

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois-American Water Company :
 :
Petition for Re-approval of an Agreement : **04-0595**
with American Water Works Service :
Company, an "Affiliated Interest" under :
Section 7-101 of the Illinois Public Utilities :
Act, as amended pursuant to :
Docket 02-0690. :

ORDER

By the Commission:

On September 30, 2004, Illinois-American Water Company ("IAWC" or "Petitioner") filed a verified Petition pursuant to Section 7-101 of the Public Utilities Act ("Act") (220 ILCS 5/1-101 *et seq.*), and the Order entered in Docket 02-0690, seeking consent to and re-approval of a service agreement ("Service Agreement") with American Water Works Service Company ("AWWSC"), which is an affiliated interest of IAWC, as is defined by 5/7-101(2)(ii) of the Act.

Pursuant to notice given in accordance with the law and the rules and regulations of the Commission, this matter was heard by a duly authorized Administrative Law Judge at the offices of the Commission in Chicago, Illinois. Appearances were entered by the Staff of the Commission ("Staff") and by counsel on behalf of Petitioner. No petitions for leave to intervene were filed.

Petitioner is a corporation that is duly organized and existing under the laws of the State of Illinois. Petitioner is engaged in the business of furnishing potable water service and/or sanitary sewer service to the public in portions of Alexander, Champaign, Cook, Douglas, DuPage, Grundy, Jersey, Kane, Kendall, LaSalle, Livingston, Logan, Madison, McHenry, Monroe, Peoria, St. Clair, Tazewell, Whiteside, and Will Counties, Illinois, as it is duly authorized to do, and is a public utility within the meaning of Section 3-105 of the Act. Petitioner is the result of the prior mergers of Alton Water Company, the Cairo Water Company, East St. Louis and Interurban Water Company, Pekin Water Works Company, Peoria Water Company, and Northern Illinois Water Corporation, as approved by the Commission in Dockets 81-0727, 84-0204, and 99-0418; the acquisition and merger of United Water Illinois, as approved by the Commission in Docket 99-0457; and the acquisition of Citizens Utilities Company of Illinois' ("CUCI") water and waste water assets, as approved by the Commission in Docket 00-0476.

AWWSC, a corporation organized and existing under the laws of Delaware, provides certain administrative, professional, operational, and other services to the water utilities owned by American Water Works Company, Inc. (AW) and certain other non-regulated companies affiliated and non-affiliated with IAWC and AWWSC. AWWSC is authorized to do business in Illinois.

Petitioner states that IAWC and AWWSC are affiliates; both are subsidiaries of AW. IAWC is a part of the AW Central Region that has its headquarters in St. Louis, Missouri. On January 1, 1989, IAWC and AWWSC entered into the Service Agreement. The Service Agreement was approved by the Commission in Docket 88-0303. In its most recent general rate order, Docket 02-0690, IAWC was directed to re-file all of its affiliated interest agreements, which includes the Service Agreement.

Pursuant to the Service Agreement, AWWSC provides certain administrative, professional, operational, and other services to IAWC at cost. Specifically, AWWSC provides to IAWC Accounting, Administration, Communication, Corporate Secretarial, Customer Accounting, Engineering, Financial, Human Resources, Information Technology ("IT"), Legal, Operations, Procurement, Rates and Revenue, Risk Management, Security, Water Quality, and other services agreed upon. These services are performed by AWWSC personnel, most of whom have years of water industry experience. AWWSC personnel are able to specialize in their functional areas, provide expert services, and develop a strong understanding of the water quality and the business needs of each company they serve.

Petitioner states that, by utilizing AWWSC, IAWC reduces its cost of service through expanded buying power for goods and services and economies of scale associated with AWWSC's laboratory facilities in Belleville, the National Call Center, IT centers, Shared Services Center, and other AWWSC infrastructure services. Currently, AWWSC employees in the American Water Central Region, as well as those in AWWSC's offices in New Jersey, nationwide call center in Alton, Illinois, and national laboratory in Belleville, Illinois, provide the services contemplated by the Service Agreement.

According to Petitioner, costs associated with services provided by AWWSC are charged to IAWC in accordance with the provisions of the Service Agreement. Costs incurred by AWWSC on behalf of non-regulated companies are assigned or allocated to such companies. As a result, in accordance with Section 5.2 of the Service Agreement, no cost associated with service provided to non-regulated companies is assigned to IAWC. In accordance with Section 2 of the Services Agreement, the costs (including applicable overheads) that are incurred to benefit IAWC alone or as a group of operating utility subsidiaries that includes IAWC are assigned, where possible, based on a direct charge and, where direct charge is not possible, the costs (and overheads) are allocated among these affected operating subsidiaries based upon the relative number of customers served by each of the subsidiaries.

Under the Service Agreement, IAWC has the option to utilize services provided at cost by AWWSC or, at its option, IAWC may either perform such services itself or obtain services from a non-affiliated vendor. In determining whether to use AWWSC services, IAWC considers relevant factors, such as service quality, cost-effectiveness, timeliness, reliability and adequacy of alternative suppliers.

In its testimony, Staff found that the Service Agreement contained terms that allowed Staff to verify the amounts charged to IAWC under the Service Agreement. Staff stated that it had no objection to the re-approval of the Service Agreement and did not oppose its re-approval.

There are no contested issues remaining in this docket. Accordingly, the Commission concludes that the Service Agreement should be re-approved. Having considered the entire record herein and being fully advised in the premises, the Commission is of the opinion and finds that:

- (1) Illinois-American Water Company, is an Illinois corporation engaged in the provision of water and sewer service to the public in Illinois, and is a public utility within the meaning of the Act;
- (2) Illinois-American Water Company, and American Water Works Service Company are affiliated interests as defined in Section 7 -101(2) of the Act;
- (3) The Commission has jurisdiction over Illinois-American Water Company and of the subject matter of this proceeding;
- (4) The recitals of fact set forth in the prefatory portion of this Order are supported by the record and are hereby adopted as findings of fact;
- (5) The Service Agreement is reasonable and in the public interest and should be re-approved, and consented to, by this Commission.

IT IS THEREFORE ORDERED that consent to and re-approval of the Service Agreement between Illinois-American Water Company and American Water Works Service Company is hereby granted.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission this 19th day of October, 2005.

(SIGNED) MARTIN R. COHEN

Chairman