

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

Illinois Commerce Commission)	
On Its Own Motion)	
)	
-vs.-)	
)	
Apple Canyon Utility Company;)	Docket No. 06-0360
Cedar Bluff Utilities, Inc.;)	
Charmar Water Company;)	
Cherry Hill Water Company; and)	
Northern Hills Water and Sewer Company.)	
)	
Citation for failure to comply with Commission)	
Order and with Commission rules.)	

VERIFIED ANSWER OF UTILITIES, INC. TO CITATION ORDER

Utilities, Inc., on behalf of Apple Canyon Utility Company, Cedar Bluff Utilities, Inc., Charmar Water Company, Cherry Hill Water Company and Northern Hills Water and Sewer Company ("UI" or the "Companies"), and by its undersigned counsel, hereby responds to the Citation Order issued by the Illinois Commerce Commission ("Commission") on May 3, 2006, as follows:

The Commission Order issued April 7, 2004 in Docket Nos. 03-0398/03-0399/03-0400/03-0401/03-0402 (Consol.) ("Rate Case Order") ordered the Companies to establish and maintain continuing property records ("CPRs") in compliance with the Commission's rules, and to file a report with the Manager of the Commission's Accounting Department as to the successful implementation of the CPR program within 12 months after the final order in the proceeding.

Since the entry of the Rate Case Order, UI has been working diligently to implement a CPR system for all twenty-five UI subsidiaries in Illinois, including the Companies, that complies with Accounting Instruction 28 of the National Association of

Regulatory Utility Commissioners Uniform System of Accounts for Class A Water Utilities (1996), adopted by the Commission at 83 Ill. Adm. Code 605.10, and the requirements of 83 Ill. Admin. Code 615 Appendix A (Item 22). As a result of these efforts, UI's CPR system is complete and in place. The CPR system began functioning on a retrospective basis in the first quarter of 2006, and includes CPR data from 2005 onward. However, entry of data into the CPR system has proved extremely time consuming. Currently, UI is continuing to input historical CPR information into the system. Clearing this backlog of data has been an unexpectedly slow process due to lack of computing¹ and staff resources. Additional personnel to support the data entry were only added to UI's staff in the last quarter of 2005. UI also notes that the CPR system covers all twenty-five UI subsidiaries in Illinois, not just the five Companies in this proceeding.

Due to the unanticipated delay in data entry, UI was unable to meet the April 7, 2005 deadline for CPR implementation set forth in the Rate Case Order and the required report was not filed by April 7, 2005. However, UI made several good faith efforts to inform the Commission of its progress in implementing the CPR requirement after the deadline passed. On May 27, 2005, UI filed the first in a series of four motions (the "Motions") seeking an extension of time to comply with the CPR requirement.² That the Motions were made in a good faith effort to inform the Commission of the status of

¹ The CPR system is run on a mainframe computer housed at the offices of UI's parent in Northbrook, Illinois. This computer handles data management for all of UI's operating subsidiaries nationwide, and has experienced slowdowns related to the large amounts of data that must be processed for each subsidiary. As described below, UI is committed to upgrading its hardware and software systems to alleviate these data management issues.

² UI acknowledges that it should have consulted with counsel prior to filing the Motions. Nevertheless, in filing the Motions, UI was acting in a good faith manner to inform the Commission of the status of compliance with the CPR requirements. Moreover, UI believed that Commission Rule of Practice 200.90(c), 83 Ill. Admin. Code § 200.90(c), allowed a UI officer to appear and to file the Motions.

the CPR implementation is clear from the fact that UI could have pursued the alternative of not informing the Commission at all regarding the delay in implementing the continuing property records. Instead, UI sought to timely inform the Commission that despite its diligent efforts, it was unable to meet the one-year deadline.

UI was recently acquired by a new parent, Hydrostar, LLC. UI's new parent is committed to upgrading the hardware and software of UI's data management system to improve functionality and to improve the reporting process, which will alleviate the data processing bottleneck. As a result, UI's management team has met with various consulting firms to discuss acquiring new data management systems, including a new general ledger and billing systems. These systems also have the capabilities to create, track, store and generate continuing property records. These systems will also be able to calculate depreciation and accumulated deferred income taxes without the need for manual recordation and tracking. Implementation of such a new system will allow the backlog of historical CPR data to be input and cleared much more quickly.

Although there has been a delay in implementing the CPR system, this delay has not had an adverse effect on UI's customers in Illinois or on UI's provision of adequate, safe and reliable service. As the Rate Case Order (p. 18) points out, the purpose of CPRs is to provide proof of the value and the prudence of investments, information that is particularly critical at the time of a rate case filing. Absent a rate case filing, however, the delay in implementing CPRs has not had a substantial impact on UI's operations or its provision of service.

As a result of its continuing good faith efforts to implement the CPR system, UI does not believe that civil penalties are appropriate in this case. Section 4-203(a) of the Public Utilities Act (“Act”), 220 ILCS 5/4-203(a), provides that:

In determining the amount of the penalty, the Commission shall consider the appropriateness of the penalty to the size of the business of the public utility, corporation other than a public utility, or person acting as a public utility charged, the gravity of the violation, such other mitigating or aggravating factors as the Commission may find to exist, and the good faith of the public utility, corporation other than a public utility, or person acting as a public utility charged in attempting to achieve compliance after notification of a violation.

Thus the Commission may consider mitigating factors when assessing civil penalties, as well as the good faith of the utility. UI believes that the unexpectedly slow process of entering data for the CPRs, and in particular the difficulty with the mainframe computer system into which the data is being entered, represent a significant mitigating factor against imposing civil penalties. In addition, UI has acted in good faith both in its efforts to implement the CPR system and in its efforts to apprise the Commission of the delay in the implementation. Furthermore, UI is committed to obtaining a new software package and corresponding hardware that will facilitate the CPR recordation. UI also notes that the Companies meet the definition of “Small Utility” as found in Section 4-502 of the Act, 220 ILCS 5/4-502. Based on these factors, UI believes civil penalties are not appropriate in this case.

WHEREFORE, UI respectfully requests that the Commission enter an Order (i) finding that UI has implemented a system for tracking CPRs; (ii) finding that civil penalties are inappropriate under the circumstances of this case; and (iii) dismissing this citation proceeding.

Dated: June 7, 2006

Respectfully submitted,

UTILITIES, INC.

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