STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Aqua Illinois, Inc.	:	
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Proposed general increase in water and sewer rates for the Woodhaven Water Division. (Tariffs filed on December 22, 2004).	:	05-0071
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Proposed general increase in water rates for the Oak Run Division. (Tariffs filed on December 29, 2004).	:	05-0072
	:	(Consolidated)

INITIAL BRIEF OF THE STAFF OF THE ILLINOIS COMMERCE COMMISSION

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INITIAL BRIEF OF THE STAFF
OF THE ILLINOIS COMMERCE COMMISSION

Staff of the Illinois Commerce Commission ("Staff"), by and through its counsel, pursuant to Section 200.800 of the Illinois Commerce Commission's ("Commission") Rules of Practice (83 Ill. Adm. Code 200.800), respectfully submits its Initial Brief in the above-captioned proceeding.

I. BACKGROUND; PROCEDURAL HISTORY; NATURE OF OPERATIONS; TEST YEAR

A. Background

In these consolidated proceedings, the Commission is investigating Aqua Illinois, Inc.'s ("Aqua" or the "Company"), f/k/a Consumers Illinois Water Company ("CIWC"), December 22, 2004 requests for general increases in water and sewer rates for its Woodhaven Water and Sewer Divisions ("Woodhaven", "Woodhaven Water" or

"Woodhaven Sewer"), respectively, and its December 29, 2004 request for a general increase in water rates for its Oak Run Water Division ("Oak Run Water" or "Oak Run"), pursuant to Article IX of the Illinois Public Utilities Act (the "Act"), (220 ILCS 5/9). These proceedings were designated as Docket No. 05-0071 (Woodhaven Water and Woodhaven Sewer) and Docket No. 05-0072 (Oak Run Water).

The proposed rates for Woodhaven Water were designed to increase that Division's annual revenue for water service by approximately $500,284, an increase of approximately 62.67%. The proposed rates for Woodhaven Sewer were designed to increase that Division's annual revenue for wastewater service by approximately $459,314, an increase of approximately 61.19%. The proposed rates for Oak Run Water were designed to increase that Division's annual revenue for water service by approximately $213,209, an increase of approximately 64.63%.

The Commission entered a Suspension Order for the Woodhaven Water and Woodhaven Sewer Divisions on February 2, 2005, and a Resuspension Order on May 17, 2005. The Commission also entered a Suspension Order for the Oak Run Water Division on February 2, 2005, and a Resuspension Order on May 17, 2005.

B. Procedural History

Pursuant to proper notice, a Prehearing Conference was held in this matter before a duly authorized Administrative Law Judge ("ALJ") of the Commission in Springfield, Illinois on March 3, 2005. At the Prehearing Conference, the two dockets were consolidated in the interest of efficiency. A schedule was also adopted for the remainder of the proceedings.

Petitions to Intervene were filed in these consolidated proceedings by The Woodhaven Association (the "Association") and the Oak Run Property Owners Association. Both Petitions to Intervene were granted.

Evidentiary hearings were held at the Commission's Springfield offices on July 27-28, 2005. Appearances were entered on behalf of Aqua, Staff, The Woodhaven Association and the Oak Run Property Owners Association. Aqua offered the testimony of Thomas J. Bunosky, Jack Schreyer, Pauline M. Ahern, and David R. Monie. Staff offered the testimony of Bonita A. Pearce, Burma C. Jones, Janis Freetly, Cheri L. Harden, and William D. Marr. The Woodhaven Association offered the testimony of Jeffrey S. Hickey and the Oak Run Property Owners Association offered the testimony of Michael Davison.

At the July 27, 2005 evidentiary hearing, Staff moved to strike the First Amended and Second Amended Rebuttal Testimony of Aqua witness Bunosky (Aqua Ex. 5.0-Second Amended) and the First Amended Rebuttal Testimony of Aqua witness Schreyer (Aqua Ex. 6.0), since these testimonies were improperly filed given the adopted schedule and without leave of the ALJ. Staff also moved to strike Aqua witness Schreyer's Surrebuttal Testimony (Aqua Ex. 8.0) from page 14, line 274, through page 18, line 382, and the attached Exhibit D, as this testimony was highly prejudicial to Staff given the enormous amount of new information and new positions being offered at this late stage of the proceeding. The ALJ granted these, and other, motions to strike on behalf of Staff. Aqua sought interlocutory review of only two of the ALJ's evidentiary rulings: (1) striking Mr. Bunosky's Second Amended Rebuttal Testimony, and (2) striking the above-referenced portions of Mr. Schreyer's Surrebuttal

Testimony. On August 17, 2005, the Commission granted Aqua's request with respect to these two rulings.

At the conclusion of the July 28, 2005 evidentiary hearing, the record was marked "Heard and Taken".

C. Nature of Operations

Aqua is engaged in the business of providing water and wastewater service to the public in Illinois. The Company's Woodhaven Water Division provides water services to the Woodhaven Lakes Development, which is located in Lee County and consists of approximately 6,150 camping lots, 38 commercial lots, and seven residential lots. Water service is available to all lots. Sewer service is available to approximately 5,400 camping lots and 38 commercial lots through the Company's Woodhaven Sewer Division. None of the camping lots are metered as all are charged a flat rate for water and sewer services. All residential and commercial water customers are metered. The development was established in 1971 as a recreational camping facility and has 61 permanent residents.

Aqua's Oak Run Division provides water services to the Oak Run Development, which is located in Knox County and consists of approximately 2,600 lots of which approximately 600 have been built upon and take water service directly from the water system. All lots which have been built upon or that have installed a water service line are metered; all lots which do not have a water service line installed and have a water main adjacent to the lot are charged an Availability Rate for the ability to take water service in the future. All 14 commercial customers are also metered. The development was established in 1972 as a recreational area.

D. Test Year

Aqua proposed the use of a future test year for the twelve months ending December 31, 2005. The 2005 test year data were based on the Company's 2004 and 2005 projections of revenues, expenses, and rate base items. The specific procedures followed and assumptions made in developing the projections were discussed in the Direct Testimony of Jack Schreyer.

The Company offered the opinion of the London Witte Group, LLC, an independent certified public accounting firm, stating that the Company's projected statements conform with the guidelines for a presentation of projected information established by the American Institute of Certified Public Accountants. Other statements and information required by the Filing Requirements of 83 Ill. Adm. Code 285, 286, and 287 were also provided by the Company. Staff did not object to the Company's use of a 2005 Future Test Year.

II. RATE BASE

A. Introduction

The rate base represents the net level of investment that a utility has dedicated to public service on which it is entitled to earn a return. The rate base consists principally of book investment in plant, and working capital, less deductions to reflect other sources of funds, such as deferred taxes.

Schedules showing the Company's rate base at present and recommended rates for the future test year ending December 31, 2005, were presented by Company and Staff witnesses. Staff proposed a number of adjustments to the Company's proposed rate base, as discussed below.

Unless otherwise indicated in the heading, each issue identified below pertains to all three Aqua divisions that are the subject matter of the instant proceeding.

B. Summary of Uncontested Issues

1. Cash Working Capital

Staff witness Bonita A. Pearce proposed adjustments to calculate the Cash Working Capital component of rate base after giving effect to Staff's operating expense adjustments to the 2005 test year revenue requirement for Woodhaven Water, Woodhaven Sewer and Oak Run Water Divisions, using the same methodology as reflected in Aqua's Schedules B-2.3. (ICC Staff Exhibit 1.0, pp. 9-10.)

While the Company did not agree with some of Staff's adjustments to operating and maintenance ("O&M") expense (Aqua Ex. 6.0R, p. 6; Aqua Ex. 8.0, p. 7), the methodology Staff employed to calculate Cash Working Capital was not contested. (ICC Staff Exhibit 6.0, p. 6.)

2. Deferred Charges for Tank Painting

Staff witness Burma C. Jones proposed adjustments for Woodhaven Water, Woodhaven Sewer and Oak Run Water Divisions with respect to deferred charges for tank painting to reflect updated information provided by the Company regarding the cost of the tank painting projects and to remove the cost of repairs from the deferred charges to be amortized. As a result of her adjustments, adjustments to test year amortization expense for the change in the yearly amortization of the deferred charges and to Accumulated Deferred Income Taxes ("ADIT") were necessary. (ICC Staff Exhibit 2.0, pp. 4-5.)

Company witness Schreyer accepted in total the proposed adjustments to rate base and operating expense for tank painting at all three divisions. (Aqua Ex. 6.0R, p. 41; ICC Staff Exhibit 7.0 C, p. 3.)

3. Accumulated Deferred Income Taxes–Woodhaven Sewer and Oak Run Water Divisions

Staff witness Jones proposed corrections in her direct testimony, as the Company did not average its adjustments to ADIT for its proposed changes in depreciation rates in the future test year for the Woodhaven Sewer and Oak Run Water Divisions. As such, the Company's proposed adjustments to ADIT were inconsistent with the average balances presented for rate base components in the future test year. (ICC Staff Exhibit 2.0, p. 8.)

In addition, the Company did not include accumulated deferred income taxes related to "Oak Run Negative Excess Depreciation" with the ADIT allocated to the Oak Run Water Division, but should have been included, according to the Company's response to Staff Data Request BCJ 5.06. Accordingly, Ms. Jones proposed an adjustment to add the ADIT related to "Oak Run Negative Excess Depreciation" to the ADIT reflected in Oak Run's rate base. (Id., p. 9.)

While the Company did not contest Ms. Jones' adjustments related to deferred taxes, Mr. Schreyer pointed out a calculation error on ICC Staff Exhibit 2.0, Schedule 2.04 (WS), page 1, line 18. (Aqua Ex. 6.0R, p. 42.) Ms. Jones did not dispute a calculation error on her Schedule 2.04 (WS). However, she did not agree with the correction reflected on Company Schedule 6.1 (WW), page 2, line 22 because it did not represent an average of the difference between the correct and incorrect amount of deferred income taxes. In order to be consistent with the Company's methodology for calculating rate base balances, the adjustment to ADIT should reflect an average between beginning and ending balances for the future test year. As such, Ms. Jones proposed an adjustment to ADIT to properly reflect the average of the Company's correction to the calculation error in deferred income taxes on Staff Schedule 2.04 (WS). (ICC Staff Exhibit 7.0 C, pp. 4-6; Schedule 7.01 (WS).)

The Company agreed to Staff's adjustment. (Aqua Ex. 8.0, p. 7.)

4. Depreciation Rates–Woodhaven Sewer and Oak Run Water Divisions

a. Woodhaven Sewer Division

In the test year, the Company proposed to replace the 2% composite depreciation rate applied to all depreciable plant at the Woodhaven Sewer Division with depreciation rates by primary account approved in Docket No. 98-0632 for its Candlewick Sewer Division and Docket Nos. 00-0337/00-0338/00-0339 (Cons.) for its Kankakee, Vermilion, and Woodhaven Water Divisions. (Aqua Schedule C-2.4 for Woodhaven Sewer Division.) Staff did not object to the change in depreciation rates; however, several of the Company's proposed depreciation rates are not the rates approved or are rates for accounts not found in the dockets identified by the Company as the sources of the proposed depreciation rates. (ICC Staff Exhibit 2.0, pp. 10-11.)

Therefore, Staff witness Jones proposed to replace the unapproved rates with rates approved in the aforementioned dockets and to replace the rates for which the Company could not identify the source with the more conservative 2% composite depreciation rate that the Company currently applies to its depreciable plant. (Id.) The proposed depreciation rates for Woodhaven Sewer are:

Woodhaven Sewer Division

Account Number	Account Description	Depreciation Rate
	Intangible Plant	
351	Organization	-
352	Franchises & Consents	-
	Collection Plant	
353	Land and Land Rights	-
354	Structures & Improvements	3.57%
360	Collection Sewers – Force	1.89%
361	Collection Sewers – Gravity	1.89%
381	Plant Sewers	2.00%
389	Coll.-Other Plant & Misc. Eq.	2.00%
	Pumping Plant	
371	Pumping Equipment	3.13%
	Treatment Plant	
353	Land and Land Rights	-
354	Structures and Improvements	3.57%
380	Treatment & Disposal Equip.	3.57%
	Transmission & Dist. Plant	
375	Reuse Transmission Dist.	-
363	Service to Customers	3.78%
364	Flow Measuring Devices	2.86%
	General Plant	
353	Land and Land Rights	-
354	Structures and Improvements	3.57%
390	Office Furniture	4.74%
390	Personal Computers	12.50%
390	PC Software	20.00%
390	MainFrame Computers	12.50%
390	MainFrame Software	12.50%
390	Other Machinery & Equipment	5.00%
391	Transportation Equipment	11.67%
392	Stores Equipment	2.00%
393	Tools, Shop & Garage Equip.	6.33%
394	Laboratory Equipment	5.00%
395	Power Equipment	2.00%

396	Communication Equipment	12.50%
397	Miscellaneous Equipment	6.70%
398	Other Tangible Plant	2.00%

(Id., Schedule 2.04(WS), Page 2 of 2.)

Company witness Schreyer stated that he is "in agreement with Ms. Jones' depreciation rates utilized for purposes of determining the requirement." (Aqua Ex. 6.0R, p. 42.)

Based on the language by which the Company indicated its agreement with Ms. Jones' depreciation rates adjustment, Staff is uncertain whether or not the Company intends to utilize the specific rates approved in this proceeding to calculate depreciation expense going forward. Section 5-104(a) of the Act requires the Company to "conform its depreciation accounts to the rates so ascertained, determined and fixed." (220 ILCS 5/5-104(a).) For this reason, Staff requests that the Commission order the Company to utilize the depreciation rates approved in this proceeding on a going-forward basis.

b. Oak Run Water Division

In the test year, the Company proposed to replace the 2% composite depreciation rate applied to all depreciable plant at the Oak Run Water Division with depreciation rates by primary account as approved in Docket Nos. 00-0337/00-0338/00-0339 (Cons.). (Aqua Schedule C-2.4 for Oak Run Water Division.) Staff witness Jones indicated that because of the wide range in asset lives, depreciation rates by primary accounts seem more reasonable than one rate for all depreciable plant. As such, Staff did not contest the proposed depreciation rates for the Oak Run Water Division. (ICC Staff Exhibit 2.0, pp. 15-16.) The proposed depreciation rates for Oak Run are:

Oak Run Water Division

Account Number	Account Description	Depreciation Rate
	Intangible Plant	
301	Organization	-
302	Franchises & Consents	-
	Source of Supply Plant	
303	Land and Land Rights	-
304	Structures and Improvements	4.17%
305	Collecting & Impounding Res.	1.50%
306	Lake, River and Other Intakes	1.47%
307	Wells and Springs	1.67%
309	Supply Mains	1.89%
	Pumping Plant	
303	Land and Land Rights	-
304	Structures and Improvements	2.27%
310	Power Generating Equipment	3.33%
311	Electric Pumping Equipment	3.13%
	Water Treatment Plant	
303	Land and Land Rights	-
304	Structures and Improvements	2.78%
320	Water Treatment Equipment	3.57%
	Transmission & Dist. Plant	
303	Land and Land Rights	-
304	Structures and Improvements	4.17%
330	Dist. Reservoirs & Standpipes	1.67%
331	T & D Mains	1.89%
333	Services	3.33%
334	Meters	6.21%
334	Meter Installations	4.44%
335	Hydrants	3.95%
339	Other Plant & Misc. Equipment	5.46%
	General Plant	
303	Land and Land Rights	-
304	Structures and Improvements	4.00%

340	Office Furniture	4.74%
340	Personal Computers	12.50%
340	PC Software	20.00%
340	MainFrame Computers	12.50%
340	MainFrame Software	12.50%
340	Other Machinery & Equipment	5.00%
341	Transportation Equipment	10.77%
342	Stores Equipment	3.28%
343	Tools, Shop and Garage Equip.	7.31%
344	Laboratory Equipment	5.00%
345	Power Equipment	5.00%
346	Communication Equipment	12.50%
347	Miscellaneous Equipment	5.46%
348	Other Tangible Plant	3.31%

(Id., pp. 13-14.)

5. Radium Removal Treatment Plant–Woodhaven Water Division

In rebuttal testimony, the Company proposed adjustments related to an increase in the projected cost of the radium removal treatment plant for its Woodhaven Water Division. (Aqua Ex. 6.0R, p. 44.) Since the Company provided information to adequately support the operating cost estimate and the increase to the projected cost of the facility, Staff did not object to the Company's adjustments. (ICC Staff Exhibit 7.0 C, p. 8.)

6. Original Cost Determination

Requirements for preservation of records are associated with an original cost determination. Requirements for the preservation of records are set forth in 83 Ill. Adm. Code 615, The Preservation of Records of Water Utilities, Appendix A. For example, Appendix A, Section 12(b)(1) provides that the records that support journal vouchers and journal entries charging plant accounts are to be maintained "7 years prior to date as of which original cost of plant has been unconditionally determined or approved by this Commission" in an original cost determination or a rate case. (ICC Staff Exhibit 2.0, p. 17.)

Staff witness Jones recommended that the Commission conclude and make a finding in the Order in this proceeding that the Company's 12/31/03 plant balances reflected in Aqua Schedules B-5, Page 1 of 3, Column (C) for Woodhaven Water, Woodhaven Sewer, and Oak Run Divisions, are approved for purposes of an original cost determination, subject to any adjustments ordered by the Commission. (Id.) Aqua did not contest this recommendation.

