

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

AQUA ILLINOIS, INC.	)	
	)	
	)	
Petition for Issuance of Certificate of Public	)	Docket No. 06-0043
Convenience and Necessity to Operate a	)	
Water Distribution System; and for approval of	)	
accounting entries, depreciation rates, water	)	
rates and tariff pages	)	

**DRAFT ORDER**

In its Petition filed with the Illinois Commerce Commission ("Commission") in this proceeding, Aqua Illinois, Inc. ("Aqua" or the "Company") seeks a Certificate of Public Convenience and Necessity ("Certificate") to construct, operate and maintain a water supply and distribution system in an area described herein in Lake County, Illinois, and to transact a public utility business in connection therewith, pursuant to Section 8-406 of the Illinois Public Utilities Act ("Act"), 220 ILCS 5/1-101 et seq. Aqua also seeks other relief as described below. Pursuant to due notice, hearings were held before a duly authorized Administrative Law Judge of the Commission at its offices in Springfield, Illinois on June 12, 2006. Appearances were entered for the Company and the Commission Staff ("Staff") by their respective counsel. Municipalities located within 1½ miles of the areas in question were provided a copy of the Petition in accordance with 83 Ill. Adm. Code 200.150(b), and were served notice of the initial hearing. Other than Aqua and Staff, no appearances were entered at the hearings and no written entries of appearance or intervening petitions were filed.

Petitioner presented the testimony of Mr. Terry J. Rakocy, President of Aqua Illinois, Inc. Staff presented the testimony of Mary H. Everson, William R. Johnson, Cheri L. Harden and Phil Hardas. At the close of the hearings, the record was marked "Heard and Taken." Thereafter, Aqua filed a draft order.

**Background; Relief Sought**

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

In its Petition initiating this proceeding, Aqua requests the issuance of a Certificate of Public Convenience and Necessity authorizing it to construct, operate and maintain a water distribution system, and in connection therewith, transact a public utility business in the area of Lake County, Illinois, that is adjacent to Aqua's Hawthorn Woods service area ("Hawthorn Area") and known as the Kemper Lakes Development

Area ("Kemper Area"). Aqua also requests approval of accounting entries to record the net original cost of the water facilities used to provide service in the Kemper Area, and approval of depreciation rates. In addition, Aqua requests approval of rates for water in the Kemper Area and of the filing of new tariff pages which extend the application to the Kemper Area of the tariffs for the Hawthorn Area. (Pet. at 1).

### **Applicable Statutory Authority**

Section 8-406 of the Act governs the issuance of a Certificate in this matter. Specifically, Section 8-406(a) provides:

No public utility not owning any city or village franchise nor engaged in performing any public service or in furnishing any product or commodity within this State as of July 1, 1921 and not possessing a certificate of public convenience and necessity from the Illinois Commerce Commission, the State Public Utilities Commission or the Public Utilities Commission, at the time this amendatory Act of 1985 goes into effect, shall transact any business in this State until it shall have obtained a certificate from the Commission that public convenience and necessity require the transaction of such business.

Section 8-406(b) of the Act further provides:

No public utility shall begin the construction of any new plant, equipment, property or facility which is not in substitution of any existing plant, equipment, property or facility or any extension or alteration thereof or in addition thereto, unless and until it shall have obtained from the Commission a certificate that public convenience and necessity require such construction. Whenever after a hearing the Commission determines that any new construction or the transaction of any business by a public utility will promote the public convenience and is necessary thereto, it shall have the power to issue certificates of public convenience and necessity. The Commission shall determine that proposed construction will promote the public convenience and necessity only if the utility demonstrates: (1) that the proposed construction is necessary to provide adequate, reliable, and efficient service to its customers and is the least-cost means of satisfying the service needs of its customers; (2) that the utility is capable of efficiently managing and supervising the construction process and has taken sufficient action to ensure adequate and efficient construction and supervision thereof; and (3) that the utility is capable of financing the proposed construction without significant adverse financial consequences for the utility or its customers.

