company is a subsidiary of Aqua America, Inc. and, thus, is backed by the financial resources of a corporation that had revenues of approximately $533 million, assets of over $2.8 billion, and capital expenditures of over $270 million for the year ending December 31, 2006. Therefore, he concluded that the Company is capable of financing the investment in the proposed Southern Expansion Area main extension without significant adverse financial consequences for the utility or its customers.

Mr. McNally also concluded the Company would be capable of financing the proposed construction of the main extension to service the Additional Southern Area without significant adverse financial consequences for the Company or its customers. He noted that, since the water system for the Additional Southern Area will connect into Aqua’s existing water system, the additional capital requirements should be relatively small. He further noted that such expansion will be built pursuant to standard main extension rules. Thus, Aqua will not finance such construction, but rather will reimburse the developers at the time the main extensions are put into service at 1½ times annual revenues from the development. At that time, Aqua’s investment in the new distribution system would immediately produce new revenue to offset the reimbursement costs.

Mr. Luth addressed whether Aqua should charge the Southern Expansion Area and the Additional Southern Area customers the rates effective for the Kankakee Water Division and whether the proposed new rate applicable to the prospective customer in the Southern Expansion Area will adversely impact rates paid by current Kankakee customers.

Mr. Luth stated that he does not have any objection to the general rates that Aqua proposes to charge in the Southern Expansion Area and the Additional Southern Area because Aqua is proposing to charge the neighboring Kankakee rates in effect and recently reviewed by the Commission in Docket No. 06-0285.

Mr. Luth asserted that the Large General Service rate does not recover incremental financial costs and depreciation, incremental purchased power and chemical expense, and a reasonable discounted share of source of supply and water treatment plant financial costs and depreciation. He also testified that the AES ethanol facility should contribute to the plant
to obtain and treat its supply of water.

Mr. Luth concluded it is not necessary to increase at present the proposed Large General Service usage charge. He noted the Commission recently reviewed current Kankakee rates, which indicates that Aqua is recovering Source of Supply and Water Treatment plant financial costs and depreciation from existing customers. Additionally, Mr. Luth pointed out the Qualifying Infrastructure Plant Surcharge ("QIPS") would apply to AES, which can be as much as five percent of other charges, means that AES would contribute to the maintenance of the Kankakee system. Mr. Luth recommended, however, that if Aqua seeks an increase in Kankakee rates for other customers, the Large General Service rate should also be subject to an increase even if the 4-year agreement has not expired. The proposed Large General Service rate should be revised to indicate that, if Aqua seeks an increase in rates generally applicable to other Kankakee customers, the Large General Service rate is also subject to change during the 4-year service agreement. Mr. Luth also recommended that the Large General Water Service rate should require the installation of at least one 12-inch or larger meter at the customer’s service address so that expected revenues are not reduced by smaller meters.

In his rebuttal testimony, Mr. Luth also recommended that the Commission approve the Large General Service rate, with the advisory that other Kankakee ratepayers should not be held responsible for providing a discount to customers that qualify for the Large General Service rate but do not provide revenues that result in adequate cost recovery.

IV. COMPANY RESPONSE

Mr. Connolly (i) agreed with Mr. Sperry’s recommendation that a Certificate be granted for the areas in and around the Village of Sun River Terrace; (ii) agreed with Mr. Sperry's recommendation that a Certificate be granted for the Southern Expansion Area and a portion of the Additional Southern Area; (iii) agreed with Mr. Sperry’s conclusions regarding the waiver of the requirements of 83 Ill. Adm. Code Section 600.370; (iv) agreed with his recommendation that Aqua file its Rules, Regulations, and Conditions of Service tariffs for the Village and portions of Ganeer Township within 10 days of the closing of the acquisition of the Village System, to be effective not less than 10 working days after the date of filing; and (v) agreed with Mr. Sperry’s recommendation that Aqua notify the Chief Clerk of the date of closing of the Assets Purchase Agreement, with a copy to the Manager of the Water Department.

Mr. Connolly agreed with Mr. Luth’s general conclusion that customers in the Village, the Southern Expansion Area, and the Additional Southern Area be charged rates generally applicable to other Kankakee customers.