7. Pension Update

In rebuttal testimony, Company witness Schreyer proposed pension related adjustments to reflect updated actuarial information for 2005. (Aqua Ex. 6.0R, pp. 43-44.) While it is Ms. Jones' opinion that the effect of recognizing the updated amounts on the revenue requirement of each division is immaterial and no adjustment is warranted, she did not object to the Company's inclusion of the updated amounts in its rebuttal position. (ICC Staff Exhibit 7.0 C, p. 7.) The adjustments affected rate base and operating expense accounts.

8. Plant in Service Adjustments

Staff witness William D. Marr proposed adjustments for Woodhaven Water, Woodhaven Sewer and Oak Run utility plant for those items listed on the Company's Continuing Property Records which have been removed from service or are no longer used and useful. (ICC Staff Exhibit 5.0, pp. 4-7.) His proposed plant in service adjustments were incorporated into the schedules presented by Staff witness Jones. (ICC Staff Exhibit 2.0, Schedules 2.05 (WW), (WS), and (OR).)

The Company accepted Staff's proposed adjustments. (Aqua Ex. 6.0R, p. 43.)

During cross-examination, Aqua witness Bunosky indicated that while the Company for some time has had procedures in place by which it can verify the accuracy of its Continuing Property Records, there were some individuals who may not follow through on those procedures. (Tr., pp. 105-107.) Given these statements, Staff is concerned that the Company's Retirement Procedures implemented pursuant to the Commission's Final Order in Docket Nos. 00-0337/00-0338/00-0339 (Cons.), the Company's rate increase requests for its Kankakee, Woodhaven, and Vermilion Divisions, are not being adequately followed. As such, Staff requests that the Commission order the Company renew its efforts to successfully implement those Retirement Procedures.

C. Recommended Rate Bases

For the purpose of developing rates in this proceeding, Staff recommends that the Commission adopt a rate base of $2,817,998 for Woodhaven Water Division (Appendix A (WW)), $2,906,991 for Woodhaven Sewer Division (Appendix A (WS)), and $1,589,806 for Oak Run Water Division (Appendix A (OR)).

III. OPERATING REVENUES AND EXPENSES

A. Introduction

Schedules showing the operating revenues, expenses, and income at present and recommended rates for the test year ending December 31, 2005, were presented by Company and Staff witnesses. Staff proposed a number of adjustments to the Company's proposed operating statements, as discussed below.

Unless otherwise indicated in the heading, each issue identified below pertains to all three Aqua divisions that are the subject matter of the instant proceeding.

B. Summary of Uncontested Issues

1. Interest Synchronization

Staff witness Pearce proposed adjustments for Woodhaven Water, Woodhaven Sewer and Oak Run Water Divisions to interest synchronization in order to ensure that the revenue requirement reflects the tax savings generated by the interest component of the revenue requirement. (ICC Staff Exhibit 1.0, p. 7.)

While Aqua witness Schreyer accepted the mechanics of Staff's calculation, he pointed out that the actual interest synchronization depends on the final rate base and weighted cost of debt the Commission adopts in this case. (Aqua Ex. 6.0R, p. 5; Aqua Ex. 8.0, p. 7.) Staff witness Pearce agreed that the ultimate amount of synchronized interest expense will be determined after the rate base and weighted cost of debt components are finalized, using the methodology she propounded. (ICC Staff Exhibit 6.0, p. 4.)

2. Gross Revenue Conversion Factor

The Gross Revenue Conversion Factor ("GRCF") is applied to the operating income deficiency to derive the total amount of revenue required for the income deficiency and the associated increase in income tax expense and uncollectibles expense change. It is based upon the applicable federal tax rate, state income tax rate, and uncollectibles rate.

Staff witness Pearce proposed an adjustment to the Company's GRCF as presented on Aqua Schedules A-2.1 for Woodhaven Water, Woodhaven Sewer, and

Oak Run Divisions. While Aqua used a state income tax rate of 7.18%, the state income tax rate is actually 7.30%. The statutory rate for Illinois income tax on the income of a corporation changed because there is no longer a credit for replacement tax paid. The credit was available for years ending prior to December 31, 2003. Accordingly, the statutory income tax rate of 4.80% and replacement tax rate of 2.50% equal a combined rate of 7.30% for years ending subsequent to December 31, 2003. (ICC Staff Exhibit 1.0, pp. 7-8.) Ms. Pearce further adjusted the Company's GRCF for the Woodhaven Water and Sewer Divisions to incorporate the uncollectibles rate of 4.2298%. (ICC Staff Exhibit 6.0, pp. 4-5.)

While Aqua witness Schreyer agreed with the concepts and approaches of arriving at the proper GRCF amounts, he indicated that the uncollectibles rate used by Staff for the Woodhaven Divisions is understated and should be based on the final determinations regarding the Woodhaven Divisions' uncollectibles expenses. (Aqua Ex. 8.0, p. 7.)

3. London Witte Group Audit Services Fees

Staff witness Pearce proposed an adjustment to the audit services fees of the London Witte Group based on a pro-ration of the total $45,000 audit fee among the five divisions included in its engagement letter with Aqua. Her adjustment limited the auditing expenses to $9,000 (exclusive of travel expenses) for each of the three divisions in this proceeding. (ICC Staff Exhibit 1.0, pp. 13-14.) While Aqua witness Schreyer accepted the adjustment, he challenged the disallowance of $4,200 additional costs billed by London Witte Group for its trip to meet with Staff in Springfield and provided supporting documentation. (Aqua Ex. 6.0R, pp. 21-23, Attachment B.) Based on her review of the additional information provided by the Company, Staff witness Pearce stated it was reasonable to allocate the total cost of the London Witte Group invoice ($4,200) equally among the three divisions (ICC Staff Exhibit 6.0, pp. 12-13), resulting in an allowed $31,200 for audit services.

C. Contested Issues

1. Reverse Osmosis Plant Study Expense–Oak Run Division

Staff witness Jones proposed an adjustment to remove the cost of a pilot study and the projected cost for engineering plans related to a Reverse Osmosis ("RO") project under consideration by the Company for its Oak Run Water Division that are incorrectly recorded as plant in service. Costs recorded as plant in service should reflect plant in place and used by the Company in its utility operations; however, the Company does not anticipate that the RO plant will be in place by the end of the future test year. (ICC Staff Exhibit 2.0, pp. 5-7.)

Aqua witness Schreyer opposed Staff's adjustment because the likelihood of the RO plant is "reasonably certain". Additionally, he opined that if the Commission were to adopt Staff's proposal to remove said costs from plant in service, it would be appropriate to amortize the amount over a ten-year period to account 675, Miscellaneous Expenses, rather than to defer the amount to account 183, Preliminary Survey and Investigation Charges. (Aqua Ex. 6.0R, p. 42.)

However, Staff's adjustment is not predicated on when the RO plant will be built. Rather, it is based on the fact that the plant to which the pilot study and engineering plans pertain does not now exist, nor will it exist by the end of the future test year. (ICC Staff Exhibit 7.0 C, p. 4.) Where said costs should be recorded is not an arbitrary decision made by Staff. The Uniform System of Accounts for Water Utilities specifies that the costs shall be recorded in account 183, Preliminary Survey and Investigation Charges, until such time as construction results or the work is abandoned. (ICC Staff Exhibit 2.0, p. 7.) 83 Ill. Adm. Code 605.10 provides, in part:

> This account shall be charged with all expenditures for preliminary surveys, plans, investigation, etc., made for the purpose of determining the feasibility of projects under contemplation. If construction results, this account shall be credited and the appropriate utility plant account charged. If the work is abandoned, the charge shall be to account 426 – Miscellaneous Nonutility Expenses, or to the appropriate operating expense account unless otherwise ordered by the Commission...

Therefore, Staff recommends that the Commission: (1) accept its adjustment to remove from plant in service the cost of a pilot study and the projected cost for engineering plans related to the RO project under consideration by the Company for its Oak Run Division, and (2) disallow the Company to amortize the amount over a ten-year period to account 675, Miscellaneous Expenses.

2. Uncollectible Expenses

Staff witness Pearce proposed adjustments to the uncollectibles rates for the Oak Run Water, Woodhaven Water and Woodhaven Sewer Divisions. She based her adjustments on an analysis of actual write-offs during the most recent five-year period, from which annual average write-offs were calculated and compared to the Company's estimates of bad debts expense for the pro forma 2005 test year. (ICC Staff Exhibit 6.0, pp. 6-8.)

For the Oak Run Water Division, the Company did not support its initial pro forma increase in the uncollectibles rate based on its experience in the Oak Run Division, but rather based its adjustment on the Company's purported experience with another division of Aqua, unrelated to Oak Run, as stated in its response to Data Request BAP 4.02(c):

> Approximately 63% of the Company's requested rate increase is derived from Availability customer revenues. As noted on the fourth page of Aqua Exhibit 4.0, the Availability charge has been increased 81.92%. This, coupled with the high uncollectible expense experience of Candlewick Division Availability customers, led the Company to *conservatively* increase its Oak Run Uncollectible expense at some level higher than that produced by the overall increase as reflected on Schedule C-2.3, line 35. (Emphasis added.)

(ICC Staff Exhibit 1.0, p. 10.)

Aqua witness Schreyer opposed Staff's reduction to the pro forma uncollectibles rate for Oak Run, but amended the Company's bad debt expense adjustment to a lower amount, based on the balance of accounts receivable over 91 days old, which he allocated over a period of three years to derive annual bad debt expense of $4,829. (Aqua Ex. 6.0R, p. 6.)

Staff believes that this method of estimating the annual bad debts expense is highly unorthodox and bears no apparent relationship to the experience of the Company in its ability to predict future write-offs. Furthermore, the amount of annual bad debt expense reflects an uncollectibles rate of 1.38%, which is significantly higher than the rate derived from an average of the Company's actual write-offs during the past five years, calculated by Staff as approximately .3696%, as shown on ICC Staff Exhibit 1.0, Schedule 1.09 (OR). Accordingly, this experience does not support an increase from the current rate of .4911% to 1.38% as requested by the Company in its amended pro forma adjustment. Therefore, Staff requests the Commission approve its proposed adjustment to the uncollectibles rate for the Oak Run Water Division. (ICC Staff Exhibit 6.0, pp. 6-7.)

With respect to the Woodhaven Water and Sewer Divisions, the Company utilized an uncollectibles rate of 6.6579% and 7.1576%, respectively. For purposes of analysis, Staff utilized the same methodology used for the Oak Run Water Division, i.e., average of the last five years' actual write-offs to derive the combined uncollectibles rate of 4.2298%, as calculated on ICC Staff Exhibit 6.0, Schedules 6.10 (WW) and (WS), page 1 of 3. This rate is utilized as the basis for the 2005 test year bad debt expense proposed by Staff for the Woodhaven Water and Sewer Divisions, calculated on ICC Staff Exhibit 6.0, Schedules 6.09 (WW) and (WS), respectively. (Id., pp. 7-8.)

Therefore, Staff recommends that the Commission accept Staff witness Pearce's proposed adjustments to the uncollectibles rates, as reflected on ICC Staff Exhibit 6.0, Schedules 6.09 (OR), (WW) and (WS).

a. Bulk Billing

The Woodhaven Association proposed the bulk billing option as a possible solution to the collections problem at the Woodhaven Divisions. (Woodhaven Association Exhibit WA 1.00, pp. 6-8, 13; Woodhaven Association Exhibit WA 2.0, pp. 7-8.) Aqua has indicated that it would be willing to consider a proposal to weight Woodhaven customers at less than the current full weighting under a bulk billing agreement which would eliminate the collections issue that has plagued the Company for years. (Aqua Ex. 5.0-Second Amended, pp. 21-24; Aqua Ex. 6.0R, p. 41; Aqua Ex. 7.0R, pp. 21, 24; Aqua Ex. 8.0, p. 21.)

Bulk billing has been recognized as a possible solution to the collections problem at the Woodhaven Divisions since at least May 2003, when it was an item on the agenda of a meeting between the Company and The Woodhaven Association.

(Woodhaven Association Exhibit WA 1.01, p. 6.) The Association maintains that it is interested in the bulk billing proposal and has requested information from the Company on the financial impact to the Association, but the information has not been forthcoming. (Id., pp. 6-7.) Aqua maintains that the Association never indicated that it was interested in moving forward with the option until recently and, now that it has, Aqua does not have the resources available to provide the information. (Aqua Ex. 5.0-Second Amended, p. 23.) Thus, the record in this case does not address the impact that bulk billing would have on the revenue requirement for Woodhaven customers. Therefore, the Commission cannot address the impact of bulk billing on the test year revenue requirement.

The Commission is not in the business of supervising the conduct of a utility's management of its customer relations, but based on the record, it appears that Aqua and The Woodhaven Association are not on the best of terms. As such, it appears that it would be in the best interest of a continued relationship between Aqua and The Woodhaven Association to actively explore the possibility of bulk billing and the resulting impact on a test year revenue requirement.

3. Sewer Installation Costs–Woodhaven Sewer Division

The Woodhaven Association witness Jeffrey S. Hickey indicated that a customer pays all of the costs for the installation of new sewer services and that this contribution should be deducted from rate base. (Woodhaven Association Exhibit WA 1.00, p. 15; Woodhaven Association Exhibit WA 2.0, pp. 9-11.) Aqua witness Bunosky explained that the customer is responsible for paying for the sewer main from the existing location to the location in front of the customer's property, while the Company is responsible for paying for the sewer service line from the sewer main to the property line. The customer is then responsible for paying for the sewer service line from the property line to the customer's campsite or trailer. The Company charges a customer a fixed amount per foot to extend sewer service. This fixed amount is the contribution toward the installation of new sewer services and the difference between this fixed amount charged and the actual cost incurred by the Company is the Company's cost for the sewer service line from the sewer main to the property line. Only the Company's costs for the sewer extension have been included in rate base. (Aqua Ex. 5.0-Second Amended, p. 29; Aqua Ex. 7.0R, pp. 24-27.)

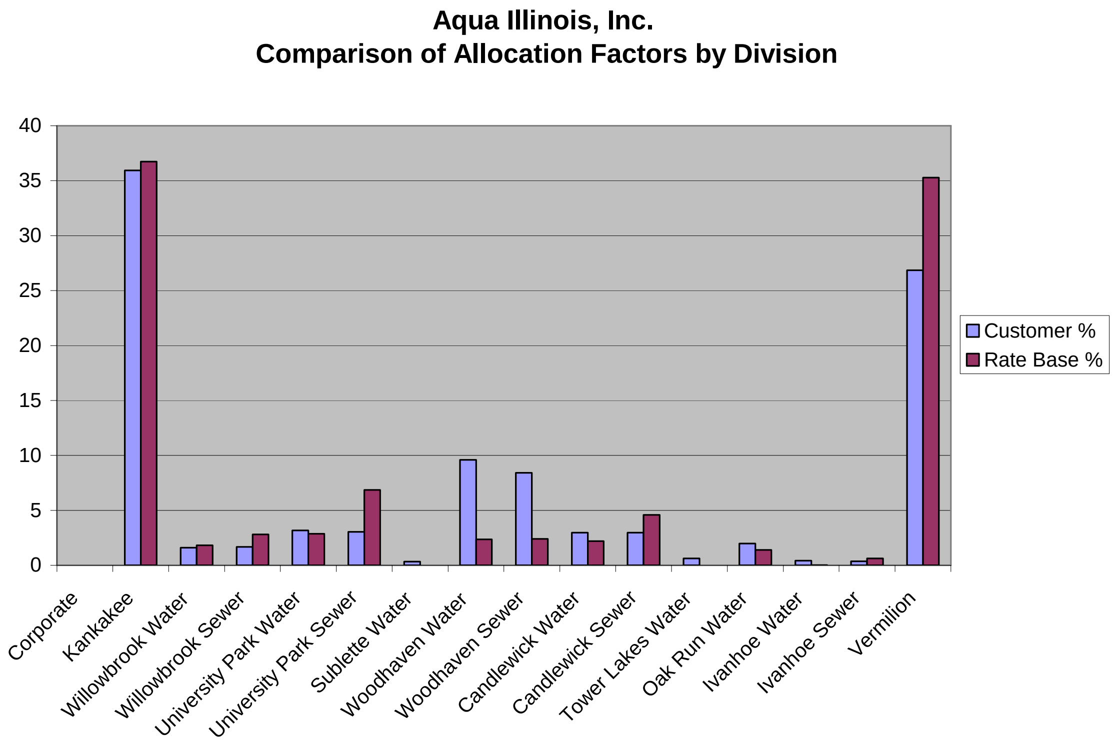
Staff witness Marr testified that his review determined that the Company is correct. (Tr., pp. 209-210.) He stated that the tariff number of the Rules, Regulations, and Conditions of Service for sewer service is ILL. C.C. No. 48, Section No. 1. The applicable page numbers of these sewer tariffs detailing the responsibility of sewer service lines are pages 4, 6, 17, and 28. (Id., pp. 238-240.)

4. Allocation of Management Expense

The Woodhaven Association disagreed with Company's current method of allocating corporate costs based on the number of water and sewer customers. The Woodhaven Association witness Hickey stated that Woodhaven's structure and circumstances (a non-residential community where over 90% of the campsite owners use their properties less than 60 days per year) support a deviation from the customer based allocation method. Mr. Hickey claimed that the Company has already set a precedent for deviating from its allocation methods by its treatment of availability customers in other Associations. (Woodhaven Association Exhibit WA 1.00, p. 14.)