### **Aqua's Position**

Aqua seeks a Certificate for the Kemper Area, which is contiguous to the Hawthorn Area and on which United Land Development Company ("Developer") is constructing 209 residential housing units. (Aqua Ex. 1.0 at 3.) The Kemper Area is shown on Exhibit A, to Aqua Exhibit 1.0, and the Kemper Area and Hawthorn Areas are

also shown on Exhibit F1 (Revised) to Aqua Exhibit 1.0RS (Revised), a copy of which is attached hereto as Appendix A. The Kemper Area is legally described on Exhibit B to Aqua Exhibit 1.0, which is attached hereto as Appendix B. The Kemper Area presently consists of 296 acres, including an existing golf course and accompanying vacant land (which will be used for the home sites) adjacent to the Village of Hawthorn Woods ("Village"). (Aqua Ex. 1.0 at 3.)

Mr. Rakocy testified for Aqua that the Developer has requested that Aqua extend service to the Kemper Area from existing mains that serve the Hawthorn Area. (Id.) Mr. Rakocy stated that at present, there is no public water service provided in the Kemper Area and neither the Village, nor any other municipal corporation, nor any other entity is willing or able to provide water service to the Kemper Area. (Id. at 2-3) As required by 83 Illinois Administrative Code § 200.150(b), a copy of the Petition was served on each municipality located partly or wholly within the Kemper Area, or within a corporate boundary that is within one and one-half miles of the Kemper Area. The Commission entered an Order granting Aqua a Certificate to provide water and wastewater service within the adjacent Hawthorn Area in Docket Nos. 03-0455 and 03-0550 (Cons.).

Mr. Rakocy testified that construction of the proposed main extension is necessary to provide adequate, reliable and efficient water service for customers within the Kemper Area and that Aqua will take steps to assure that the construction process and supervision thereof will be adequate and efficient, and that the cost it will incur for these facilities is the least-cost means of providing the required water service. (Id. at 4.)

Mr. Rakocy further testified that Aqua has the technical, financial and managerial ability to construct, operate and maintain a public water distribution system for the Kemper Area, without adverse financial consequences for existing customers and the provision of public water service in the Kemper Area will impose no financial burden on either Aqua or its existing customers. (Id.) Mr. Rakocy also stated that existing customers would experience benefits from growth of the Aqua system as common costs are spread over a larger customer base. (Id. at 5.)

Mr. Rakocy explained that to provide water service, the Developer will construct a 12-inch water main extension from the Hawthorn Area to the Kemper Area along Old McHenry Road (County Highway 32), as shown on Aqua Exhibit F1 (Revised) (attached hereto as Appendix A) and detailed on Aqua Exhibit F2 (the "12" Water Main"), and will construct 8-inch distribution mains within the Kemper Area (the 12" Water Main and the distribution mains referred to collectively as the "Mains"). (Id.) He further testified that the construction of the 12" Water Main to the Kemper Area is necessary to meet the Developer's service requirements, including required fire flows, and subject to Aqua's inspection and monitoring. (Id.) Mr. Rakocy stated that the total cost of the Mains is estimated at \$4,065,000, including \$2,893,000 for the 12" Water Main and \$1,172,000 for distribution mains within the Kemper Area. (Id.)

Mr. Rakocy stated that the Mains will be constructed pursuant to Aqua's Rules, Regulations and Conditions of Service (Water), Section 29, regarding main extensions (ILL. C.C. No. 47, Sec. 1, Original Sheets Nos. 32-33) ("Standard Main Extension

Rules"), in accordance with which the Developer will construct the Mains at its own expense and transfer title of the Mains to Aqua, and Aqua will pay the Developer one and one-half times estimated annual revenue from Original Prospective Customers (as defined in the Standard Main Extension Rules) at the time title is transferred. (Id.)