Regarding separate accounting for Village revenues and plant additions, Mr. Connolly stated that the Company does not believe such separate accounting is necessary, but agrees with the recommendation to separately account for Village revenues and additions to
plant in service for the purposes of this proceeding. Mr. Connolly pointed out that as Mr. Luth acknowledges, the current customers of the Kankakee water system will not be adversely impacted by the acquisition of the Village System. The Company also notes that the idea of separately tracking Village revenues and plant additions and possibly charging different rates in the Village is inconsistent with the principles of rate consolidation and creates unnecessary administrative burdens and costs.

Mr. Connolly agreed that it is not necessary to increase the Large General Service Usage Charge at this time, and also agreed with Mr. Luth’s recommendation that the Large General Service rate be addressed in Aqua’s next rate case. Mr. Connolly noted, however, that Mr. Luth’s analysis ignores the fact that the construction of the AES plant will be a significant economic benefit to the Kankakee area, and the Large General Service rate was necessary to attract AES to Illinois (as opposed to some other state). Mr. Connolly pointed out that the Company and local government worked cooperatively to bring this project to the State of Illinois and the project is of great value to both Aqua Kankakee customers and residents in the state. Nonetheless, in his surrebuttal testimony, Mr. Connolly agreed that, when the Large General Service rate is reviewed in a future rate case, revenues from customers taking the Large General Service rate should result in adequate cost recovery.

Mr. Connolly also stated that the rates would be subject to change as a result of a Company request to increase rates applicable to other Kankakee customers. For the purposes of resolving this proceeding, however, Aqua agrees to revise the Large General Service tariff language to state that "The rates of the Large General Service tariff are subject to revision as a result of Commission action before the expiration of the required 4-year service agreement."

Mr. Connolly also testified that requiring a 12-inch meter would eliminate any flexibility in determining appropriate meter size for a large volume customer and would not be consistent with good engineering practice. For example, large meters can be inaccurate at very low flows, and the larger the meter, the higher the level of low volume flows through the meter that will be measured inaccurately. As a result, a smaller meter may be more appropriate for a given set of service requirements. For the purposes of resolving this proceeding, however, Aqua agrees that it will revise the proposed Large General Service tariff to reflect a single customer charge (irrespective of meter size) of $2,017.08 per month. This charge, when coupled with the 35,000 ccf minimum usage charge, will result in a minimum monthly charge under the Large General Service tariff of $33,958.

Mr. Hanley testified that (i) he agreed with Ms. Jones' recommendation regarding the depreciated original cost of the Village System; (ii) he agreed with the journal entries for the acquisition of the Village System proposed by ICC Staff witness Ms. Jones on Schedule 3.1; (iii) he agreed with the additional journal entry relating to the main extension into the Southern Expansion area as proposed by Ms. Jones on Schedule 3.6; (iv) he agreed with the recommendation to file with the Commission the actual journal entries for each of the transactions within six (6) months of closing the respective transactions, with a copy to the
Commission’s Manager of Accounting; (v) he agreed with ICC Staff Witness McNally’s recommendation that Aqua has met the requirements of Section 8-406(b)(3) of the Act and is capable of financing the proposed main extensions without significant adverse financial consequences for the utility or its customers; and (vi) he agreed with ICC Staff Witness Johnson’s recommendation that the water depreciation rates in Aqua Exhibit 2.3 be applied in the Sun River Expansion Area, the Southern Expansion Area, and the Additional Southern Area.