Company witness Bunosky claimed that although rate base percentage was the basis for allocating some of the contractual services expenses in prior years, the Company's current customer count methodology was an acceptable way of allocating these costs. (Aqua Ex. 5.0-Second Amended, pp. 27-28.) He also indicated that the methodology was reasonable and fair to all service Divisions. (Id., p. 28.) Aqua witness Schreyer stated that because Staff did not dispute the customer count allocation methodology utilized in Docket No. 04-0442, Staff should consistently use this approach in the instant proceeding. (Aqua Ex. 6.0R, p. 40.)

To counter the Company's assertion that its current allocation methodology based on customer count is more appropriate than allocations based on a rate base percentage, which was previously used to allocate certain expenses, Staff witness Jones presented the following bar chart to demonstrate: (1) the relationship between the respective rate base and customer allocation factors for each division of Aqua, and (2) the effect of change in allocation methodology from percent of total rate base to percent of customers for those expenses that were previously allocated using a rate base allocation factor:



(ICC Staff Exhibit 7.0 C, pp. 8-10.)

Ms. Jones also stated that the effect of the allocation methodology change for expenses previously allocated by rate base is a 305% increase for the Woodhaven Water Division and a 249% increase for the Woodhaven Sewer Division. Together, the Woodhaven Divisions account for 18% of total Aqua customers, but only 4.8% of total Aqua rate base. The disparity between percent of rate base and percent of customers is more pronounced for the Woodhaven Divisions than for Aqua's other divisions, except for the Ivanhoe Water Division, and it is the reason a change in allocation methodology from rate base to customer count effects a large increase in those expenses to which it is applied. (Id., p. 11.)

Ms. Jones further stated that every rate proceeding stands on its own merits and that the instant rate proceeding is the first one filed since the allocation methodology change, as identified by the Company, that highlights the adverse effect of the change on certain of the Company's divisions. The impact of the change was not as overt in the Company's two previous rate proceedings, Docket No. 04-0442 for Vermilion and Docket No. 03-0403 for Kankakee, because the percent of change was more reasonable at 24% and 2%, respectively. (Id., pp. 12-13.)

In order to mitigate the large adverse impact that the Company's change in allocation methodology had on the Woodhaven Divisions' revenue requirements, Staff proposed to modify the customer count allocation factors by weighting customers at each Woodhaven Division by one-half. While other allocation factors were considered, the allocation factors selected by Staff witness Jones are reasonable because: (1) Woodhaven is a campground and Woodhaven customers are permitted to use their properties only six months of the year, and (2) the Company has indicated that it would be willing to consider weighting Woodhaven customers in conjunction with a bulk billing agreement with The Woodhaven Association. (Id., pp. 13-14.)

Therefore, Staff's proposed test year management expense is based on a modified customer count allocation factor. (Id., pp. 13, 16.)

Company witness Schreyer attempted to tie the level of Woodhaven management expense to the uncollectibles problem. He also indicated that if a reduced customer allocation is adopted by the Commission for the Woodhaven Divisions, management expense should be based on projected 2005 data instead of 2004 actual management expense, which the Company agreed to in its rebuttal testimony and which assumes a full Woodhaven customer count weighting. He further stated that adopting a reduced customer allocation for the Woodhaven Divisions would shift expenses to other divisions and deny the Company its ability to recover costs until its other divisions are brought in for rate relief. (Aqua Ex. 8.0, pp. 20-21.)

Staff does not agree with Aqua witness Schreyer. First, the Company admitted at the evidentiary hearing that the level of management expense would not decrease even if the uncollectibles problem were to be resolved. (Tr., pp. 153-154.) Second, the Company accepted Staff witness Pearce's adjustment to limit management expense to 2004 actual amounts. (Aqua Ex. 6.0R, p. 41.) The basis for Ms. Pearce's adjustment was that the Company neither supported the amounts of management expense included in its filing nor explained the significant amounts by which its forecasted amounts exceed actual 2004 expenses. (ICC Staff Exhibit 1.0, p. 26.) However, the actual 2004 amount agreed to by the Company is based upon the allocation of total management expense by customer count and, thus, also reflects the adverse impact of the change in allocation methodology. (ICC Staff Exhibit 7.0 C, pp. 15-16.)

Finally, Aqua has 16 separate rate entities. The Company has sought rate relief for only two of its divisions, Kankakee and Vermilion, since it implemented the customer count methodology. (Tr., p. 66.) The Company further stated that its methodology on how it allocates common cost is not the driving factor of a rate case. (Id., p. 147.) Thus, adopting a reduced customer allocation for the Woodhaven Divisions in this proceeding cannot affect the Company's ability to recover costs from divisions whose rates are not yet based on the customer count methodology. Also, the Company has already adopted a reduced customer allocation in this proceeding that was not used in the two previous proceedings, i.e., the weighting of Oak Run's availability customers.

Therefore, Staff requests that the Commission approve its test year management expense for the Woodhaven Divisions based on a modified customer count allocation factor applied to actual 2004 management expense.

5. Rate Case Expense

a. Ahern Expense

Staff witness Pearce proposed to disallow Company rate of return witness Pauline Ahern's outside consulting fees because the Company submitted the same analysis for three consecutive filings instead of filing one consolidated proceeding. (ICC Staff Exhibit 1.0, pp. 11-12.) Ms. Ahern utilized the same methodology to estimate the cost of common equity for Aqua in Docket No. 03-0403, Docket No. 04-0442, and the instant proceeding. If the Company had filed its requests for all of these divisions in one consolidated rate case, Ms. Ahern's fees would have been significantly lower. As such, the burden on Aqua's ratepayers would have been less onerous.

Staff witness Janis Freetly agreed that the rate case expenses associated with Ms. Ahern's cost of equity analysis should not be allowed and testified that Ms. Ahern's methodology was flawed on many levels and was rejected in both Docket No. 03-0403 and Docket No. 04-0442. (ICC Staff Exhibit 3.0, pp. 61-62.) The Commission's rejection of Ms. Ahern's methodology is explained in the Docket No. 03-0403 Order and affirmed in the Docket No. 04-0442 Order. (Order, Docket No. 03-0403, April 13, 2004, pp. 41-43; Order, Docket No. 04-0442, April 20, 2005, pp. 42-46.) The Commission Order in Docket No. 04-0442 states:

> Several of the issues presented in this proceeding were already decided in Docket 03-0403 (Order entered April 13, 2004). That case involved a different operating division of Aqua. The parties have already noted with respect to other issues in this case that such determinations are not *res judicata*. Nonetheless, the Commission finds that the precedential value of 03-0403 toward the instant case is quite strong; the Commission therefore will not depart from its determinations in 03-0403 as applied to these issues unless a convincing argument is presented as to why the decision in 03-0403 should not be followed. No such argument was offered by Aqua with respect to any of the following issues: the CEM model, the RPM model, the alleged exclusive reliance on the DCF model,

> the use of historical data, the calculation of betas, the sample selection methods, the size of Aqua for a size-based business risk premium, the empirical CAPM (or "Morin ECAPM"),[fn] and the discussions of the *Bluefield* and *Hope* cases. [fn] Instead, the same Company witness offered substantially the same opinions without attempting to reconcile them with 03-0403 Order. The Commission once again rejects the Company's position as to these issues, and, subject to the remainder of this discussion, generally affirms the cost of equity models and methodology utilized by Staff.

(Order, Docket No. 04-0442, April 20, 2005, pp. 43-44.)

Notably, the Commission rejected Ms. Ahern's cost of equity analysis in Docket No. 04-0442 because she did not present a convincing argument as to why the Commission decision in Docket No. 03-0403 should not be followed. In the instant proceeding, Ms. Ahern once again failed to provide a convincing argument for the modification or reversal of the Commission's prior analysis and decisions. She offered substantially the same analysis and opinions without attempting to reconcile them with the Order in Docket No. 03-0403. Where the Commission has rejected a financial model or technique as fundamentally unsound, expenses incurred to present that same financial model or technique in a subsequent case are not just, reasonable, or prudent absent a good faith argument that leads the Commission to modify or reverse its decision.

In rebuttal testimony, Company witness Schreyer claimed that Aqua could not have filed the rate increase requests for the Oak Run and Woodhaven Divisions with either of the larger Kankakee or Vermilion Divisions. (Aqua Exhibit 6.0R, pp. 9-16.) Staff witness Pearce acknowledged Mr. Schreyer's arguments regarding consolidation of this case with prior rate proceedings in her rebuttal testimony. (ICC Staff Exhibit 6.0, pp. 9-11.) Mr. Schreyer also claimed that Ms. Ahern's fees were justified because her cost of equity analysis constituted a good faith basis for her opinion, which did not change simply because it was not accepted by the Commission. (Aqua Exhibit 6.0R, pp. 16-21.) Whether Ms. Ahern's analysis was a good faith basis for her opinion is not relevant. Staff's proposed adjustment has nothing to do with whether Ms. Ahern truly believes that her analysis is valid: Staff has no basis for determining whether or not a witness' true belief regarding the proper return on equity is put forward in his or her analysis. Rather, Staff's adjustment is based on whether the Commission has found Ms. Ahern's analyses and recommendations to be valid. Excepting the NAIC adjustment, the Commission did not find Ms. Ahern's analysis as offered in Docket No. 03-0403 and Docket No. 04-0442 to be valid, credible, or useful. Yet, Ms. Ahern did nothing to address the specific concerns the Commission expressed regarding her analysis. She merely updated the same analysis a third time. Therefore, Staff witness Freetly recommended that the Commission disallow most of the rate case expense attributable to Ms. Ahern's cost of equity analysis due to her continued reliance on methodology and arguments that the Commission has previously rejected. Ratepayers should not compensate a utility for the cost of expert testimony containing analyses that the Commission has consistently rejected in previous proceedings as fundamentally unsound.

The Commission adopted Staff's cost of equity estimate in Docket No. 03-0403 and Docket No. 04-0442, but added 30 basis points to incorporate an additional risk factor not included in Staff's analysis. (Order, Docket No. 03-0403, April 13, 2004, p. 43; Order, Docket No. 04-0442, April 20, 2005, p. 45.) Since the Commission accepted the 30 basis point business risk adjustment that Ms. Ahern proposed in the last two proceedings, Ms. Freetly recommended that the Commission allow the Company to recover a portion of Ms. Ahern's consulting fee for that aspect of Ms. Ahern's analysis.

The 30 basis point adjustment as a percentage of Ms. Freetly's cost of equity recommendation of 10.10% is approximately three percent. Hence, three percent of Ms. Ahern's fees would be fair compensation for that adjustment, which equates to $390 (3% * $13,000) for the Oak Run Water Division and $465 (3% * $15,500) each for the Woodhaven Water and Sewer Divisions.

If the Commission adopts Ms. Freetly's recommendation to disallow most of the fees attributable to Ms. Ahern's cost of equity analysis, it would not eliminate the utility's right to present a cost of equity analysis using any methodology, including the use of previously-rejected techniques. The adoption of Ms. Freetly's proposal would merely prohibit the utility from collecting from ratepayers expenses incurred for the presentation of analyses that have been consistently and repeatedly rejected in previous cases without some new, good faith support for reliance on such analyses. If the specific concerns raised by the Commission in previous Orders are addressed and those arguments are persuasive, recovery of the cost of analyses that the Commission has previously rejected would remain a possibility.

b. Outside counsel expense

Staff witness Pearce initially proposed adjustments to the cost of outside legal fees due to the dramatic increase in such costs for which the Company had not provided adequate justification. As such, her adjustments were based on the outside legal service costs Aqua incurred in the most recent prior rate proceeding for each division. (ICC Staff Exhibit 1.0, pp. 14-15.) Aqua witness Schreyer attempted to distinguish the projected costs in the instant proceeding from the prior proceedings. (Aqua Ex. 6.0R, pp. 26-32.) Based on subsequent data request responses provided by

Aqua, Ms. Pearce withdrew her proposed adjustments to outside legal costs for each division. (ICC Staff Exhibit 6.0, p. 14; Tr., p. 351.)

Apparently, however, Ms. Pearce's acceptance of Aqua's initial estimates for outside counsel expense was insufficient for Aqua. In surrebuttal testimony, Aqua witness Schreyer sought to update the Company's original estimates for the outside counsel component of rate case expense based on "known and measurable changes." (Aqua Ex. 8.0, p. 17.) In support of these increases, he supplied actual invoices from Aqua's outside counsel. (Id., Exhibit D.) However, he did not stop there. He further indicated that these increases were not final and that final projections were to come. (Id., p. 15.) He then proceeded to offer the Commission a "trade off": If the Commission were to accept the newly-offered increases in the GPM Associates' expenses and outside legal fees, Aqua would accept Staff's proposed reductions to its rate department and miscellaneous expense components of rate case expense. (Id., p. 17.)

Since Staff was provided with neither this documentation nor information at the time of filing its rebuttal testimony, Ms. Pearce was denied the opportunity to adequately review the information, analyze it, and provide an expert opinion. It was inappropriate and highly prejudicial to deluge Staff with a stack of disorganized invoices accompanied by a new proposal during the surrebuttal phase of the proceeding. The surrebuttal phase of a Commission proceeding is one during which the issues are narrowed, not expanded. It is also the stage after which there is a very short period of time before the evidentiary hearings, during which Staff counsel is preparing the Staff witnesses who will undergo cross-examination. As such, Ms. Pearce was unable to give the documentation more than a "cursory" review. (Tr., p. 351.)

As a general matter, the Company's request to update components of its estimated rate case expense is contrary to long-standing Commission policy. In *Lincoln Water Company, Proposed general increase in water rates,* Docket No. 84-0011, Order, 1984 Ill. PUC LEXIS 7, pp. 16-17, (October 17, 1984), the Commission was presented with a similar water utility request to revise and increase its estimated rate case expense due to greater than anticipated discovery and other activity. The Commission limited the utility to its originally-filed estimate pursuant to its policy of restricting such expense to initial estimates unless extraordinary or compelling circumstances dictated otherwise:

> In its initial filing the Company estimated rate case expenses to total $50,500 to be amortized over a two-year period. On rebuttal the Company explained that the instant case had significantly more active party participation, interrogatories, hearings, witnesses and audit activity than the prior case, and as a result required considerably more time and expense by the Company. The Company requests that its updated estimate of $113,643 be used for ratemaking purposes. Staff witness Hetherington testified that only the original rate case expense estimate should be considered in this proceeding, and that this expense should be amortized over a three year period. The Intervenors endorse the staff recommendation. With regard to rate case expense, the Commission agrees that Respondent was cooperative and prompt in responding to numerous data requests and in other aspects of the case, and that the instant case required more activity by Respondent than did the prior rate case. The Commission agrees with the staff witness, however, the recovery of rate case expense should be limited to the utility's filed estimate based on the Commission's policy of restricting such expense to initial estimates unless extraordinary or compelling circumstances dictate otherwise. With respect to the amortization period, the Commission agrees with the Company that a two-year period is reasonable based on past filings by the utility, test year considerations and recent rate decisions for other water utilities.

(Id.) Aqua presented no evidence of extraordinary or compelling circumstances justifying its revised estimates of components of its rate case expense. Indeed, the only evidence of extraordinary or compelling circumstances was Staff's evidence that the

Company's updates were provided without timely presentation of supporting documentation, thus depriving Staff of a reasonable opportunity to review and respond to the Company's revisions.

In *Consumers Illinois Water Company*, Ill. C.C. Docket Nos. 93-0253; 93-0303 Cons., Order, 1994 Ill. PUC LEXIS 207, 152 P.U.R.4th 131, pp. 4-8 (May 11, 1994), a case involving Aqua's predecessor, the Commission declined to consider the Company's revisions to rate base made and supported late in that proceeding to the prejudice of Staff and other parties. Faced with a scenario involving the same eleventh-hour support offered in the instant case with respect to the Company's updates to rate case expense, Staff in *Consumers* pointed out "that the Company submitted its first documentation to justify known and measurable changes to University Park's sewage treatment plant three working days prior to the final evidentiary hearings in this proceeding." (Id., p. 6.)

Further, similar to Staff's testimony in the instant proceeding that it did not have sufficient time to review and analyze the Company's support for its revised estimates of components of rate case expense, Staff in *Consumers* explained "that receiving the executed construction contract immediately prior to hearings did not afford sufficient time for the various Staff members to adequately review the contract terms, the reasonableness of the construction schedule, and the attendant ratemaking ramifications if it were to be accepted." (Id.)

Although the Commission acknowledged that it is generally desirable to reflect known changes in rates, the Commission made clear that that goal does not supersede the requirement to conduct rate proceedings in a manner that is not prejudicial to the ability of Staff or other parties to prepare their case:

> The Commission is sympathetic to the Company's argument that newly established rates should ideally reflect all plant in service providing benefit to ratepayers at the time the new rates will go into effect. **However, the Commission must also ensure that proceedings are fair to all parties, and that our rules are not interpreted and applied in a manner which forecloses consideration of significant matters.**
>
> Part 285 of the Commission's rules allow pro forma adjustments to the historical test year provided that such changes are reasonably certain to occur within 12 months of the filing date of the tariffs and the level of each change is known and measurable. . . . **Pro forma changes must be identified with specificity and documented as known and measurable sufficiently early in the process to permit the Staff and interested parties an adequate opportunity to review them and to prepare their case.**
>
> Just and orderly processing of rate increase requests mandates that we cannot permit a utility, which has complete discretion over the timing of its rate filings, to use the flexibility afforded by the known and measurable provision of our rules to transform a rate proceeding into a guessing game, in which the Commission and the parties are left merely to await the ultimate resolution of the Company's plans, with large rate impacts hanging in the balance.
>
> * * *
>
> Staff's adjustment to proposed rate base denying the inclusion of the University Park Plant Improvements is reasonable and is adopted.