Mr. Rakocy also testified that during the course of the Certificate proceeding, Aqua became aware that the Developer had a need to contact two private landowners with regard to the acquisition of easements for the 12" Water Main. (Aqua Ex. 1.0R at 3-4.) Prior to contact with the landowners, Aqua filed with the Commission the Information Packet required by 83 Illinois Administrative Code §300.20. (Id.) Mr. Rakocy testified that it would follow all provisions of 83 Illinois Administrative Code Part 300 with regard to the acquisition of right-of-way from the two landowners. (Id.) If acquiring rights-of-way from any other private landowners become necessary, Mr. Rakocy stated that Aqua would follow the provisions of Part 300 of the Commission's rules. (Aqua Ex. 1.0RS (Revised) at 3.)

In accordance with Commission policy and the Uniform System of Accounts (83 Ill. Admin. Code, Part 605, Accounting Instruction 17), Aqua proposed to record the original cost of the Mains (\$4,065,000) in the applicable Utility Plant In Service accounts (Account 101). The Company proposed to record the Developer's \$4,065,000 cost of construction as a contribution in Account 271 - Contributions in Aid of Construction. Mr. Rakocy explained that at the time title to the Mains are transferred to Aqua, Aqua will debit Account 271 in the amount of \$35,955, representing its payment to the Developer under the Standard Main Extension Rules. (Aqua Ex. 1.0 at 6.)

With regard to depreciation rates, Mr. Rakocy testified that for the Kemper Area, Aqua proposes to use the depreciation rates for the Hawthorn Area, as now in effect or as subsequently revised. (Id.)

Aqua proposed that the charges for water service in the Kemper Area be the same as the approved rates for the Hawthorn Area, as now in effect or as subsequently revised. Aqua proposes to file tariff pages for the Hawthorn Area, which include the Kemper Area, that are substantially in the form of Exhibit C to Aqua Exhibit 1.0 ("Proposed Tariffs"). (Id. at 7.) Mr. Rakocy testified that the Proposed Tariffs are identical to the tariff currently in effect for the Hawthorn Area, with certain changes that he described. First, the area the Proposed Tariffs apply to has been changed to read "Village of Hawthorn Woods, Illinois and Kemper Development Area" in order to apply to the Kemper Area, which is outside the corporate limits of the Village. Second, pursuant to a court order settling litigation among the Village, the Developer and various other parties (not including Aqua) ("Court Order"), the Village is entitled to receive certain fees, or require certain permits or authorizations, as a pre-condition to customers receiving water service in the Kemper Area. Aqua would not collect the fees imposed by the Village. The Court Order was adopted by the Village on October 18, 2004 in Village of Hawthorn Woods Resolution No. 10-18-04-3 ("Resolution"). (Id.) Mr. Rakocy testified that the Proposed Tariffs make reference to the Resolution and the Court Order requirements to avoid a situation in which Aqua would be obligated to connect customers but unable to do so without violating the Court Order and the Resolution. In

addition, Mr. Rakocy testified that the Proposed Tariffs' language has been adjusted to indicate that the franchise charge will become effective within the Village upon passage of a Village ordinance establishing the charge. (Id.)

### **Staff Position and Recommendations**

Staff Witness Everson testified that Aqua will be the first entity to devote the water system assets to public service, and thus Aqua's cost to construct the Mains represents the original cost of the system. Because Aqua's proposed journal entries reflect this, the accounting treatment proposed by Aqua is the correct treatment under the USOA for Water Utilities operating in Illinois. (Staff Ex. 1.0 at 2.) Ms. Everson also recommended that Aqua file with the Chief Clerk of the Commission and provide a copy to the Manager of Accounting copies of the actual accounting entries used to record this system within six months of finalizing construction of the Mains or of the closing of the transaction, whichever comes first. (Id. at 3.)