V. COMMISSION ANALYSIS AND CONCLUSION

For the reasons given by Aqua and Staff, the relief requested by Aqua in its Second Amended Petition is reasonable and should be granted, subject to the conditions recommended by Staff. The Commission finds that the provisions of Section 8-406 of the Act have been met and that the public convenience and necessity require the provision by Aqua of public water service to, and the conduct by Aqua of a water public utility business in, the Sun River Expansion Area, the Southern Expansion Area, and the Additional Southern Area (as modified by Staff), as set forth above. The Commission further concludes that (i) Aqua’s acquisition of the Village System is necessary to provide adequate, reliable, and efficient service to the Village and should be approved, and the Asset Purchase Agreement with Village is reasonable and should be approved; (ii) to record the proposed transactions for the Sun River Expansion Area and the Southern Expansion Area, the form of accounting entries set forth in ICC Staff Exhibit 3.0, Schedules 3.1 and 3.6 is reasonable and should be approved; (iii) water rates and depreciation rates for the Kankakee Division, as now in effect or subsequently revised, should also be approved for the Sun River Expansion Area, the Southern Expansion Area, and the Additional Southern Area; (iv) the Large General Service tariff should be approved, subject to the conditions recommended by Staff and agreed to by Aqua, and when the Large General Service rate is reviewed in a future rate case, revenues from customers taking the Large General Service rate should result in adequate cost recovery; (v) a variance from Aqua’s Standard Main Extension Rules for the main extension to the Ethanol Plant is reasonable and should be approved; and (vi) the revised tariffs in Aqua Exhibit 1.11 are reasonable and should be approved, and, subject to those revisions, the Company’s current Rules, Regulations, and Conditions of Service (Water) that are on file with the Commission for the Kankakee Division are reasonable and should be approved for the Sun River Expansion Area, the Southern Expansion Area, and the Additional Southern Area. The conditions recommended by Staff that are described above and referenced in the ordering paragraphs below should also be adopted.

VI. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the entire record herein, is of the opinion and finds that:
1) Petitioner is a public utility engaged in the business of furnishing water and wastewater utility service to the public in portions of the State of Illinois and is a public utility within the meaning of Section 3-105 of the Act;

2) the Commission has jurisdiction over the Petitioner and the subject matter hereof;

3) the facts recited and conclusions reached in the prefatory portion of this Order and conclusions reached in the Commission Analysis and Conclusion section are supported by the record and are hereby adopted as findings of fact and law;

4) acquisition of the Village System and the construction of other facilities in the Village as described herein is necessary to provide adequate, reliable, and efficient utility service to customers in the Village, is the least-cost means of satisfying the service needs of those customers, and is reasonable and should be approved;

5) the Assets Purchase Agreement with the Village is reasonable and should be approved;

6) construction of the main extension to the Ethanol Plant and the construction of other facilities described herein is necessary to provide adequate, reliable, and efficient utility service to customers in the Southern Expansion Area and the Additional Southern Area, and is the least-cost means of satisfying the service needs of those customers;

7) no public water utility company, other than Aqua, within, or within a reasonable proximity to, the Sun River Expansion Area, Southern Expansion Area, and Additional Southern Area is willing or able to render public water utility service;

8) Petitioner has the technical, financial, and managerial abilities to provide water service described in the Second Amended Petition to the Sun River Expansion Area, the Southern Expansion Area, and the Additional Southern Area;

9) Aqua is capable of efficiently managing and supervising the construction process and will ensure that the construction and supervision thereof is adequate and efficient;

10) the provision of public water service in the Sun River Expansion Area, the Southern Expansion Area, and the Additional Southern Area will impose no financial burden on either Aqua or its customers;

11) the Commission should approve $444,233 as the depreciated original cost of the Village System;

12) the form of accounting entries for the acquisition of the Village System as proposed by Staff on Schedule 3.1 and for the main extension into the Southern Expansion Area
as proposed by Staff on Schedule 3.6 is reasonable and should be approved;

13) Aqua should file with the Commission the actual journal entries for each of the transactions (acquisition of Village System and main extension project) within six months of closing the respective transaction, with a copy to the Commission’s Manager of Accounting, and, if a transaction has not been consummated within six months of the date on which an order is entered in this proceeding, should file with the Commission a report indicating the status of the acquisition;

14) Aqua should notify the Commission’s Chief Clerk’s Office of the date of Closing as specified in the Assets Purchase Agreement, within seven (7) days of the date on which an order is entered in this proceeding, as a late filed exhibit with a copy of such notification provided to the Manager of the Water Department;

15) Aqua should separately account for Village revenues and additions to plant in service;

16) a variance from Aqua’s Standard Main Extension Rules for the main extension to the Ethanol Plant is reasonable and should be approved;

17) Aqua should revise the proposed Large General Service tariff language to state that “The rates of the Large General Service tariff are subject to revision as a result of Commission action before the expiration of the required 4-year service agreement” and to reflect a single customer charge (irrespective of meter size) of $2,017.08 per month, which, when coupled with the 35,000 ccf minimum usage charge, will result in a minimum monthly charge under the Large General Service tariff of $33,958;

18) subject to the revisions in (17) above, the Large General Service tariff is reasonable and should be approved, and Aqua should be authorized and directed to file the Large General Service tariff for the Kankakee Division (ILL. C.C. No. 47, Section No. 2, Sheet No. 30);