(Id., pp. 6-7, (Emphasis added).) The principles that guided the Commission's decision in *Consumers* are fully applicable here, and the Commission should similarly decline to consider the Company's revised estimates of various components of rate case expense because the Company's support for its updates to rate case expense was provided without timely presentation of supporting documentation.

Additionally, Aqua is clearly confused regarding its rate requests based on a future test year. 83 Ill. Adm. Code 287 sets forth the Commission's rules regarding rate case test years. Section 287.20 provides a utility a choice of either an historical or future test year. Aqua has chosen a 2005 future test year in these proceedings. Section 287.30 sets forth the criteria upon which updates to future test year data are allowed. Not only has Aqua disregarded the requirements in Section 287.30 for updating future test year data but the Company is confused about the difference between a future and an historical test year. When Mr. Schreyer attempted to increase outside counsel expenses, he described them as “known and measurable” changes. (Aqua Ex. 8.0, p. 15.) Pursuant to Section 287.40, known and measurable changes apply only to an historical test year. If Aqua wanted to apply the concept of known and measurable changes, it should have chosen an historical test year when it made its initial filings. As such, these increases in Aqua’s original estimates for the outside counsel component of rate case expense are inappropriate. Equally inappropriate is the notion that Aqua can further increase its estimates as far into the future as an appeal of these proceedings, as Mr. Schreyer suggested. (Id.)

Furthermore, the “trade off” that Mr. Schreyer offered to the Commission with respect to the various components of rate case expense (Id., p. 17) is inappropriate and should not be considered by the Commission. This is clearly a major proposal being offered at a very late stage in the proceeding. In addition, the cavalier treatment by Aqua of what are supposed to be supportable estimates is also quite inappropriate. These are estimates upon which Staff relies when conducting its analysis and should not be so cavalierly traded off, as Aqua witness Schreyer suggests.

The actual invoices that were supplied by Aqua to support the estimates for outside counsel expense were used by Staff witness Pearce in her rebuttal testimony analysis because that was the only information supplied by Aqua to support its estimates. Ms. Pearce stated at the July 28, 2005 evidentiary hearing that she would have expected to see as support for a 2005 future test year a budget including estimated amounts for the various stages of the proceeding. (Tr., pp. 377-380.)

Finally, while Ms. Pearce utilized the invoices provided to her at the time she filed rebuttal testimony, she had inadequate opportunity to review and respond to the disorganized stack of invoices provided at the last minute with Aqua witness Schreyer's surrebuttal testimony. As such, the invoices admitted into the record, which are dated subsequent to July 7, 2005, should be given no weight by the Commission.

For all of the reasons stated above, Staff recommends that the Commission adopt Staff witness Pearce's rebuttal testimony position to accept Aqua's original estimate for the outside counsel expense component of rate case expense.

c. GPM Associates expense

Staff witness Pearce made no adjustment to the estimate regarding the GPM Associates component of rate case expense. In fact, the first time Mr. Monie's costs were mentioned in this proceeding was in Aqua witness Schreyer's surrebuttal testimony. At this late stage in the proceeding, Mr. Schreyer indicated that Aqua's original projections for its rate design expert were inadequate and thus the Company was requesting additional expenses for "known and measurable" changes. (Aqua Ex. 8.0, p. 14.) He also included in his stack of disorganized invoices, actual invoices from GPM Associates as support for the increase. (Id., Exhibit D.) As discussed *supra* with respect to outside legal counsel expenses, he offered a trade off of Rate Department and Miscellaneous Expenses for GPM Associates' expenses and outside legal fees. (Id., p. 17.)

For all of the reasons enumerated by Staff regarding outside legal counsel expenses, Staff recommends that the Commission approve the Company's original estimates for GPM Associates' expenses.

d. Aqua rate department expense

Staff witness Pearce disallowed 50% of Aqua's Rate Department component of rate case expense for each division. (ICC Staff Exhibit 6.0, pp. 14-16; Schedules 6.08 (OR), (WW), and (WS).) Ms. Pearce based her disallowances on an analysis of actual costs incurred during the course of the instant proceeding compared to the Company's estimates of Rate Department expenses for the pro forma 2005 test year.

Ms. Pearce reviewed cost summaries and copies of invoices supporting the Company's Rate Department expenses for each division in the instant proceeding. These summaries reflected that as of April 30, 2005 (the last date for which actual information was available at the time Staff filed its rebuttal testimony on July 7, 2005), actual hours spent by individuals in the Rate Department were 134 for Oak Run Water Division, or 25% of the estimated 544 hours reflected in the filing; actual hours spent for Woodhaven Water Division were 202.5, or 26% of the estimated 777 hours reflected in the filing; actual hours spent for Woodhaven Sewer Division were 132.5 hours, or 17% of the estimated 777 hours reflected in the filing. Given that the actual hours expended through April 30, 2005 were not more than 26% of the original estimates included in the filing, it appeared to Ms. Pearce that the estimated Rate Department costs were not adequately supported. As such, Staff witness Pearce proposed a reduction of Rate Department expense to allow the cost of 50% of the estimate included in the filing for each division. (Id., pp. 15-16.)

While Aqua witness Schreyer provided additional supporting documentation with his surrebuttal testimony (Aqua Ex. 8.0, p. 14; Exhibit D), it was provided too late in the proceeding for Ms. Pearce to give it more than a "cursory" review (Tr., p. 351). The overwhelming amount of documentation filed with Mr. Schreyer's surrebuttal testimony, the point in a Commission proceeding at which issues should be narrowed, not expanded, was inappropriate and prejudicial to Staff.

Accordingly, Staff recommends the Commission adopt Staff witness Pearce's rebuttal testimony reduction of Rate Department expense to allow the cost of 50% of the estimate included in Aqua's original filing for each division that is the subject matter of this proceeding, as reflected on ICC Staff Exhibit 6.0, Schedules 6.08 (OR), (WW), and (WS).

e. Miscellaneous rate case expense

Staff witness Pearce disallowed 75% of Aqua's Miscellaneous Expense component of rate case expense for each division. (ICC Staff Exhibit 6.0, pp. 16-17; Schedules 6.08 (OR), (WW), and (WS).) Ms. Pearce based her disallowances on an analysis of actual costs incurred during the course of the instant proceeding compared to the Company's estimates of miscellaneous expenses for the pro forma 2005 test year.

Ms. Pearce reviewed cost summaries and copies of invoices supporting the Company's miscellaneous expenses for each division in the instant proceeding. Her analysis indicated that actual miscellaneous expenses incurred through April 30, 2005 (the last date for which actual information was available at the time Staff filed its rebuttal testimony on July 7, 2005), did not adequately support the estimates in the initial filing for each division in the instant proceeding. For example, actual miscellaneous expenses on the summary for Oak Run Water Division (OR 000803) totaled $1,050.72, or 10.5%, compared to the estimate of $10,000 included in the filing. Actual miscellaneous expenses on the summary for Woodhaven Water Division (WH001971) totaled $588.25, or 2.35%, compared to the estimate of $25,000 included in the filing. Actual miscellaneous expenses on the summary for Woodhaven Sewer Division (WH002011) totaled $635.71, or 2.54%, compared to the estimate of $25,000 included in the filing. Aqua's initial responses to Data Requests BAP 1.08(a), 2.07(a), and 3.06(a) provided the Company's description of miscellaneous expenses as "estimated costs for transcripts, notification, printing, copying, conference calls, etc.". Given that the actual expenses through April 30, 2005 were not more than 11% percent of the original estimates included in the filing, it appeared to Ms. Pearce that the estimated miscellaneous rate costs were still not adequately supported. As such, Staff witness Pearce proposed a reduction of miscellaneous rate costs to allow 25% of the estimate included in the filing for each division. (Id.)

While Aqua witness Schreyer provided additional supporting documentation with his surrebuttal testimony (Aqua Ex. 8.0, p. 14; Exhibit D), it was provided too late in the proceeding for Ms. Pearce to give it more than a "cursory" review (Tr., p. 351). The overwhelming amount of documentation filed with Mr. Schreyer's surrebuttal testimony, the point in a Commission proceeding at which issues should be narrowed, not expanded, was inappropriate and prejudicial to Staff.

Accordingly, Staff recommends the Commission adopt Staff witness Pearce's rebuttal testimony reduction of Miscellaneous Expense to allow the cost of 25% of the estimate included in Aqua's original filing for each division that is the subject matter of this proceeding, as reflected on ICC Staff Exhibit 6.0, Schedules 6.08 (OR), (WW), and (WS).

f. Staff recommendations regarding future rate case filings

Staff witness Pearce offered several recommendations regarding future Aqua rate case filings for approval by the Commission. Ms. Pearce based her recommendations on experience in processing Aqua and CIWC rate filings over a period of several years, including trends that have become more pronounced in recent years.

Specifically, Ms. Pearce made the following three recommendations regarding future Aqua rate filings:

1) The Company must consolidate future rate filings for several of its divisions simultaneously, rather than filing separate divisions on a piecemeal basis;

2) The Company should file rate cases for the smaller divisions simultaneously with at least one of the larger divisions; and

3) Back-to-back rate cases of the Company should not be for the same test year.

(ICC Staff Exhibit 1.0, pp. 23-24.)

Mr. Schreyer disagreed with Staff's recommendations and presented the following arguments against the first two recommendations: 1) It may not always be prudent for Aqua to file cases for different divisions, or for small and large divisions, simultaneously; 2) These recommendations will dictate either hasty action or improper delay in the filing of rate proceedings; and 3) The Company has limited human resources with which to process rate cases for multiple divisions simultaneously. (Aqua Exhibit 6.0R, pp. 34-35.)

Staff did not find these arguments persuasive because if, as Mr. Schreyer contended, the Company plans to file rate cases every three or four years in order to prevent rate shock (Aqua Ex. 6.0R, p. 39), it should be possible for the Company to combine rate filings for several divisions, small and large, together for filing. Also, the Company should benefit from the economies of scale that Mr. Schreyer refers to in his discussion of back-to-back rate cases using the same test year (Id., p. 35). Finally, although a number of the data requests sent by Staff to the Company required different responses, many responses were similar or the same. It should also be noted that the Company requested Staff send a separate data request for each division, even if Staff's question was the same for all three divisions in the instant proceeding. Because of this request by Aqua, the number of Staff data requests for the three divisions in the instant proceeding is much higher than it was for the recently filed rate proceedings for Aqua's Kankakee and Vermilion Divisions. Since the Company requested Staff send a separate data request for each division, Staff assumed that this process would reduce the cost, not increase the cost, to process the rate cases for the Company. Therefore, if Aqua required more human resources to process these requests in the current rate filing than prior rate filings, the Company may want to rethink its procedures to manage future cases. (ICC Staff Exhibit 6.0, pp. 18-19.)

The Company also disagreed with Staff's third recommendation based on the contention that using the same test year in a subsequent filing, as in the current proceeding and the recent Vermilion rate case (Docket No. 04-0442) should produce some "economies of scale" type savings. (Aqua Exhibit 6.0R, p. 35.) Staff, however, did not find this argument persuasive, noting that these economies of scale could just as readily benefit the simultaneous filing of at least one large and several smaller divisions together. (ICC Staff Exhibit 6.0, p. 20.) In addition, if the instant proceeding had been filed with the Vermilion Division rate proceeding using the same future test year, Staff would not have had to request so much additional information and the information supplied to Staff would have been better. (Tr., pp. 374-375.)

The Company raised additional objections to Staff's recommendations, contending that these were proposed exclusively for Aqua and were, therefore, inherently unfair. (Aqua Ex. 6.0R, pp. 35-36.) Staff witness Pearce responded, however, that the proposed recommendations could promote prudent use of Company and Commission resources, and lower rate case expense for customers. Ms. Pearce stated that she was unaware of any Commission Orders, other than the Order in Docket No. 83-0397, in which the Commission ordered Northern Illinois Water Corporation to consider consolidating future rate filings for four of its operating divisions into a single filing and to include in future filings a study detailing the advantages and disadvantages of joint versus separate filings. However, Ms. Pearce did not think Staff's recommendations would pose a hardship for the Company. Moreover, in Docket No. 02-0690, another water utility filed simultaneous rate increases for seven separate divisions. (ICC Staff Exhibit 6.0, p. 20.)

The Company proposed alternative measures for reducing rate case expense, contending that all components of rate case expense are, to a large extent, a function of the number of data requests issued by Staff, and the number of issues taken by Staff, as well as the complexity of those issues, rather than the clustering of filings. (Aqua Ex. 6.0R, p. 36.) Staff, however, disagreed that simultaneous filings of several divisions would have less impact on rate case expense than the number of data requests propounded by Staff, noting that each rate proceeding is unique, with its own set of facts and circumstances; therefore, it is difficult to quantify the impact of any single factor on rate case expense in a hypothetical filing. However, the simultaneous filing of several small divisions along with at least one large division, as Staff witness Pearce recommended, has the potential to reduce rate case expense components such as outside witnesses, outside legal services, and the cost of responding to data requests. For example, many of Staff's questions will be the same for all the divisions in the filing. Even if some of the Company's responses are different for each division, others may be the same for all divisions. The Company could reduce the number of data requests propounded by Staff if one data request could be issued for questions that relate to all divisions, versus sending a separate data request for each division, even if the question is identical. (ICC Staff Exhibit 6.0, pp. 21-22.)

In addition, the Company implied that the number of issues taken by Staff, as well as the complexity of those issues, was greater in these proceedings than in previous proceedings. However, the Company offered no evidence of this other than the number of Staff data requests. Ms. Pearce opined that the number of Staff data requests issued is not indicative of the number of the issues or the complexity of those issues. Rather, the number of Staff data requests issued is more indicative of the quality of the rate filing and the quality of the underlying support for the rate filing, not the number of issues in the case or the complexity of those issues. (Id., p. 22.)

Accordingly, Staff recommends that the Commission accept Staff witness Pearce's proposed reduction to rate case expense, as reflected on ICC Staff Exhibit 6.0, Schedules 6.08 (OR), (WW), and (WS).

6. Amortization Period of Rate Case Expense

Staff witness Pearce recommended alternative rate case expense amortization periods for all three divisions that are the subject of the instant proceeding. Her recommendations were based on Staff's experience in processing Aqua's and CIWC's rate filings over a period of several years for each of the three divisions.

a. Oak Run Water Division

Staff witness Pearce proposed an amortization period of seven years for Oak Run Water Division rather than the Company's proposed three-year period. Ms. Pearce stated that a seven-year amortization period is appropriate as it is the average time between rate cases for the Company's last two filed rate cases for the Oak Run Water Division, Docket No. 97-0351, eight years ago, and Docket No. 91-0317, six years previously. The prior rate case history of a company is an objective method of determining the period of time the rates in the instant proceeding are likely to remain in effect in the absence of supportable evidence to the contrary. (ICC Staff Exhibit 1.0, p. 16.)

The Company provided its rationale for the requested amortization period of three years in its response to Data Request BAP 1.02(2):

> The Company is considering installing a Reverse Osmosis treatment plant within the next three years. Such a significant investment would necessitate a rate filing within three years to support this major capital improvement. (Id., Attachment B.)

However, the Company's rationale supporting a three-year amortization period for rate case expense is unacceptable evidence because a decision as to whether a RO treatment plant will be installed has not been made. The Company has been considering the installation of a RO treatment plant since at least May 2003, two years ago, when the Company delayed filing the instant proceeding with the much larger

Kankakee Water Division (filed in May 2003 as Docket No. 03-0403) or the Vermilion Water Division (filed in May 2004 as Docket No. 04-0442). In response to Data Request BAP 1.04(b) the Company stated:

> Information relevant to support the rate filing for Oak Run at the time of the Vermilion filing in May 2004 and Kankakee filing in May 2003 was not completely available. Specifically, unresolved issues related to the possible construction of a Reverse Osmosis Treatment Plant (such as whether or not to build the plant, timing of such construction and rate impact etc.) existed at the time of the earlier filings. (Id., Attachment H.)

(Id., p. 17.)

In addition, even after the Company makes a determination that the RO treatment plant should be built, the Company plans to survey the customers as to whether the customers are agreeable to paying the cost of the treatment plant. Aqua witness Bunosky testified that the Company's RO Engineering Plans,

> …are being finalized to determine the cost of the treatment. Once developed, Aqua will survey the customers for the acceptance of the additional cost to remove these items from the water. If a favorable vote of the customers is obtained, Aqua will propose to install the Reverse Osmosis equipment in a future rate proceeding. (Aqua Ex. 1.0, p. 17.)

The decision with respect to whether the RO treatment plant will be installed depends on the willingness of Oak Run customers to pay for it. Based on the response to Data Request BAP 16.01 (ICC Staff Exhibit 1.0, Attachment J), the Company does not yet know whether Oak Run ratepayers will accept the cost to construct the RO plant. Given the process necessary to make this determination (See responses to Data Requests BAP 16.01–16.05, ICC Staff Exhibit 1.0, Attachment J), it is uncertain when, or even if, the RO treatment plant will be installed. In addition, given the 64% increase in rates proposed by the Company in this proceeding, it is doubtful that the Oak Run ratepayers would be supportive of increasing those rates again within the next three years. (ICC

Staff Exhibit 1.0, pp. 17-18.) Staff's position is reinforced by Oak Run Property Owners Association witness Michael Davison, who identified several reasons why Oak Run customers, 88% of whom are part-time or vacant lot owners, will not vote in favor of building the RO treatment plant. (ORPOA Exhibit 1.0 Revised, pp. 3-5.)