Ms. Everson further testified that Aqua provided sufficient supporting documentation for the estimated cost of the Mains to and within the Kemper Area and for the Projected Water Operating Statement. (Id. at 3-4)

Ms. Everson noted that in Docket Nos. 03-0455/03-0550 (Cons.), the Commission granted a certificate of public convenience and necessity to Aqua related to operation of a water system in the Hawthorn Area and rates were established in that proceeding based on Aqua's projected operating statements for that service area. (Id. at 4.) Ms. Everson explained that as part of the Order in that proceeding, Aqua was ordered by the Commission to provide certain financial information on an annual basis. (Id.) That docket was concluded and an Order entered on October 13, 2004. Ms. Everson testified that the first report for an annual period was due on March 31, 2006 and thus no actual operating results had been reviewed to determine if the rates set in that proceeding were appropriate. (Id. at 5.) Therefore, Ms. Everson renewed Staff's request for reports of actual financial information reporting, recommending that information related to the Kemper Area be included in the Hawthorn Area reports required by the Commission's Order in Docket Nos. 03-0455/03-0550 (Cons.). Ms. Everson proposed to revise the time period for reporting actual financial information on the Hawthorn Area-Kemper Area so that Aqua would provide to the Chief Clerk of the Commission, with a copy to the Manager of Accounting, by March 31 and September 30, of each year, a copy of actual financial information through December 31 or June 30, respectively, for the Hawthorn Area-Kemper Area until the Commission makes a revenue requirement determination in a rate proceeding. (Id. at 5.) Ms. Everson recommended that the financial information should include, but not be limited to, the aggregated plant investment, annual revenues, direct expenses, allocated expenses, Contributions In Aid of Construction received, number of customers, and the status of the construction. In addition, the report should include an explanation of any significant changes in the status or operations of the Hawthorn Area-Kemper Area to allow the Commission to determine whether the rates granted in the Hawthorn Area and the Kemper Area need to be reassessed. (Id.)

Staff Witness Harden noted that the rates proposed for the Kemper Area in the Proposed Tariffs are the same rates that are currently tariffed for the Hawthorn Area. (Staff Ex. 2.0 at 2-3.) She concluded that because the Kemper Area is contiguous to the Hawthorn Area and the two Areas are being combined to comprise one service territory, and because the Proposed Tariffs will cancel the tariffs currently in place for the Hawthorn Area and will cover both the Hawthorn Area and the Kemper Area, it is appropriate that the two areas would have the same rates. (Id. at 3.) Ms. Harden also testified that based on Aqua's Forecasted Water Operating Income Statement (Exhibit E), the Company's projected Rate of Return on Rate Base for the Hawthorn Area and the Kemper Area appears reasonable. (Id. at 4) Therefore, Ms. Harden recommended that the Commission find that the Company's proposed water rates for the Kemper Area are reasonable and should be put in place before the Company offers water service. (Id.)

Staff Witness Johnson described the facilities that would serve the Kemper Area as consisting of two wells located at the South Plant on Old McHenry Road, a 370,000-gallon ground reservoir, and one well in the Hawthorn Area that will be used for the irrigation needs of the golf course until enough homes are taking service from the system and producing adequate quantities of wastewater to irrigate the golf course with the wastewater through the spray irrigation system, when this well then will be used to supplement the south plant wells. (Staff Ex. 3.0 at 4.) Additionally, in response to one of Mr. Johnson's data requests the Company stated that the two wells at the Hawthorn Woods water system have a capacity of 1,200,000 gallons per day, while the treatment plant has a current capacity of 662,000 gallons per day. Hawthorn Woods' current average daily demand is 100,000 gallons per day, with a maximum daily demand of 300,000 gallons per day. Therefore, there is 362,000 gallons per day extra capacity to serve the Kemper Area. The Kemper Area average daily demand is estimated to be 50,000 gallons per day, while the maximum daily demand is estimated to be 150,000 gallons per day. Therefore, the Hawthorn Woods water system has enough capacity to supply the average daily and maximum daily demands of the Kemper Area. (Id. at 5.) He also noted that customers' sanitary sewage collection and treatment would be handled by Lake County Public Works Department. (Id.)

Mr. Johnson testified that the Company has demonstrated that the proposed construction is needed to serve the Kemper Area in order to provide adequate, reliable, and efficient service to customers. (Id. at 9.) He stated that Aqua has been requested by the Developer to provide water service to the Kemper Area and there is no other public water service offered in the Kemper Area. (Id.) He pointed out that neither the Village, other municipal corporations, nor any other regulated utility is willing or able to provide water service to the Kemper Area. (Id.)