19) the proposed water rates for the Sun River Expansion Area, the Southern Expansion Area, and the Additional Southern Area, which are the same as those for the Kankakee Division, are reasonable and should be approved;

20) the depreciation rates for Aqua’s Kankakee Division, as identified in Aqua Exhibit 2.3, should also be approved for the Sun River Expansion Area, the Southern Expansion Area, and the Additional Southern Area;

21) the Company should file revised Rules, Regulations, and Conditions of Service tariffs for water service that include the Village and a portion of Ganeer Township in Kankakee County, Illinois within ten (10) days of the date on which an order is entered in this proceeding, with an effective date of not less than ten (10) working days after the date of filing, for service rendered on and after their effective date, with individual
tariff sheets to be corrected within that time period, if necessary.

IT IS THEREFORE ORDERED by the Commission that a Certificate is hereby granted to Petitioner pursuant to Section 8-406 of the Act as follows:

CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

IT IS HEREBY CERTIFIED that the public convenience and necessity requires the construction, operation, and maintenance of water distribution systems and, in connection therewith, the provision of public utility water service by Aqua Illinois, Inc. in the Village of Sun River Terrace, as shown in a map identified as Aqua Exhibit 1.2 and as legally described in Aqua Exhibit 1.3.

IT IS FURTHER ORDERED by the Commission that a Certificate is hereby granted to Petitioner pursuant to Section 8-406 of the Act as follows:

CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY

IT IS HEREBY CERTIFIED that the public convenience and necessity requires the construction, operation, and maintenance of water distribution systems and, in connection therewith, the provision of public utility water service by Aqua Illinois, Inc. in the Southern Expansion Area, as shown in a map identified as Aqua Exhibit 1.6 and as legally described in Aqua Exhibit 1.7 (Revised), and the Additional Southern Area, as shown on a map and legally described in Aqua Exhibit 4.1.

IT IS FURTHER ORDERED that acquisition of the Village System and the Assets Purchase Agreement with the Village is approved.

IT IS FURTHER ORDERED that the depreciated original cost of the Village System is $444,233.

IT IS FURTHER ORDERED that the form of accounting entries for the acquisition of the Village System as proposed by Staff on Schedule 3.1 and for the main extension into the Southern Expansion Area as proposed by Staff on Schedule 3.6 is approved.

IT IS FURTHER ORDERED that a variance from Aqua’s Standard Main Extension Rules for the main extension to the Ethanol Plant is approved.

IT IS FURTHER ORDERED that, subject to (17) above, the Large General Service tariff is approved, and Aqua is authorized and directed to file the Large General Service tariff for the Kankakee Division (ILL. C.C. No. 47, Section No. 2, Sheet No. 30) within ten (10) days of the date on which an order is entered in this proceeding, with an effective date of not less than ten (10) working days after the date of filing.

IT IS FURTHER ORDERED that the proposed water rates for the Sun River
Expansion Area, the Southern Expansion Area, and the Additional Southern Area, which are the same as those for the Kankakee Division, are approved.

IT IS FURTHER ORDERED that the depreciation rates for Aqua’s Kankakee Division, as identified in Aqua Exhibit 2.3, are approved for the Sun River Expansion Area, the Southern Expansion Area, and the Additional Southern Area.

IT IS FURTHER ORDERED that the Company file revised Rules, Regulations, and Conditions of Service tariffs for water service that include the Village and a portion of Ganeer Township in Kankakee County, Illinois within ten (10) days of the date on which an order is entered in this proceeding, with an effective date of not less than ten (10) working days after the date of filing, for service rendered on and after their effective date, with individual tariff sheets to be corrected within that time period, if necessary.

IT IS FURTHER ORDERED that Aqua provide water service to the Sun River Expansion Area, the Southern Expansion Area, and the Additional Southern Area according to the Rules, Regulations, and Conditions of Service Tariffs for Water Service that are on file with the Commission for the Kankakee Division.

IT IS FURTHER ORDERED that Aqua shall comply with findings (13), (14), and (15) of this Order.

IT IS FURTHER ORDERED that this Order is final and is not subject to the Administrative Review Law.

By order of the Commission this 30th day of January, 2008.

(SIGNED) CHARLES E. BOX

Chairman