Therefore, the Company lacks any basis to assume another rate case will be filed in three years due to the potential installation of the RO treatment plant. Accordingly, the Company's proposed three-year amortization period for rate case expense is not a reasonable amortization period. (Id., p. 18.)

b. Woodhaven Water and Sewer Divisions

In addition, Staff witness Pearce proposed an amortization period of five years rather than the Company's proposed four-year period for the Woodhaven Water Division. A five-year amortization period is appropriate as it is the average time between rate cases for the Company's last two filed rate cases for the Woodhaven Water Division, Docket No. 00-0071, five years ago, and Docket No. 95-0641, five years previously. For the Woodhaven Sewer Division, Ms. Pearce proposed an alternative amortization period of seven years rather than the Company's proposed four-year period. Ms. Pearce stated that the prior rate case history of a company is an objective method of determining the period of time the rates in the instant proceeding are likely to remain in effect in the absence of supportable evidence to the contrary. (Id., p. 19.)

c. Aqua's Position

The Company rejected Staff's proposed amortization periods because they are based solely on the periods of time between the current proceeding and Aqua's previous filings for each respective division. Mr. Schreyer argued that this approach fails to recognize that these are forward looking filings, and as such, the Company's amortization periods should be a function of when Aqua will likely file its next rate application for each division, regardless of when it submitted its most recent historical rate case. He further argued that such an approach would unfairly penalize the Company for keeping the Oak Run and Woodhaven Divisions out of the rate case arena for several years. The Company's proposed rate case amortization periods are appropriate he argued, because they are the periods in which Aqua is most likely to file its next rate cases for these divisions. The basis for these periods, according to Mr. Schreyer, is that periodic rate applications every three to four years will prevent rate shock. (Aqua Exhibit 6.0R, pp. 38-39; Aqua Ex. 8.0, pp. 18-19.)

Additionally, Mr. Bunosky addressed concerns that relate specifically to the Oak Run Water Division and the potential construction of a RO plant. He testified that the Company anticipates a rate application for the Oak Run Division in 2007 due to the capital investment associated with construction of the RO plant. He opined that there is a reasonable likelihood that the customers will approve the plant, based on the potential improvement to water quality and the relatively low incremental cost to each customer, which he estimated at approximately $9.72 per month. He emphasized that the Company is serious about installing the plant, as evidenced by the fact that Aqua has spent two years reviewing this option. Finally, he contended that the already low current rates, approximately $240 per year per customer, would remain sufficiently affordable even after the current rate increase is approved, to encourage customer approval of the RO plant. (Aqua Ex. 5.0-Second Amended, pp. 1-5.)

d. Staff's Position

Staff witness Pearce was not persuaded by the arguments regarding the Company's proposed amortization periods advanced by Aqua witnesses Schreyer and Bunosky. Ms. Pearce, on the other hand, contended that rate case expenditures are infrequent in occurrence and should be recovered over the period of time that the subject tariffs are reasonably anticipated to be in effect. (ICC Staff Exhibit 6.0, p. 24.)

Specifically, in the previous Oak Run Water and Woodhaven Sewer Division rate proceeding, Docket No. 97-0351, ICC Staff Exhibit 3, Schedule 13 reflects that the Company initially requested a two-year recovery period for rate case expense for both divisions. Staff witness D. Fullington proposed a five-year amortization period, which the Company accepted, according to ICC Staff Exhibit 9, page 14, lines 4-3, and on the attached Schedule 13, presented by Staff witness Fullington. Staff witness Pearce noted that the methodology it used to estimate the amortization period for rate case expenses in the instant proceeding is consistent with the methodology used by Staff witness Fullington in Docket No. 97-0351, which was ultimately accepted by the Company. Total rate case expense to be amortized amounted to $29,580 for the Oak Run Water Division and $5,916 of annual rate case expense was approved in Docket No. 97-0351. Total rate case expense to be amortized amounted to $59,160 for the Woodhaven Sewer Division and $11,832 of annual rate case expense was approved in Docket No. 97-0351. Ms. Pearce further indicated that since these rates have been in effect for approximately eight years, the Company has over-recovered three years of rate case expense, or $17,748 for the Oak Run Water Division, and $35,496 for the Woodhaven Sewer Division. Given the Company's history of filing rate cases, it would be conservative and reasonable to amortize rate case expense over a seven-year period, as Ms. Pearce has proposed. (Id., p. 25; Schedules 6.08 (OR) and (WS).)

Regarding the amortization period approved in the last general rate case for the Woodhaven Water Division, Docket No. 00-0338, Staff witness Knepler stated that the Company requested a three-year amortization period for rate case expense. However, Schedule 2.03(W), attached thereto, reflects that he proposed a four-year recovery period for this division, which the Company accepted (ICC Staff Exhibit 9.00, page 16, lines 345-346). Total rate case expense to be amortized amounted to $51,090 for the Woodhaven Water Division and $12,773 of annual rate case expense was approved in Docket No. 00-0338. Since these rates have been in effect for approximately five years, the Company has over-recovered one year of rate case expense or $12,773 for the Woodhaven Water Division. Given the Company's history in filing rate cases, it would be conservative and reasonable to amortize rate case expense over a five-year period, as Ms. Pearce proposed. (Id., p. 26; Schedule 6.08 (WW).)

Accordingly, Staff recommends that the Commission accept Staff witness Pearce's alternative rate case expense amortization periods, as reflected on ICC Staff Exhibit 6.0, Schedules 6.08 (OR), (WW), and (WS).

7. State and Federal Income Tax Calculation Errors

In surrebuttal testimony, Aqua witness Schreyer speculated that Staff's income tax expense is incorrect due to the lack of tax adjustments associated with the "unsupported" gross revenue conversion factor adjustments (column (f), line 5 of the revenue requirement) in the Woodhaven schedules. (Aqua Ex. 8.0, p. 6.) The Company fails to recognize that said adjustments are the result of Staff's proposed reduction of the uncollectibles rate that was proposed by the Company. However, upon further review of Staff's rebuttal requirement schedules, it was discovered that columns (f) of ICC Staff Exhibit 6.0, Schedules 6.01 (WW) and (WS) are incomplete. Revised schedules are attached to Staff's Initial Brief as Appendix B (WW) and (WS).

Staff believes any other differences between the Company's calculations of income tax expense and the amounts reflected in Appendix B (OR), (WW), and (WS) arise from two factors: the Company's incorrect usage of a 7.18% state income tax rate versus the correct rate of 7.30%, and the likelihood that the Company deducted a different amount of interest expense in its rebuttal testimony than the amount used by Staff.

Therefore, Staff recommends that the Commission accept Staff's proposed revenue requirement schedules, as reflected on Appendix B (OR), (WW), and (WS).

8. Alleged Staff Revenue Requirement Calculation Error

In surrebuttal testimony, Aqua witness Schreyer alleged that there are errors in the Staff rebuttal position Revenue Requirement schedules. Specifically, Mr. Schreyer claimed that Staff inappropriately applied the revenue impact of the adjustments accepted by Aqua to pro forma present revenues instead of reducing the requested rate increase. In addition, Mr. Schreyer contended the pro forma income tax calculations are incorrect, resulting in the wrong pro forma proposed revenue requirement in column (i) of ICC Staff Exhibit 6.0, Schedules 6.01 (OR), (WW), and (WS). Mr. Schreyer speculated that the cause of this purported discrepancy is due to Staff's presentation of the adjustments accepted by Aqua, as well as the gross revenue conversion factor adjustments in the Woodhaven schedules. Finally, Mr. Schreyer recommended that the revenue requirements be recalculated for each division in the instant proceeding. (Aqua Ex. 8.0, pp. 2-6.)

Staff agrees that the columns in the Woodhaven revenue requirement schedules that reflect an adjustment for the GRCF were incomplete and has revised them, as reflected on Appendix B (WW) and (WS). However, Staff still disagrees with the Company's perceived discrepancy due to Staff's presentation of the adjustments accepted by Aqua. The revenue requirement schedules utilize the same model that has been utilized in cases pending before the Commission for over 15 years, and were provided to the Company (including all calculations and formulas) in response to Aqua Data Request 1.01 on June 8, 2005. The Company disagrees with Staff's *presentation* because it says Aqua's pro forma present revenues have not changed—instead, the amount of the increase the Company seeks has changed, but this is incorrect. The Company's proposed tariffs have not changed. Column (e) of Appendix B (OR), (WW), and (WS), must reflect the amount of the increase that would be generated by the Company's proposed tariffs that are on file in the Commission's Chief Clerk's Office. Since these tariffs would go into effect if not suspended by the Commission, the Company has not reduced the amount of its requested rate increase.

Therefore, Staff recommends that the Commission accept Staff's proposed revenue requirement schedules, as reflected on Appendix B (OR), (WW), and (WS) attached to Staff's Initial Brief.

D. Recommended Operating Incomes/Revenue Requirements

For the purpose of developing rates in this proceeding, Staff recommends that the Commission adopt a revenue requirement of $1,110,407 for Woodhaven Water Division (Appendix B (WW)), $991,006 for Woodhaven Sewer Division (Appendix B (WS)), and $486,994 for Oak Run Water Division (Appendix B (OR)).

IV. COST OF CAPITAL/RATE OF RETURN

Aqua accepted Staff's estimate of Aqua's overall cost of capital of 8.84%. (Aqua Ex. 8.0, p. 2.) Three witnesses presented testimony regarding Aqua's cost of capital. Company witness Jack Schreyer presented testimony regarding capital structure and the costs of debt and preferred stock. (Aqua Ex. 2.0 (WW), 2.0 (WS), 2.0 (OR), 6.0R and 8.0.) Company witness Pauline M. Ahern presented testimony regarding the cost of common equity. (Aqua Ex. 3.0 (WW), 3.0 (WS), and 3.0 (OR).) Staff witness Janis Freetly presented testimony regarding Aqua's overall cost of capital, including capital structure and the costs of debt, preferred stock, and common equity. (ICC Staff Exhibits 3.0 and 8.0.)

A. Capital Structure

Aqua accepted Ms. Freetly's proposed average 2005 capital structure comprising 47.68% long-term debt, 0.32% preferred stock, and 52.00% common equity. (ICC Staff Exhibit 8.0, Schedule 8.01; Aqua Ex. 8.0, p. 2.)

B. Cost of Debt

In rebuttal testimony, Staff recommended a 7.15% embedded cost of long-term debt for Aqua. (ICC Staff Exhibit 8.0, Schedule 8.02.) Aqua accepted Staff's cost of debt for setting rates in this proceeding. (Aqua Ex. 8.0, p. 2.)

Staff witness Freetly's 7.15% estimate of the embedded cost of debt included two types of adjustments. First, Ms. Freetly adjusted the annual amortization of debt discount, premium, and expenses to reflect straight-line amortization of the respective unamortized balances over the remaining life of each issue. Second, Ms. Freetly removed 100 days of Series W and P debt discount and expense amortization from the Company's total annual debt expense. In its Order in Docket No. 04-0626, in which the Commission had authorized the issuance of the Series W and redemption of the Series P bonds, the Commission also ordered Aqua to file quarterly reports on the amount, expense and use of proceeds from the debt issuance as specified in 83 Ill. Adm. Code 240 ("Part 240 Reports"). Since Aqua filed that Part 240 Report 100 days late, and has a recent history of failing to file Part 240 Reports on a timely basis,[1] Ms. Freetly recommended the 100-day amortization adjustment as a penalty. (ICC Staff Exhibit 8.0, pp. 2-7, Schedule 8.02.)

C. Cost of Preferred Stock

[1] In addition to Docket No. 04-0626, the Commission authorized Aqua to issue securities in the following proceedings since the year 2000: Docket Nos. 00-0422 (Order dated August 9, 2000; first Part 240 Report due November 29, 2000); 00-0756/00-0765 Consolidated (Order dated December 20, 2000; first Part 240 Report due March 1, 2001); 00-0784/00-0785 Consolidated (Order dated May 23, 2001; first Part 240 Report due August 29, 2001); 02-0101 (Order dated April 10, 2002; first Part 240 Report due August 29, 2002); 02-0663 (Order dated October 23, 2002; first Part 240 Report due March 1, 2003); and 03-0718 (Order dated December 17, 2003; first Part 240 Report due March 1, 2004). Aqua was late complying with all of those Commission Orders. None of the Part 240 Reports were filed until July 2, 2004 and only after Staff repeatedly contacted the Company to remind it of its obligation to file the Part 240 Reports. (ICC Staff Exhibit 8.0, p. 6.)

Aqua's embedded cost of preferred stock is 5.48%. (Aqua Schedule D-4; ICC Staff Exhibit 3.0, Schedule 3.04.)

D. Cost of Common Equity

Staff witness Janis Freetly estimated Aqua's cost of common equity with the Discounted Cash Flow ("DCF") and risk premium models. DCF and risk premium models cannot be applied directly to Aqua because its common stock is not market-traded. Therefore, Ms. Freetly applied those models to two samples. The first sample comprises six market-traded water utilities within the *Standard & Poor's Utility Compustat* database for which Zacks Investment Research ("Zacks") growth forecasts were available ("water sample"). The second sample consists of nine public utilities selected on the basis of a principal components analysis of twelve financial and operating ratios ("utility sample"). Water utilities that were included in the water sample were not included in the utility sample to avoid giving the water utilities double weight. Companies that were rated below investment grade by Standard & Poor's, lacked Zacks growth rates or were involved in significant acquisition activity, were also excluded from Ms. Freetly's utility sample. (ICC Staff Exhibit 3.0, pp. 14-17.)

1. DCF Analysis

DCF analysis assumes that the market value of common stock equals the present value of the expected stream of future dividend payments. (Id., pp. 17-18.) Ms. Freetly applied a constant-growth quarterly DCF model, which properly accounts for the quarterly payment of dividends by the companies comprising her samples. (Id., pp. 18-19.)

DCF analysis requires a growth rate that reflects the expectations of investors. Ms. Freetly measured the market-consensus expected growth rates with projections published by Zacks. The growth rate estimates were combined with the closing stock prices and dividend data as of April 7, 2005. Based on this growth, stock price, and dividend data, Ms. Freetly's DCF-derived cost of equity estimate is 10.66% for the water sample and 9.33% for the utility sample. (Id., p. 20.)

2. Risk Premium Analysis

According to financial theory, the required rate of return for a risky security equals the risk-free rate of return plus a risk premium associated with that security. The risk premium methodology is consistent with investors' risk-aversion. Ms. Freetly used a one-factor risk premium model, the Capital Asset Pricing Model ("CAPM"), to estimate the cost of common equity. In the CAPM, the risk factor is market risk, which cannot be eliminated through portfolio diversification. (Id., p. 22.)

The CAPM requires the estimation of three parameters: beta, the risk-free rate, and the required rate of return on the market. (Id., pp. 23-32.) First, using Value Line beta estimates and regression analysis, Ms. Freetly estimated forward-looking betas of 0.57 for the water sample and 0.64 for the utility sample. (Id., p. 32.) Second, Ms. Freetly considered two current estimates of the risk-free rate of return as of April 7, 2005: the 2.65% yield on four-week U.S. Treasury bills and the 4.96% yield on twenty-year U.S. Treasury bonds. (Id., p. 26.) Forecasts of long-term inflation and the real risk-free rate suggest that the long-term risk-free rate is between 5.4% and 5.8%. Thus, Ms. Freetly concluded that the U.S. Treasury bond yield is currently the superior proxy for the long-term risk-free rate. (Id., p. 27.) Finally, to measure the expected rate of return on the market, Ms. Freetly conducted a DCF analysis on the firms composing the Standard & Poor's 500 Index. That analysis estimates that the expected rate of return on the market equals 13.44%. (Id., p. 29.) Using those three parameters in her risk premium model, Ms. Freetly estimates the cost of common equity is 9.79% for the water sample and 10.39% for the utility sample. (Id., p. 33.)

3. Recommendation

Ms. Freetly testified that a thorough cost of common equity analysis requires both the application of financial models and the analyst's informed judgment. A cost of common equity recommendation based solely upon judgment is inappropriate. However, because cost of common equity measurement techniques necessarily employ proxies for investor expectations, judgment is necessary to evaluate the results of such analyses. Along with DCF and CAPM analyses, Ms. Freetly considered the observable 5.56% rate of return the market currently requires on A-rated utility long-term debt. (Id.)

Based on quantitative analysis, Ms. Freetly determined that Aqua is closer in risk to her water sample than her utility sample. Therefore, she applied two-thirds weight to the water sample investor-required rate of return on common equity and one-third weight to the utility sample investor-required rate of return on common equity to arrive at her 10.10% recommended cost of equity for Aqua. (Id., pp. 35-36.) Ms. Freetly then added 30 basis points to her cost of equity estimate for Aqua to acknowledge the significance the Commission afforded to the NAIC-2 rating in its previous two rate Orders for Aqua, resulting in a 10.40% estimate of Aqua's cost of common equity. (Id., pp. 37-39.)

E. Recommended Overall Rate of Return on Rate Base

Ms. Freetly's overall rate of return on rate base recommendation, incorporating her recommended capital structure, embedded cost of long-term debt, embedded cost of preferred stock and cost of common equity, is 8.84%. (ICC Staff Exhibit 8.0, Schedule 8.01.) The Company accepted Staff's overall rate of return on rate base recommendation. (Aqua Ex. 8.0, p. 2.) Therefore, the Commission should adopt Ms. Freetly's recommendation for setting rates in this proceeding, as shown in the table below.