Mr. Johnson explained that the Developer's Engineer would submit plans and specifications to Aqua for review and Aqua's engineering department would review the drawings and specifications and inspect the construction of the water mains to ensure that the construction process is adequate and efficient and that the facilities are constructed in a least-cost manner. (Id. at 10.) He also stated that the Company had explained that in consideration of alternatives, which was constructing a separate water

system (id. at 8), constructing the 12" Water Main from the Hawthorn Woods' water facilities to the Kemper Area was the least-cost proposal. (Id.) Mr. Johnson therefore concluded that Aqua has demonstrated that the proposed construction is the least-cost method of providing water service to customers in the Kemper Area. (Id.)

Mr. Johnson also testified that Aqua has demonstrated that its water and sewer systems are well operated and its equipment is well maintained. (Id. at 11.) He also pointed that Aqua is owned by a strong parent company, which suggests that resources for supervision, operations, and plant facilities are available, if needed. (Id.)

Mr. Johnson also noted that Aqua is proposing to use the same depreciation rates that are currently in effect, or as subsequently revised, for the Hawthorn Area. (Id. at 12.) He testified that since the Kemper Area is going to be served by the Hawthorn Area water facilities, Staff had no objection to Aqua using the same depreciation rates. (Id.) He recommended the Commission approve the proposed depreciation rates for the Kemper Area identified in Schedule 3.1 to Staff Exhibit 3.0, and attached hereto as Appendix C. (Id.) Mr. Johnson also noted that the Order in Docket Nos. 03-0455/03-0550 (Cons.) directed Aqua to perform a depreciation study prior to its next rate case for the Hawthorn Area, and he recommended that the Commission order the Company to include the Kemper Area in the depreciation study when it is performed. (Id.)

Finally, Mr. Johnson recommended that the Company's current Rules, Regulations and Conditions of Service that are on file with the Commission for the Hawthorn Area (ILL. C.C. No. 47, Section No. 1) should be used for the Kemper Area. (Id. at 13.) However, he also recommended that the Company file revised Rules, Regulations and Conditions of Service tariff sheets, ILL. C.C. No. 47, Section No. 1, Seventh Revised Sheet No. 1 and ILL. C.C. No. 47, Seventh Revised Title Sheet, to make reference to the Kemper Lakes Development Area. (Id.)

Staff Witness Hardas testified that the estimated cost of construction of the proposed facilities is diminutive compared to Aqua's financial resources and therefore Aqua is capable of financing the proposed construction without significant adverse financial consequences for Aqua or its customers. (Staff Ex. 4.0 at 2.)

In sum, Staff concluded that Aqua met the requirements of Section 8-406 of the Act and recommended that the Commission grant Aqua a Certificate to provide water service for the Kemper Area. (Staff Ex. 3.0 at 12.)

### **Company's Response to Staff's Direct Testimony**

Aqua agreed with Staff's conclusions that Aqua's proposed accounting treatment and journal entries for the Kemper Area development are correct. (Aqua Ex. 1.0R at 1.) With respect to the recommendations made by Staff regarding filing of journal entries, Aqua agreed to file a copy of the actual journal entries with the Manager of the Accounting Department within six months of the finalizing construction of the Mains or the closing of the transaction, whichever is earlier. (Id.)

With regard to the further recommendation by Staff regarding the filing of financial information for the Kemper Area and the Hawthorn Area, Aqua agreed to provide to the Chief Clerk of the Commission, with a copy to the Manager of Accounting, by March 31 and September 30 of each year, a copy of the actual financial information through December 31 or June 30, respectively, for the combined Hawthorn and Kemper Areas until the Commission makes a revenue requirement determination for these Areas in a rate proceeding. (Id. at 2.)

With regard to the testimony of Staff Witness Harden (Staff Ex. 2.0), Aqua agreed with Staff's conclusion that it is appropriate that the rates set forth in the Proposed Tariffs be the same for the Kemper and Hawthorn Areas, and that the rates set forth in the Proposed Tariffs for the Kemper Area are reasonable. (Aqua Ex. 1.0R at 2.)

