

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

CEDAR BLUFF UTILITIES, INC.	)	Docket No. 03-0398
	)	
APPLE CANYON UTILITY COMPANY	)	Docket No. 03-0399
	)	
CHARMAR WATER COMPANY,	)	Docket No. 03-0400
	)	
CHERRY HILL WATER COMPANY	)	Docket No. 03-0401
	)	
NORTHERN HILLS WATER & SEWER COMPANY	)	Docket No. 03-0402
	)	
Proposed General Increase in Rates	)	<i>Consolidated</i>
	)	

**REPLY BRIEF ON EXCEPTIONS OF UTILITIES, INC.**

**I. INTRODUCTION**

Utilities, Inc. ("UI"), on behalf of its five subsidiaries, Cedar Bluff Utilities, Inc., Apple Canyon Utility Company, Charmar Water Company, Cherry Hill Water Company, and Northern Hills Water & Sewer Company (together, the "Companies"), hereby submits this Reply Brief on Exceptions with regards to the Administrative Law Judge's Proposed Order ("ALJPO") issued in this consolidated proceeding on February 5, 2004.

**II. DISCUSSION**

A. Amortization of Rate Case Expense

The Companies agree with the ALJPO's conclusion that rate case expense should be amortized over three years, following the Commission's recent orders for UI subsidiaries Lake Wildwood Utilities, Docket No. 01-0663, and Del Mar Water Company, Docket No. 02-0592. (ALJPO at 9). Staff has pointed to no authority requiring the Commission to reject a three-year amortization period just because a

company's previous rate case was filed more than three years ago. Since the Commission has approved a three-year amortization period for rate case expense for other UI subsidiaries, approval of a similar three-year amortization period for the Companies here will promote consistency of administration for all UI's subsidiaries.

The ALJPO also correctly pointed out that the Companies are experiencing rising costs which will likely lead them to file new rate cases in three to four years. (ALJPO at 8-9). These costs will rise further as UI implements a new continuing property records system as required in the ALJPO. Moreover, Staff has not provided any testimony to rebut the Companies' position on cost increases. Therefore, this increase in costs justifies a three-year amortization for rate case expense. As the ALJPO correctly points out, with a five year amortization period, even if the Companies' could recover unamortized rate case expense in the next rate case, it could be eight years or more before all the expenses are recovered. Therefore, the ALJPO's conclusion that a three-year amortization period is more appropriate is the correct conclusion.

B. Technical Correction 1 - Summary of Rate Increase

Staff has proposed a correction to the ALJPO Section III (ALJPO at 2-3) which replaces the final proposed rate base and income figures with the Company's original proposed figures. UI believes that the intent of Section III was in fact to provide a concise summary of the final rate base and income figures as determined by the ALJ. If this is the case, UI proposes that the original numbers reflecting the final rate base, operating revenues and expenses, and income figures continue to be included in the ALJPO. However, for clarity the heading and introductory paragraph of Section III should read:

**III. ~~A SUMMARY OF PROPOSED~~ THE COMPANIES' RATE INCREASES**

~~The Companies assert that the proposed rate increases are necessary to permit them to recover their operating expenses and to permit them to earn a fair rate of return on their capital investments. The following is a summary of the final proposed rate base, operating revenues and expenses, and operating incomes for each of the five Companies:~~

**III. CONCLUSION**

The Companies request that the Commission accept the ALJPO's ruling on amortization of rate case expense and reject Staff's proposed changes.

Respectfully submitted,

UTILITIES, INC.

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