Aqua Illinois, Inc.'s Average 2005
Weighted-Average Cost of Capital

Class of Capital	Average 2005 Balance	Percent of Total Capitalization	Cost	Weighted Cost
Long-Term Debt	$56,756,561	47.68%	7.15%	3.41%
Preferred Stock	382,372	0.32%	5.48%	0.02%
Common Equity	61,900,673	52.00%	10.40%	5.41%
Total	$119,039,606	100.00%		**8.84%**

V. COST OF SERVICE; RATE DESIGN; TARIFF TERMS AND CONDITIONS

A. Introduction

In these consolidated proceedings, cost of service studies were not used by Aqua for its Woodhaven Water, Woodhaven Sewer or Oak Run Water Divisions. All rate design issues in these proceedings were agreed upon by Aqua and Staff. Staff's proposed rates for the Oak Run Water and the Woodhaven Divisions are attached hereto as Appendix C, page 1 of 2, and 2 of 2, respectively.

B. Summary of Agreed-To Rate Design Issues

1. Billing Determinants

For the Oak Run Water Division, Staff witness Cheri L. Harden used the 2003 No. of Bills from Aqua Schedule E-4, column G, to develop a present customer count of 589 residential customers and 14 commercial customers, complemented by 1,996 availability customers. For the proposed 2005 customer count, Ms. Harden utilized 629 residential customers and 14 commercial customers, complemented by 1,956 availability customers for both the Company and her proposed rates for the Oak Run Water Division. (ICC Staff Exhibit 4.0, p. 3.)

For the Woodhaven Water Division, Ms. Harden used the 2003 No. of Bills from Aqua Schedule E-4, Column G, to develop a present customer count of 6,140 domestic campsites, 12 residential, and 58 commercial customers. For the proposed 2005 customer count, she utilized 6,178 domestic campsites, as that appeared to be proposed by the Company in Schedule E-4. Since she had no supporting documentation that the campsites would increase beyond the information provided in the testimony of Company witness Bunosky (Aqua Ex. 1.0, p. 13), Ms. Harden utilized a customer count of 6,150 for her proposed domestic campsite billing units. She utilized 12 residential and 58 commercial customers in her proposed rates for the remaining water customers in the Woodhaven Water Division. (Id., p. 4.)

For the Woodhaven Sewer Division, Ms. Harden used the 2003 No. of Bills from Aqua Schedule E-4, Column G, to develop a present customer count of 5,371 residential customers and 58 commercial customers. For the proposed 2005 customer count, she utilized the customer count of 5,411 residential customers and 58 commercial customers in her proposed rates for the Woodhaven Sewer Division. (Id.)

All of Ms. Harden's billing units were reflected on her Schedules 4.01 (OR) and 4.01 (W). (Id.)

Aqua did not respond to Staff witness Harden's billing unit proposals in its rebuttal testimony. As a consequence, Ms. Harden's billing determinants did not change from her direct testimony to her rebuttal testimony. It was not until very late in the proceeding, surrebuttal testimony filed less than one week prior to the evidentiary hearings in this matter, that Aqua finally responded to Ms. Harden's direct testimony proposals with respect to billing units. As such, Aqua called Ms. Harden to the witness stand three times during the course of the two-day evidentiary hearings in order to provide her an opportunity to respond to the Company's last minute proposals.

Aqua witness David R. Monie argued in surrebuttal testimony that Ms. Harden had made a "slight error" in calculating the pro forma billing determinants for residential bills. (Aqua Ex. 9.0, p. 2; Schedule 9.1.) While Ms. Harden did not agree that she had made an error, she had no objection to Mr. Monie's alternative billing determinant proposal. (Tr., p. 36.) Specifically, she agreed that for Oak Run residential customers, the billing units for the customer charge changed from 7,548 to 7,665. The Oak Run availability customers remained the same at 23,472, while the commercial customers remained the same at 168. (Id., p. 37.)

Aqua witness Bunosky argued in surrebuttal testimony that Ms. Harden utilized incorrect billing units for certain Woodhaven Water and Sewer customers. (Aqua Ex. 7.0R, pp. 27-32.) Since Ms. Harden had no other opportunity under the adopted schedule in this proceeding to respond to Mr. Bunosky's surrebuttal positions, she agreed to his changes at the July 27, 2005 evidentiary hearing. Specifically, she agreed that for the Woodhaven Water domestic campsite customers, the billing units for the customer charge changed to 74,146 from 74,136. The billing units for residential 5/8" customers remained at 24. The billing units for residential 1" customers changed from 120 to 60. The billing units for commercial 5/8" customers changed from 204 to 102. The billing units for commercial 3/4" customers changed from 84 to 42. The billing units for commercial 1" customers changed from 60 to 32. The billing units for commercial 1 1/2" customers changed from 24 to 16. The billing units for commercial 2" customers changed from 300 to 148. The billing units for 3" commercial customers changed from 24 to 12. (Tr., pp. 37-38.)

For the Woodhaven Sewer Division domestic campsite customers, the billing units for the flat charge remained the same at 64,932.[2] For the Woodhaven Sewer Division commercial customers, the billing units changed to 348 from 696. (Id., p. 38.)

Also discussed in Mr. Bunosky's surrebuttal testimony was the Company's proposal to utilize the same pro forma billing determinants for calculating both pro forma present and pro forma proposed rates. (Aqua Ex. 7.0R, p. 28.) Again, Ms. Harden was obliged to accept this proposal at the July 27, 2005 evidentiary hearing, since there was no opportunity under the adopted schedule to respond to a Company proposal initiated so late in the proceeding. (Tr., pp. 38-39.)

2. Availability Charge–Oak Run Water Division

According to Aqua Schedule E-2, the existing water rate structure for the Oak Run Water Division consists of a $6.90 monthly Availability Charge or a monthly Customer Charge of $8.67 per customer and a Usage Charge for metered customers of $5.19 per 1,000 gallons of water used that is billed quarterly for all general water service customers. “Availability of water” is the service the Company renders when it stands ready to provide domestic water service upon the request of a lot owner (customer). Pending actual tap or other connection into the operating water system, a lot owner pays an Availability Charge when water service is available for use whether or not tap is made to a system main and whether or not there is an actual use or taking of water. The charge continues as long as water is available for use and until a tap is made to a system main, after which a Customer Charge and a Usage Charge apply. (ICC Staff Exhibit 4.0, p. 6.)

The Oak Run Water Tariff Area consists of approximately 2,600 lots of which approximately 600 lots have been built upon to date and take water service directly from the water system. (Aqua Ex. 1.0, p. 13.) Ms. Harden testified that often, no other alternative seems to exist other than to allow a water utility to collect Availability Charges so it can produce sufficient revenues to cover the operating expenses from a wider customer base than actual customers who have tapped into the water supply system. (Id., pp. 6-7.)

Ms. Harden also testified that Aqua proposed to change the Availability Charge from $6.90 to $12.55 per month, which is an increase of 81.9%. While the Company primarily encompasses availability customers within its customer base, which supports

[2] 64,932 is the correct number. The transcript contains an error at page 38.

increasing the Availability Charge, she recommended a more modest increase, due to the rate shock that would be apparent if the metered customers were to absorb the entire rate increase. (Id., p. 7; Schedule 4.01 (OR).)

Ms. Harden stated that Aqua proposed to increase both the Customer Charge and the Availability Charge by 81.92%. The Company also proposed an increase in the Consumption Charge of 23.98%. Ms. Harden opined that she did not believe the Availability Charge should increase by the same percentage as the Customer and Consumption Charges. She proposed that the Customer and Consumption Charges both increase by equal percentage amounts; however, the Company referenced relatively high fixed costs as the appropriate reason to increase the Customer Charge by a higher percentage rate. (Id., p. 8.)

Aqua witness Monie admitted that "the Consumption Charge of $5.19 per 1,000 gallons is relatively high." (Aqua Ex. 4.0, p. 4.) He further indicated that this high Consumption Charge resulted in considerable conservation such that the annual average monthly usage per user connection is only 2,200 gallons. (Id.) Ms. Harden testified that there are four out of eight Aqua divisions that charge less than the $5.19 Consumption Charge. (ICC Staff Exhibit 4.0, p. 8.)

Based on the Company's reference to relatively high fixed costs, Ms. Harden increased the Customer Charge by the highest percent. (Id., pp. 8-9; Schedule 4.01 (OR).) While she raised the Consumption Charge higher than the Company recommended, she testified that there are still three Aqua divisions that have a higher Consumption Charge. (Id., p. 8; Schedule 4.01 (OR).)

Aqua witness Schreyer testified that the Company accepted Ms. Harden's rate design proposals but disagreed with her proposal to increase the Availability Charge at a lower percentage than the Customer Charge for the Oak Run Division. He maintained that the two charges should be increased by equal percentages. (Aqua Ex. 6.0R, p. 5.)

Ms. Harden responded by continuing to recommend a lower percentage increase for availability customers. She indicated that although the Oak Run Division maintains a high number of availability customers, she believed that the usage customers should bear the bulk of the cost of providing service in this service territory. She stated that as this water system develops, the rate structure should shift the burden of the cost to the metered customers. She opined that increasing all rates by the same percentage would continue to allow Aqua to rely more heavily on the availability customers to maintain the viability of the Company. (ICC Staff Exhibit 9.0, pp. 2-3; Schedule 9.01 (OR).)

Mr. Monie testified that while Aqua continued to disagree with Ms. Harden's reduction in the amount allocated to the availability customer class, the Company was willing to accept her overall structure of tariff design. (Aqua Ex. 9.0, p. 1.)

3. Across-the-Board Increase–Woodhaven Water Division

The existing tariffs for Woodhaven Water Division indicated a domestic flat rate of $9.35 per month for each campsite in the area authorized to be served by the Company intended for domestic water use from the service branch installed by the Company on each campsite, whether or not there was an actual use or taking of water. The tariffs also reflected a Customer Charge and a Usage Charge for all other customers based on the size of the meter. (Aqua Schedule E-2 for Woodhaven Water Division.)

The Company proposed an across-the-board increase for the Woodhaven Water Division. (Aqua Ex., 1.0, p. 19.) Staff witness Harden recommended approval of the proposed across-the-board increase to meet the Division's revenue requirement. (ICC Staff Exhibit 4.0, p. 10; Schedule 4.01 (W); ICC Staff Exhibit 9.0, p. 2; Schedule 9.01 (W).)

4. Single Rate–Woodhaven Sewer Division

The existing tariffs for Woodhaven Sewer Division indicated a domestic flat rate of $10.68 per month for each campsite in the area authorized to be served by the Company for domestic sanitary sewer service discharged into the sewage receptacle installed by the Company on each campsite, whether or not there was an actual discharge of sewage. The tariffs also reflected a commercial rate that was charged for commercial sewer service furnished by the Company that was an amount equal to 130% of the billing for water service furnished during the corresponding billing period. (Aqua Schedule E-2 for Woodhaven Sewer Division.)

The Company proposed an across-the board increase for the Woodhaven Sewer Division. Staff witness Harden argued that the Company's proposal of 130% of the water bill is not a cost-based charge and recommended a flat charge for the sewer service. She set the flat rate the same for both customer groups to recover the revenue requirement. (ICC Staff Exhibit 4.0, p. 11; Schedule 4.01 (W); ICC Staff Exhibit 9.0, p. 2; Schedule 9.01 (W).)

Aqua accepted Ms. Harden's proposal. (Aqua Ex. 6.0R, p. 5; Aqua Ex. 9.0, p. 1; ICC Staff Exhibit 9.0, p. 2; Tr. p. 161.)

5. Filing of Final Approved Tariffs

Staff witness Harden recommended that the Commission order Aqua to file the rate tariffs for the Oak Run Water, Woodhaven Water, and Woodhaven Sewer Divisions within 10 days of the final Order in these proceedings with an effective date of not less than 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. (ICC Staff Exhibit 4.0, p. 11.)

VI. ADDITIONAL RECOMMENDATIONS

On August 17, 2005, the Commission granted Aqua's Petition for Interlocutory Review of two evidentiary rulings made by the ALJ during the July 27-28, 2005 evidentiary hearings in these consolidated proceedings. The effect of the Commission's determination was to allow Aqua's previously-stricken evidence into the record. While the testimony was admitted into the evidentiary record, the Commission indicated that the appropriate remedy for the prejudice to Staff created by Aqua was for the Company to be admonished for its disregard of Commission practices and procedures.

As Staff pointed out in its Response to Aqua's Petition for Interlocutory Review, particularly prejudicial to Staff was Aqua witness Schreyer's purported "update" to rate case expense in surrebuttal testimony, less than one week prior to the evidentiary hearings. His testimony and supporting documentation consisted of hundreds of pages and introduced major positions and new proposals. It represented a one-sided view of the issues and did not allow for a proper and thorough review of the material or for a proper response by Staff. In addition, the alleged "update" was contrary to Commission rules and long-standing Commission policy. Consistent with the suggested approach by the Commission on August 17, 2005, Staff requests that Aqua be admonished.

During the course of the proceeding, Aqua also filed substantive first and second amended testimony at will, despite the adopted schedule in the proceeding and without leave of the ALJ. This tactic was also highly prejudicial to Staff and contrary to Commission rules, practices and procedures. Consistent with the suggested approach by the Commission on August 17, 2005, Staff requests that Aqua be admonished.

VII. CONCLUSION

WHEREFORE, for all the reasons set forth herein, Staff respectfully requests that the Commission's Final Order in this proceeding reflect Staff's recommendations and proposed rates for and modifications to the Company's proposed general increase in water and sewer rates for its Woodhaven Water, Woodhaven Sewer, and Oak Run Water Divisions as presented in Appendices A, B, and C attached hereto.

Respectfully submitted,

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Counsel for the Staff of the
Illinois Commerce Commission

August 24, 2005

Aqua Illinois, Inc. - Woodhaven Water Division
Rate Base
For the Test Year Ending December 31, 2005

Line No.	Description	Company Pro Forma Rate Base App. A (WW), p. 2	Staff Adjustments App. A (WW), p. 3	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross utility plant in service	$ 4,977,631	-	$ 4,977,631
2	Less accum. deprec. and amort.	(1,571,337)	-	(1,571,337)
3		-	-	-
4	Net Plant	3,406,294	-	3,406,294
5	Additions to Rate Base			
6	Amortization of CIAC	480,208	-	480,208
7	Deferred Charges	112,100	-	112,100
8	Materials and Supplies	25,168	-	25,168
9	Cash Working Capital	82,631	(13,456)	69,175
10			-	-
11			-	-
12			-	-
13			-	-
14			-	-
15			-	-
16	Deductions From Rate Base			
17	SFAS 87 Pension	(29,460)	-	(29,460)
18	CIAC	(929,319)	-	(929,319)
19	Accum. deferred income taxes	(316,168)	-	(316,168)
20			-	-
21			-	-
22		-	-	-
23	Rate Base	$ 2,831,454	$ (13,456)	$ 2,817,998

Aqua Illinois, Inc. - Woodhaven Water Division
Rate Base
For the Test Year Ending December 31, 2005

Line No.	Description	Company Pro Forma Rate Base (Sch. B-1)	Difference	Company Surrebuttal Pro Forma Rate Base Aqua Ex. 8.0 Sch. 8.1 (WW)
	(a)	(b)	(c)	(d)
1	Gross utility plant in service	$ 5,059,838	(82,207)	$ 4,977,631
2	Less accum. deprec. and amort.	(1,701,113)	129,776	(1,571,337)
3		-	-	-
4	Net Plant	3,358,725	47,569	3,406,294
5	Additions to Rate Base			
6	Amortization of CIAC	480,208	-	480,208
7	Deferred Charges	190,000	(77,900)	112,100
8	Materials and Supplies	25,168	-	25,168
9	Cash Working Capital	81,985	646	82,631
10			-	-
11			-	-
12			-	-
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base		-	
17	SFAS 87 Pension	(28,310)	(1,150)	(29,460)
18	CIAC	(929,319)	-	(929,319)
19	Accum. deferred income taxes	(354,124)	37,956	(316,168)
20			-	-
21		-	-	-
22		-	-	-
23	Rate Base	$ 2,824,333	$ 7,121	$ 2,831,454

Aqua Illinois, Inc. - Woodhaven Water Division
Adjustments to Rate Base
For the Test Year Ending December 31, 2005

Line No.	Description	Cash Working Capital (ICC St. Ex. 6.0, Sched. 6.07 (WW))	(Source)	(Source)	(Source)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross utility plant in service	$ -	$ -		$ -	$ -	$ -	$ -	$ -
2	Less accum. deprec. and amort.	-	-		-	-	-	-	-
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	-	-	-	-	-	-
5	Additions to Rate Base								
6	Amortization of CIAC	-	-	-	-	-	-	-	-
7	Deferred Charges	-		-	-		-	-	-
8	Materials and Supplies	-	-	-	-	-	-	-	-
9	Cash Working Capital	(13,456)	-	-	-	-	-	-	(13,456)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	SFAS 87 Pension	-	-	-	-	-	-	-	-
18	CIAC	-	-	-	-	-	-	-	-
19	Accum. deferred income taxes	-			-	-	-	-	-
20	-	-	-	-	-	-	-	-	-
21	-	-	-	-	-	-	-	-	-
22	-	-	-	-	-	-	-	-	-
23	Rate Base	$ (13,456)	$ -	$ -	$ -	$ -	$ -	$ -	$ (13,456)

Aqua Illinois, Inc. - Woodhaven Sewer Division
Rate Base
For the Test Year Ending December 31, 2005