With regard to Staff's recommendation regarding preparation of a depreciation study, Aqua agreed that the Kemper Area will be included in the depreciation study performed by Aqua for the Hawthorn Area prior to its next rate case, as required by the Order in Docket Nos. 03-0455/03-0550 (Cons.). (Id. at 2.) Aqua also agreed that it will file revised Rules, Regulations and Conditions of Service (Water), ILL. C. C. No. 47, Section No. 1, Seventh Revised Title Sheet and Seventh Revised Sheet No. 1, that will refer to the Kemper Area. (Id.)

### **Commission Conclusion**

For the reasons given by Aqua and Staff, the relief requested by Aqua in its Petition is reasonable and should be granted, subject to the conditions recommended by Staff. The Commission finds that the public convenience and necessity require the provision by Aqua of public water service, and the conduct by Aqua of a water public utility business in the Kemper Area. The Commission further concludes that: (1) Aqua has demonstrated that the proposed construction of the Mains is needed to serve the new development in order to provide adequate, reliable, and efficient water service to customers within the Kemper Area; (2) Aqua has demonstrated that construction of the Mains is the least-cost method of providing water service to customers in the Kemper Area; (3) Aqua has demonstrated that it is capable of efficiently managing and supervising the construction process and has taken sufficient action to ensure adequate and efficient construction and supervision; (4) Aqua has demonstrated that it is capable of financing the proposed construction of the Mains without significant adverse financial consequences for the utility or its customers; (5) to record the original cost of water facilities transferred to Aqua, the form of accounting entries proposed by Aqua is reasonable; (6) the depreciation rates approved by the Commission in Docket Nos. 03-0455/03-0550 (Cons.) for the Hawthorn Area should also be approved for the Kemper Area; (7) the Proposed Tariffs, which reflect rates for the Kemper Area that are the same as those for the Hawthorn Area, are reasonable and should be approved; and (8) the Company's current Rules, Regulations and Conditions of Service that are on file with the Commission for the Hawthorn Area, with the changes proposed by Staff, are reasonable and should be approved for the Kemper Area. The conditions

recommended by Staff that are described above and referenced in the ordering paragraphs below should also be adopted.

### **Findings and Ordering Paragraphs**

The Commission, having considered the entire record herein, is of the opinion and finds that:

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

(2) the Commission has jurisdiction over Aqua and of the subject matter of this proceeding;

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

(4) construction of the Mains described herein is necessary to provide adequate, reliable, and efficient service to customers in the Kemper Area, and is the least-cost means of satisfying the service needs of those customers;

(5) Aqua has the technical, financial and managerial ability to operate and maintain a public water supply and distribution system, and to provide public water service for the Kemper Area;

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

(7) the provision of a public water service in the Kemper Area will impose no financial burden on either Aqua or its customers;

(8) no public water or sewer utility company, other than Aqua, within, or within a reasonable proximity to, the Kemper Area, is able to render public water utility service to the Kemper Area, and no municipal water system is available to provide adequate and efficient service to the Kemper Area;

(9) to record the original cost of water facilities transferred to Aqua, the form of accounting entries proposed by Aqua is reasonable and should be approved;

(10) Aqua should file a copy of the actual journal entries with the Manager of the Accounting Department within six months of the finalizing construction of the Mains or the closing of the transaction, whichever is earlier;

(11) because the Kemper Area is going to be served by the Hawthorn Area water facilities, the depreciation rates approved by the Commission in Docket Nos. 03-

0455/03-0550 (Cons.) for the Hawthorn Area and as identified in Schedule 3.1 to Staff Exhibit 3.0, and attached hereto as Appendix C, should also be approved for the Kemper Area;

(12) the Kemper Area should be included in the depreciation study performed by Aqua for the Hawthorn Area prior to its next rate case, as required by the Order in Docket Nos. 03-0455/03-0550 (Cons.);

(13) the Proposed Tariffs, which reflect rates for the Kemper Area that are the same as those for the Hawthorn Area, are reasonable and should be approved;

(14) the Company's current Rules, Regulations and Conditions of Service that are on file with the Commission for the Hawthorn Area should be used for the Kemper Area;

(15) the Company should file revised Rules, Regulations and Conditions of Service tariff sheets, ILL. C.C. No. 47, Section No. 1, Seventh Revised Sheet No. 1 and ILL. C.C. No. 47, Seventh Revised Title Sheet, to make reference to the Kemper Lakes Development Area;

(16) Aqua should provide to the Chief Clerk of the Commission, with a copy to the Manager of Accounting, by March 31 and September 30, of each year, a copy of actual financial information through December 31 or June 30, respectively, for the Hawthorn Area-Kemper Area until the Commission makes a revenue requirement determination in a rate proceeding;

(17) for the reasons indicated above, issuance of a Certificate of Public Convenience and Necessity for the Kemper Area will promote the public convenience and is necessary thereto, as will the construction of water facilities described above, and the requirements of Section 8-406(b) of the Act have been met with respect thereto;

IT IS THEREFORE ORDERED that Aqua be granted approval to construct the Mains as described above;

IT IS FURTHER ORDERED that, effective on completion of the 12" Water Main, Aqua Illinois, Inc. is granted a Certificate of Public Convenience and Necessity for the construction, operation and maintenance of a public utility water system as described above in the following area and the provision of public utility water service in connection therewith, and this Certificate shall read as follows:

**CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY**

IT IS HEREBY CERTIFIED that the public convenience and necessity requires the construction, operation and maintenance of a water supply and distribution system and, in connection therewith, the provision of public utility water service by Aqua Illinois, Inc. in the Kemper Lakes Development Area legally described in Exhibit B to Aqua Exhibit 1.0, attached hereto as Appendix B.

IT IS FURTHER ORDERED that Aqua record the original cost of water facilities transferred to Aqua in the form of accounting entries proposed by Aqua;

IT IS FURTHER ORDERED that Aqua file a copy of the actual journal entries with the Manager of the Accounting Department within six months of the finalizing construction of the Mains or the closing of the transaction, whichever is earlier;

IT IS FURTHER ORDERED that the depreciation rates approved by the Commission in Docket Nos. 03-0455/03-0550 (Cons.) for the Hawthorn Area and as identified in Schedule 3.1 to Staff Exhibit 3.0, and attached hereto as Appendix C, be applied to the Kemper Area;

IT IS FURTHER ORDERED that the Kemper Area be included in the depreciation study performed by Aqua for the Hawthorn Area prior to its next rate case, as required by the Order in Docket Nos. 03-0455/03-0550 (Cons.);

IT IS FURTHER ORDERED that Aqua's water rates for the Kemper Area should be the same as those tariffed for the Hawthorn Area and that the water rates set forth in the Proposed Tariffs are therefore approved;

IT IS FURTHER ORDERED that Aqua be authorized to file the Proposed Tariffs, to become effective five business days after filing;

IT IS FURTHER ORDERED that, upon the effective date of the Proposed Tariffs, the existing tariff pages for the Hawthorn Area be permanently canceled and annulled;

IT IS FURTHER ORDERED that the Company's current Rules, Regulations and Conditions of Service that are on file with the Commission for the Hawthorn Area be used for the Kemper Area;

IT IS FURTHER ORDERED that at the time of filing of the Proposed Tariffs, the Company file revised Rules, Regulations and Conditions of Service tariff sheets, ILL.C.C. No. 47, Section No. 1, Seventh Revised Sheet No. 1 and ILL.C.C. No. 47, Seventh Revised Title Sheet, to make reference to the Kemper Lakes Development Area;

IT IS FURTHER ORDERED that Aqua provide to the Chief Clerk of the Commission, with a copy to the Manager of Accounting, by March 31 and September 30, of each year, a copy of actual financial information through December 31 and June 30, respectively, for the Hawthorn Area-Kemper Area until the Commission makes a revenue requirement determination in a rate proceeding;

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Illinois 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 \_\_\_\_ day of July, 2006.