Line No.	Description	Company Pro Forma Rate Base App. A (WS), p. 2	Staff Adjustments App. A (WS), p. 3	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross utility plant in service	$ 6,142,576	-	$ 6,142,576
2	Less accum. deprec. and amort	(2,017,690)	-	(2,017,690)
3		-	-	-
4	Net Plant	4,124,886	-	4,124,886
5	Additions to Rate Base			
6	Amortization of CIAC	525,009	-	525,009
7	Deferred Charges	26,342	-	26,342
8	Materials and Supplies	8,161	-	8,161
9	Cash Working Capital	60,075	(11,730)	48,345
10				
11				
12				
13				
14				
15				
16	Deductions From Rate Base			
17	SFAS 87 Pension	(23,147)	-	(23,147)
18	CIAC	(1,226,564)	-	(1,226,564)
19	Accum. deferred income taxes	(391,834)	-	(391,834)
20	Customer Advances	(184,207)	-	(184,207)
21		-	-	-
22		-	-	-
23	Rate Base	$ 2,918,721	$ (11,730)	$ 2,906,991

Aqua Illinois, Inc. - Woodhaven Sewer Division
Rate Base
For the Test Year Ending December 31, 2005

Line No.	Description	Company Pro Forma Rate Base (Sch. B-1)	Difference	Company Rebuttal Pro Forma Rate Base Aqua Ex. 6.0R Sch. 6.1 (WS)	Difference	Company Surrebuttal Pro Forma Rate Base Aqua Ex. 8.0 Sch. 8.1 (WS)
	(a)	(b)	(c)	(d)		(d)
1	Gross utility plant in service	$ 6,147,067	(4,491)	$ 6,142,576	-	$ 6,142,576
2	Less accum. deprec. and amort.	(2,100,125)	82,435	(2,017,690)	-	(2,017,690)
3		-	-	-	-	-
4	Net Plant	4,046,942	77,944	4,124,886	-	4,124,886
5	Additions to Rate Base					
6	Amortization of CIAC	525,009	-	525,009	-	525,009
7	Deferred Charges	34,515	(8,173)	26,342	-	26,342
8	Materials and Supplies	8,161	-	8,161	-	8,161
9	Cash Working Capital	64,453	(4,378)	60,075	-	60,075
10						
11						
12						
13						
14						
15						
16	Deductions From Rate Base					
17	SFAS 87 Pension	(22,244)	(903)	(23,147)	-	(23,147)
18	CIAC	(1,226,564)	-	(1,226,564)	-	(1,226,564)
19	Accum. deferred income taxes	(373,141)	(18,304)	(391,445)	(389)	(391,834)
20	Customer Advances	(184,207)	-	(184,207)	-	(184,207)
21		-	-	-	-	-
22		-	-	-	-	-
					-	
23	Rate Base	$ 2,872,924	$ 46,186	$ 2,919,110	$ (389)	$ 2,918,721

Aqua Illinois, Inc. - Woodhaven Sewer Division
Adjustments to Rate Base
For the Test Year Ending December 31, 2005

Line No.	Description	Cash Working Capital (ICC St. Ex. 6.0 Sched. 6.07 (WS))	(Source)	(Source)	(Source)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross utility plant in service	$ -	$ -		$ -		$ -	$ -	$ -
2	Less accum. deprec. and amort.	-	-	-			-	-	-
3		-	-	-	-	-	-	-	-
4	Net Plant	-	-	-		-	-	-	-
5	Additions to Rate Base								
6	Amortization of CIAC	-	-	-	-	-	-	-	-
7	Deferred Charges	-		-	-		-	-	-
8	Materials and Supplies	-	-	-	-	-	-	-	-
9	Cash Working Capital	(11,730)	-	-	-	-	-	-	(11,730)
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15		-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	SFAS 87 Pension	-	-	-	-	-	-	-	-
18	CIAC	-	-	-	-	-	-	-	-
19	Accum. deferred income taxes	-	-				-	-	-
20	Customer Advances	-	-	-	-	-	-	-	-
21	-	-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	$ (11,730)	$ -	$ -	$ -	$ -	$ -	$ -	$ (11,730)

Aqua Illinois, Inc. - Oak Run Water Division
Rate Base
For the Test Year Ending December 31, 2005

Line No.	Description	Company Pro Forma Rate Base App. A (OR), p. 2	Staff Adjustments App. A (OR), p. 3	Staff Pro Forma Rate Base (Col. b+c)
	(a)	(b)	(c)	(d)
1	Gross utility plant in service	$ 2,414,351	-	$ 2,414,351
2	Less accum. deprec. and amort	(741,927)	-	(741,927)
3		-	-	-
4	Net Plant	1,672,424	-	1,672,424
		-		
5	Additions to Rate Base	-		
6	Deferred Charges	107,000	-	107,000
7	Materials and Supplies	5,652	-	5,652
8	Cash Working Capital	24,905	-	24,905
9	Amortization of CIAC	9,119	-	9,119
10		-	-	-
11		-	-	-
12		-	-	-
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base	-		
17	SFAS 87 Pension	(3,790)	-	(3,790)
18	Customer advances for construction	-	-	-
19	CIAC	(16,580)	-	(16,580)
20	Deferred Income Taxes	(208,924)	-	(208,924)
21		-	-	-
22		-	-	-
23	Rate Base	$ 1,589,806	$ -	$ 1,589,806

Aqua Illinois, Inc. - Oak Run Water Division

Rate Base

For the Test Year Ending December 31, 2005

Line No.	Description	Company Pro Forma Rate Base (Sch. B-1)	Difference	Company Surrebuttal Pro Forma Rate Base Aqua Ex. 8.0 Sch. 8.1 (OR)
	(a)	(b)	(c)	(d)
1	Gross utility plant in service	$ 2,490,509	(76,158)	$ 2,414,351
2	Less accum. deprec. and amort.	(754,430)	12,503	(741,927)
3		-	-	-
4	Net Plant	1,736,079	(63,655)	1,672,424
5	Additions to Rate Base			
6	Deferred Charges	115,919	(8,919)	107,000
7	Materials and Supplies	5,652	-	5,652
8	Cash Working Capital	24,840	65	24,905
9	Amortization of CIAC	9,119	-	9,119
10			-	-
11			-	-
12			-	-
13		-	-	-
14		-	-	-
15		-	-	-
16	Deductions From Rate Base		-	
17	SFAS 87 Pension	(3,642)	(148)	(3,790)
18	Customer advances for construction	-	-	-
19	CIAC	(16,580)	-	(16,580)
20	Deferred Income Taxes	(200,395)	(8,529)	(208,924)
21		-	-	-
22		-	-	-
23	Rate Base	$ 1,670,992	$ (81,186)	$ 1,589,806

Aqua Illinois, Inc. - Oak Run Water Division
Adjustments to Rate Base
For the Test Year Ending December 31, 2005

Line No.	Description	(Source)	(Source)	(Source)	(Source)	(Source)	(Source)	(Source)	Total Rate Base Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Gross utility plant in service	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Less accum. deprec. and amort.	-	-	-	-	-	-	-	-
3	-	-	-	-	-	-	-	-	-
4	Net Plant	-	-	-	-	-	-	-	-
	-								
5	Additions to Rate Base								
6	Deferred Charges	-	-	-	-	-	-	-	-
7	Materials and Supplies	-	-	-	-		-	-	-
8	Cash Working Capital	-	-	-	-	-	-	-	-
9	Amortization of CIAC	-	-	-	-	-	-	-	-
10	-	-	-	-	-	-	-	-	-
11	-	-	-	-	-	-	-	-	-
12	-	-	-	-	-	-	-	-	-
13	-	-	-	-	-	-	-	-	-
14	-	-	-	-	-	-	-	-	-
15	-	-	-	-	-	-	-	-	-
16	Deductions From Rate Base	-	-	-	-	-	-	-	-
17	SFAS 87 Pension	-	-	-	-	-	-	-	-
18	Customer advances for construction	-	-	-	-	-	-	-	-
19	CIAC	-	-	-	-	-	-	-	-
20	Deferred Income Taxes	-	-	-	-	-	-	-	-
21		-	-	-	-	-	-	-	-
22		-	-	-	-	-	-	-	-
23	Rate Base	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Aqua Illinois, Inc. - Woodhaven Water Division
Statement of Operating Income with Adjustments
For the Test Year Ending December 31, 2005

Line No.	Description	Company Rebuttal Pro Forma Present App. B (WW), p. 2	Staff Adjustments To Company Rebuttal App. B (WW), p. 3	Staff Adjusted Company Rebuttal (Cols. b+c)	Company Proposed Increase Schedule C-1	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenues	$ 737,328	$ -	$ 737,328	$ 477,826	$ (12,051)	$ 1,203,103	$ (157,293)	$ 1,045,810
2	Other Revenues	42,139	-	42,139	22,458		64,597	-	64,597
3		-	-	-	-	-	-	-	-
4	Total Operating Revenue	779,467	-	779,467	500,284	(12,051)	1,267,700	(157,293)	1,110,407
		-							
5	Uncollectible Expense	51,897	(20,710)	31,187	33,308	(12,657)	51,838	(6,653)	45,185
6	Wages and Salaries	136,976	-	136,976	-	-	136,976	-	136,976
7	Employee Benefits	35,857	-	35,857	-	-	35,857	-	35,857
8	Contractual Services	284,759	(107,650)	177,109	-	-	177,109	-	177,109
9	Operations and Maintenance	86,207	-	86,207		-	86,207	-	86,207
10		-	-	-	-	-	-	-	-
11	Materials and Supplies	10,584	-	10,584	-	-	10,584	-	10,584
12	Insurance Expense	15,950	-	15,950	-	-	15,950	-	15,950
13	Regulatory Expense Amortization	40,238	(20,900)	19,338	-	-	19,338	-	19,338
14	Miscellaneous Expense	61,061	-	61,061	-	-	61,061	-	61,061
15	Depreciation and amortization	125,311	-	125,311	-	-	125,311	-	125,311
16	Taxes other than income	46,141	-	46,141	-	-	46,141	-	46,141
17	Total Operating Expense	-							
18	Before Income Taxes	894,981	(149,260)	745,721	33,308	(12,657)	766,372	(6,653)	759,719
		-							
19	State Income Tax	(14,996)	11,009	(3,987)	33,529	604	30,146	(10,997)	19,149
20	Federal Income Tax	(69,336)	48,931	(20,405)	151,706	2	131,303	(48,875)	82,428
21	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
22	Total Operating Expenses	810,649	(89,320)	721,329	218,543	(12,051)	927,821	(66,525)	861,296
		-							
23	NET OPERATING INCOME	$ (31,182)	$ 89,320	$ 58,138	$ 281,741	$ -	$ 339,879	$ (90,768)	$ 249,111
24	Staff Rate Base (Appendix A (WW), p. 1)								$ 2,817,998
25	Authorized Rate of Return (ICC Staff Exhibit 6.0, Schedule 6.01 (WW))								8.84%
26	Revenue Change (Col. (i), Line 4 minus Col. (d), Line 4)								$ 330,940
27	Percentage Revenue Change (Col. (i), Line 26 divided by Col. (d), Line 4)								42.46%

Aqua Illinois, Inc. - Woodhaven Water Division

Statement of Operating Income with Adjustments

For the Test Year Ending December 31, 2005

Line No.	Description	Company Direct Pro Forma Present (Co. Sch. C-1)	Difference	Company Rebuttal Pro Forma Proposed Co. Sch. 6.1(WW)	Remove Company Proposed Increase (Co. Sch. C-1)	Company Rebuttal Pro Forma Present (d-e)
	(a)	(b)	(c)	(d)	(e)	(f)
1	Operating Revenues	$ 756,131	$ 459,023	1,215,154	$ (477,826)	$ 737,328
2	Other Revenues	42,139	22,458	64,597	(22,458)	42,139
3		-	-	-	-	-
4	Total Operating Revenue	798,270	481,481	1,279,751	(500,284)	779,467
5	Uncollectible Expense	53,148	32,057	85,205	(33,308)	51,897
6	Wages and Salaries	136,976	-	136,976		136,976
7	Employee Benefits	31,812	4,045	35,857		35,857
8	Contractual Services	328,139	(43,380)	284,759		284,759
9	Operations and Maintenance	86,207	-	86,207		86,207
10						
11	Materials and Supplies	10,584	-	10,584		10,584
12	Insurance Expense	15,950	-	15,950		15,950
13	Regulatory Expense Amortization	40,238	-	40,238		40,238
14	Miscellaneous Expense	16,561	44,500	61,061		61,061
15	Depreciation and amortization	141,605	(16,294)	125,311		125,311
16	Taxes other than income	46,141	-	46,141	-	46,141
17	Total Operating Expense					
18	Before Income Taxes	907,361	20,928	928,289	(33,308)	894,981
19	State Income Tax	(14,758)	33,291	18,533	(33,529)	(14,996)
20	Federal Income Tax	(66,774)	149,144	82,370	(151,706)	(69,336)
21	Deferred Taxes and ITCs Net	-	-	-	-	-
22	Total Operating Expenses	825,829	203,363	1,029,192	(218,543)	810,649
23	NET OPERATING INCOME	$ (27,559)	$ 278,118	$ 250,559	$ (281,741)	$ (31,182)

Aqua Illinois, Inc. - Woodhaven Water Division
Adjustments to Operating Income
For the Test Year Ending December 31, 2005

Line No.	Description	Interest Synchronization (ICC St. Ex. 6.0, Sched. 6.05 (WW))	Rate Case Expense (ICC St. Ex. 6.0, Sched. 6.08 (WW))	Management Expense (ICC St. Ex. 7.0, Sched. 7.03 (WW))	Uncollectible Accounts (ICC St. Ex. 6.0, Sched. 6.09 (WW)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Other Revenues	-	-	-	-	-	-	-	-
3	-	-	-	-	-	-	-	-	-
4	Total Operating Revenue	-	-	-	-	-	-	-	-
5	Uncollectible Expense	-	-		(20,710)	-	-	-	(20,710)
6	Wages and Salaries	-	-	-	-	-	-	-	-
7	Employee Benefits	-	-	-	-	-	-	-	-
8	Contractual Services	-	-	(107,650)	-		-	-	(107,650)
9	Operations and Maintenance	-	-	-	-	-	-	-	-
10		-	-		-	-	-	-	-
11	Materials and Supplies	-	-	-	-	-	-	-	-
12	Insurance Expense	-	-	-	-	-	-	-	-
13	Regulatory Expense Amortization	-	(20,900)	-	-	-	-	-	(20,900)
14	Miscellaneous Expense	-	-		-	-	-	-	-
15	Depreciation and amortization	-	-	-		-	-	-	-
16	Taxes other than income	-	-	-	-	-	-	-	-
17	Total Operating Expense								
18	Before Income Taxes	-	(20,900)	(107,650)	(20,710)	-	-	-	(149,260)
19	State Income Tax	113	1,526	7,858	1,512	-	-	-	11,009
20	Federal Income Tax	504	6,781	34,927	6,719	-	-	-	48,931
21	Deferred Taxes and ITCs Ne	-	-	-	-	-	-	-	-
22	Total Operating Expenses	617	(12,593)	(64,865)	(12,479)	-	-	-	(89,320)
23	NET OPERATING INCOME	$ (617)	$ 12,593	$ 64,865	$ 12,479	$ -	$ -	$ -	$ 89,320

Aqua Illinois, Inc. - Woodhaven Sewer Division

Statement of Operating Income with Adjustments

For the Test Year Ending December 31, 2005

Line No.	Description	Company Rebuttal Pro Forma Present App. B (WS), p. 2	Staff Adjustments To Company Rebuttal App. B (WS), p. 3	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase Schedule C-1	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenues	$ 666,582	$ -	$ 666,582	$ 441,648	$ (13,465)	$ 1,094,765	$ (150,294)	$ 944,471
2	Other Revenues	28,869	-	28,869	17,666	-	46,535	-	46,535
3		-	-	-	-	-	-	-	-
4	Total Operating Revenue	695,451	-	695,451	459,314	(13,465)	1,141,300	(150,294)	991,006
		-							
5	Uncollectible Expense	49,778	(21,583)	28,195	32,876	(14,017)	47,054	(6,357)	40,697
6	Wages and Salaries	102,109	-	102,109	-	-	102,109	-	102,109
7	Employee Benefits	27,034	-	27,034	-	-	27,034	-	27,034
8	Contractual Services	257,623	(93,839)	163,784	-	-	163,784	-	163,784
9	Operations and Maintenance	34,441	-	34,441		-	34,441	-	34,441
10		-	-	-	-	-	-	-	-
11	Materials and Supplies	9,504	-	9,504	-	-	9,504	-	9,504
12	Insurance Expense	18,098	-	18,098	-	-	18,098	-	18,098
13	Regulatory Expense Amortization	40,238	(26,426)	13,812	-	-	13,812	-	13,812
14	Miscellaneous Expense	4,385	-	4,385	-	-	4,385	-	4,385
15	Depreciation and amortization	172,777	-	172,777	-	-	172,777	-	172,777
16	Taxes other than income	41,650	-	41,650	-	-	41,650	-	41,650
17	Total Operating Expense	-							
18	Before Income Taxes	757,637	(141,848)	615,789	32,876	(14,017)	634,648	(6,357)	628,291
		-							
19	State Income Tax	(11,161)	10,370	(791)	30,618	552	30,379	(10,507)	19,872
20	Federal Income Tax	(52,059)	46,088	(5,971)	138,537	-	132,566	(46,700)	85,866
21	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
22	Total Operating Expenses	694,417	(85,390)	609,027	202,031	(13,465)	797,593	(63,564)	734,029
		-							
23	NET OPERATING INCOME	$ 1,034	$ 85,390	$ 86,424	$ 257,283	$ -	$ 343,707	$ (86,730)	$ 256,977
24	Staff Rate Base (Appendix A (WS), p. 1)								$ 2,906,991
25	Staff Overall Rate of Return (ICC Staff Exhibit 6.0, Schedule 6.01 (WS))								8.84%
26	Revenue Change (Col. (i), Line 4 minus Col. (d), Line 4)								$ 295,555
27	Percentage Revenue Change (Col. (i), Line 26 divided by Col. (d), Line 4)								42.50%

Aqua Illinois, Inc. - Woodhaven Sewer Division
Statement of Operating Income with Adjustments
For the Test Year Ending December 31, 2005

Line No.	Description	Company Direct Pro Forma Present (Co. Sch. C-1)	Difference	Company Rebuttal Pro Forma Proposed Co. Sch. 6.1(WS)	Remove Company Proposed Increase (Co. Sch. C-1)	Company Rebuttal Pro Forma Present (d-e)
	(a)	(b)	(c)	(d)	(e)	(f)
1	Operating Revenues	$ 721,716	$ 386,514	1,108,230	$ (441,648)	$ 666,582
2	Other Revenues	28,869	17,666	46,535	(17,666)	28,869
3		-	-	-	-	-
4	Total Operating Revenue	750,585	404,180	1,154,765	(459,314)	695,451
5	Uncollectible Expense	53,724	28,930	82,654	(32,876)	49,778
6	Wages and Salaries	102,109	-	102,109		102,109
7	Employee Benefits	23,856	3,178	27,034		27,034
8	Contractual Services	295,822	(38,199)	257,623		257,623
9	Operations and Maintenance	34,441	-	34,441		34,441
10		-				
11	Materials and Supplies	9,504	-	9,504		9,504
12	Insurance Expense	18,098	-	18,098		18,098
13	Regulatory Expense Amortization	40,238	-	40,238		40,238
14	Miscellaneous Expense	4,385	-	4,385		4,385
15	Depreciation and amortization	189,265	(16,488)	172,777		172,777
16	Taxes other than income	41,650	-	41,650	-	41,650
17	Total Operating Expense					
18	Before Income Taxes	813,092	(22,579)	790,513	(32,876)	757,637
19	State Income Tax	(11,544)	31,001	19,457	(30,618)	(11,161)
20	Federal Income Tax	(52,234)	138,712	86,478	(138,537)	(52,059)
21	Deferred Taxes and ITCs Net	-	-	-	-	-
22	Total Operating Expenses	749,314	147,134	896,448	(202,031)	694,417
	-					
23	NET OPERATING INCOME	$ 1,271	$ 257,046	$ 258,317	$ (257,283)	$ 1,034

Aqua Illinois, Inc. - Woodhaven Sewer Division
Adjustments to Operating Income
For the Test Year Ending December 31, 2005

Line No.	Description	Interest Synchronization (ICC St. Ex. 6.0, Sched. 6.05 (WS))	Rate Case Expense (ICC St. Ex. 6.0, Sched. 6.08 (WS))	Management Expense (ICC St. Ex. 7.0, Sched. 7.03 (WS))	Uncollectible Accounts (ICC St. Ex. 6.0, Sched. 6.09 (WS)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Other Revenues	-	-	-	-	-	-	-	-
3	-	-	-	-	-	-	-	-	-
4	Total Operating Revenue	-	-	-	-	-	-	-	-
5	Uncollectible Expense	-	-	-	(21,583)	-	-	-	(21,583)
6	Wages and Salaries	-	-	-	-	-	-	-	-
7	Employee Benefits	-	-	-	-	-	-	-	-
8	Contractual Services	-	-	(93,839)	-	-		-	(93,839)
9	Operations and Maintenance	-	-	-	-	-	-	-	-
10	-	-	-		-	-	-	-	-
11	Materials and Supplies	-	-	-	-	-	-	-	-
12	Insurance Expense	-	-	-	-	-	-	-	-
13	Regulatory Expense Amortization	-	(26,426)	-	-	-	-	-	(26,426)
14	Miscellaneous Expense	-	-		-	-	-	-	-
15	Depreciation and amortization	-	-				-	-	-
16	Taxes other than income	-	-	-	-	-	-	-	-
17	Total Operating Expense								
18	Before Income Taxes	-	(26,426)	(93,839)	(21,583)	-	-	-	(141,848)
19	State Income Tax	15	1,929	6,850	1,576	-	-	-	10,370
20	Federal Income Tax	65	8,574	30,446	7,003	-	-	-	46,088
21	Deferred Taxes and ITCs Ne	-	-	-	-	-	-	-	-
22	Total Operating Expenses	80	(15,923)	(56,543)	(13,004)	-	-	-	(85,390)
23	NET OPERATING INCOME	$ (80)	$ 15,923	$ 56,543	$ 13,004	$ -	$ -	$ -	$ 85,390

Aqua Illinois, Inc. - Oak Run Water Division
Statement of Operating Income with Adjustments
For the Test Year Ending December 31, 2005

Line No.	Description	Company Rebuttal Pro Forma Present App. B (OR), p. 2	Staff Adjustments To Company Rebuttal App. B (OR), p. 3	Staff Adjusted Company Rebuttal (Cols. b+c)	Company Proposed Increase Schedule C-1	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenues	$ 303,578	$ -	$ 303,578	$ 211,307	-	$ 514,885	$ (33,493)	$ 481,392
2	Other Revenues	3,700	-	3,700	1,902	-	5,602	-	5,602
3		-	-	-	-	-	-	-	-
4	Total Operating Revenue	307,278	-	307,278	213,209	-	520,487	(33,493)	486,994
5	Uncollectible Expense	6,337	(4,829)	1,508	1,048	-	2,556	(164)	2,392
6	Wages and Salaries	17,050	-	17,050	-	-	17,050	-	17,050
7	Employee Benefits	3,665	-	3,665	-	-	3,665	-	3,665
8	Contractual Services	110,073	-	110,073	-	-	110,073	-	110,073
9	Operations and Maintenance	24,444	-	24,444	-	-	24,444	-	24,444
10		-	-	-	-	-	-	-	-
11	Materials and Supplies	7,428	-	7,428	-	-	7,428	-	7,428
12	Insurance Expense	6,062	-	6,062	-	-	6,062	-	6,062
13	Regulatory Expense Amortization	43,292	(30,606)	12,686	-	-	12,686	-	12,686
14	Miscellaneous Expense	18,531	-	18,531	-	-	18,531	-	18,531
15	Depreciation and amortization	68,256	-	68,256	-	-	68,256	-	68,256
16	Taxes other than income	16,761	-	16,761	-	-	16,761	-	16,761
17	Total Operating Expense								
18	Before Income Taxes	321,899	(35,435)	286,464	1,048	-	287,512	(164)	287,348
19	State Income Tax	(4,790)	2,847	(1,943)	15,233	-	13,290	(2,433)	10,857
20	Federal Income Tax	(22,513)	12,652	(9,861)	68,925	-	59,064	(10,814)	48,250
21	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
22	Total Operating Expenses	294,596	(19,936)	274,660	85,206	-	359,866	(13,411)	346,455
23	NET OPERATING INCOME	12,682	$ 19,936	$ 32,618	$ 128,003	$ -	$ 160,621	$ (20,082)	$ 140,539
24	Staff Rate Base (Appendix A (OR), p. 1)								$ 1,589,806
25	Staff Overall Rate of Return (ICC Staff Exhibit 8.0, Schedule 8.01 (OR))								8.84%
26	Revenue Change (Col. (i), Line 4 minus Col. (d), Line 4)								$ 179,716
27	Percentage Revenue Change (Col. (i), Line 26 divided by Col. (d), Line 4)								58.49%

Aqua Illinois, Inc. - Oak Run Water Division
Statement of Operating Income with Adjustments
For the Test Year Ending December 31, 2005

Line No.	Description	Company Direct Pro Forma Present (Co. Sch. C-1)	Difference	Company Rebuttal Pro Forma Proposed Co. Sch. 6.1(OR)	Remove Company Proposed Increase (Co. Sch. C-1)	Company Rebuttal Pro Forma Present (d-e)
	(a)	(b)	(c)	(d)	(e)	(f)
1	Operating Revenues	$ 326,111	$ 188,774	$514,885	$ (211,307)	$ 303,578
2	Other Revenues	3,779	1,823	5,602	(1,902)	3,700
3		-	-	-	-	-
4	Total Operating Revenue	329,890	190,597	520,487	(213,209)	307,278
5	Uncollectible Expense	11,800	(4,415)	7,385	(1,048)	6,337
6	Wages and Salaries	17,050	-	17,050		17,050
7	Employee Benefits	3,144	521	3,665		3,665
8	Contractual Services	110,073	-	110,073		110,073
9	Operations and Maintenance	24,444	-	24,444		24,444
10						
11	Materials and Supplies	7,428	-	7,428		7,428
12	Insurance Expense	6,062	-	6,062		6,062
13	Regulatory Expense Amortization	43,292	-	43,292		43,292
14	Miscellaneous Expense	18,531	-	18,531		18,531
15	Depreciation and amortization	72,033	(3,777)	68,256		68,256
16	Taxes other than income	16,761	-	16,761	-	16,761
17	Total Operating Expense					
18	Before Income Taxes	330,618	(7,671)	322,947	(1,048)	321,899
19	State Income Tax	(4,183)	14,626	10,443	(15,233)	(4,790)
20	Federal Income Tax	(18,925)	65,337	46,412	(68,925)	(22,513)
21	Deferred Taxes and ITCs Net	-	-	-	-	-
22	Total Operating Expenses	307,510	72,292	379,802	(85,206)	294,596
23	NET OPERATING INCOME	$ 22,380	$ 118,305	$ 140,685	$ (128,003)	$ 12,682

Aqua Illinois, Inc. - Oak Run Water Division
Adjustments to Operating Income
For the Test Year Ending December 31, 2005

Line No.	Description	Interest Synchronization (ICC St. Ex. 6.0, Sched. 6.05 (OR)	Rate Case Expense (ICC St. Ex. 6.0, Sched. 6.08 (OR))	Uncollectible Accounts (ICC St. Ex. 6.0, Sched. 6.09 (OR))	(Source)	(Source)	(Source)	(Source)	Total Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	Other Revenues	-	-	-	-	-	-	-	-
3	-	-	-	-	-	-	-	-	-
4	Total Operating Revenue	-	-	-	-	-	-	-	-
5	Uncollectible Expense	-	-	(4,829)	-	-	-	-	(4,829)
6	Wages and Salaries	-	-	-	-	-	-	-	-
7	Employee Benefits	-	-	-	-	-	-	-	-
8	Contractual Services	-	-	-	-	-	-	-	-
9	Operations and Maintenance	-	-	-	-	-	-	-	-
10	-	-	-		-	-	-	-	-
11	Materials and Supplies	-	-	-	-	-	-	-	-
12	Insurance Expense	-	-	-	-	-	-	-	-
13	Regulatory Expense Amortization	-	(30,606)	-	-	-	-	-	(30,606)
14	Miscellaneous Expense	-	-		-	-	-	-	-
15	Depreciation and amortization	-	-	-				-	-
16	Taxes other than income	-	-	-	-	-	-	-	-
17	Total Operating Expense								
18	Before Income Taxes	-	(30,606)	(4,829)	-	-	-	-	(35,435)
19	State Income Tax	260	2,234	353	-	-	-	-	2,847
20	Federal Income Tax	1,155	9,930	1,567	-	-	-	-	12,652
21	Deferred Taxes and ITCs Ne	-	-	-	-	-	-	-	-
22	Total Operating Expenses	1,415	(18,442)	(2,909)	-	-	-	-	(19,936)
23	NET OPERATING INCOME	$ (1,415)	$ 18,442	$ 2,909	$ -	$ -	$ -	$ -	$ 19,936

Aqua Illinois, Inc. - Oak Run Water Division

RATE DESIGN ANALYSIS

	Company Present			Company Proposed			% increase	Staff Proposed			% increase
WATER	Billing Units	Rate	Revenue	Billing Units	Rate	Revenue	over Present	Billing Units	Rate	Revenue	over Present
CUSTOMER CHARGES											
Residential	7,665	$8.67	$66,456	7,665	$15.77	$120,877	81.9%	7,665	$14.50	$111,143	67.2%
Commercial	168	$8.67	$1,457	168	$15.77	$2,649	81.9%	168	$14.50	$2,436	67.2%
SUBTOTAL			$67,912			$123,526				$113,579	
CONSUMPTION CHARGES											
Residential 5/8"		$5.19	$0		$6.434	$0	24.0%		$7.87	$0	51.6%
Residential 5/8" x 3/4	17,185	$5.19	$89,190	17,185	$6.434	$110,568	24.0%	17,185	$7.87	$135,246	51.6%
Residential 3/4"	438	$5.19	$2,273	438	$6.434	$2,818	24.0%	438	$7.87	$3,447	51.6%
Residential 1 1/2" multi	188	$5.19	$976	188	$6.434	$1,210	24.0%	188	$7.87	$1,480	51.6%
Commercial 5/8" x 3/4	628	$5.19	$3,259	628	$6.434	$4,041	24.0%	628	$7.87	$4,942	51.6%
Commercial 3/4"	13	$5.19	$67	13	$6.434	$84	24.0%	13	$7.87	$102	51.6%
Commercial 1"	37	$5.19	$192	37	$6.434	$238	24.0%	37	$7.87	$291	51.6%
Commercial 2"	55	$5.19	$285	55	$6.434	$354	24.0%	55	$7.87	$433	51.6%
SUBTOTAL	18,544		$96,243	18,544		$119,312		18,544		$145,941	
SUBTOTAL FACILITIES & GALLONAGE			$164,155			$242,839				$259,520	
Availability Charges	23,472	$6.90	$161,957	23,472	$12.55	$294,574	81.9%	23,472	$9.45	$221,810	37.0%
AVAILABILITY SUBTOTAL			$161,957			$294,574				$221,810	
TOTAL OPERATING REVENUE			$326,112			$537,412	64.8%			$481,330	

Aqua Illinois, Inc. - Woodhave Water & Sewer Division

RATE DESIGN ANALYSIS

	Company Present			Company Proposed			% increase	Staff Proposed			% increase
WATER	Billing Units	Rate	Revenue	Billing Units	Rate	Revenue	over Present	Billing Units	Rate	Revenue	over Present
CUSTOMER CHARGES											
Domestic campsites	74,146	$9.35	$693,265	74,146	$16.075	$1,191,897	71.9%	74,146	$13.50	$1,000,728	44.35%
Residential 5/8" - minimum charge	24	$8.14	$195	24	$14.00	$336	72.0%	24	$11.75	$282	44.35%
Residential 1"	60	$13.84	$830	60	$23.80	$1,428	72.0%	60	$19.98	$1,199	44.35%
Commercial 5/8"	102	$8.14	$830	102	$14.00	$1,428	72.0%	102	$11.75	$1,199	44.35%
Commercial 3/4"	42	$9.77	$410	42	$16.80	$706	72.0%	42	$14.10	$592	44.35%
Commercial 1"	32	$13.84	$443	32	$23.80	$762	72.0%	32	$19.98	$639	44.35%
Commercial 1 1/2"	16	$25.65	$410	16	$44.12	$706	72.0%	16	$37.03	$592	44.35%
Commercial 2"	148	$30.93	$4,578	148	$53.20	$7,874	72.0%	148	$44.65	$6,608	44.35%
Commercial 3"	12	$87.91	$1,055	12	$151.20	$1,814	72.0%	12	$126.90	$1,523	44.35%
SUBTOTAL			$702,017			$1,206,950	71.9%			$1,013,362	
METERED CHARGES											
Residential 5/8"	0	$4.11	$0	0	$7.069	$0	72.0%	0	$5.93	$0	44.35%
Residential 1"	339	$4.11	$1,393	339	$7.069	$2,396	72.0%	339	$5.93	$2,011	44.35%
Commercial 5/8"	448	$4.11	$1,841	448	$7.069	$3,167	72.0%	448	$5.93	$2,658	44.35%
Commercial 3/4"	108	$4.11	$444	108	$7.069	$763	72.0%	108	$5.93	$641	44.35%
Commercial 1"	120	$4.11	$493	120	$7.069	$848	72.0%	120	$5.93	$712	44.35%
Commercial 1 1/2"	236	$4.11	$970	236	$7.069	$1,668	72.0%	236	$5.93	$1,400	44.35%
Commercial 2"	1,922	$4.11	$7,899	1,922	$7.069	$13,587	72.0%	1,922	$5.93	$11,403	44.35%
Commercial 3"	626	$4.11	$2,573	626	$7.069	$4,425	72.0%	626	$5.93	$3,714	44.35%
SUBTOTAL	3,799		$15,614	3,799		$26,855	72.0%	3,799		$22,539	
AL WATER OPERATING REVENUE			$717,631			$1,233,805	71.9%			$1,035,901	

	Company Present			Company Proposed			% increase	Staff Proposed			% increase
SEWER	Billing Units	Sewer	Revenue	Billing Units	Sewer	Revenue	over Present	Billing Units	Sewer	Revenue	over Present
FACILITIES CHARGES											
Campsite	64,932	$10.68	$693,474	64,932	$17.44	$1,132,414	63.3%	64,932	$14.30	$928,528	33.90%
Commercial - 130% of water bill	$ 21,947	130%	$28,531	$ 37,748	130%	$49,072		348	$14.30	$4,976	
AL SEWER OPERATING REVENUE			$722,005			$1,181,486	63.6%			$933,504	