

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Illinois-American Water Company :
: **06-0196**
Application for Approval of its Annual :
Reconciliation of Purchased Water and :
Purchased Sewage Treatment Surcharges :
pursuant to 83 Ill. Adm. Code 655.

ORDER

By the Commission:

On March 15, 2006, Illinois-American Water Company ("IAWC" or the "Company") submitted a Petition in accordance with Section 655.50 of the rules of the Illinois Commerce Commission ("Commission"), 83 Ill. Admin Code § 655.50, seeking initiation of a proceeding to review the annual reconciliation of revenues and costs under its Purchased Water and Purchased Wastewater Riders ("Riders") for the year 2005. IAWC filed reconciliations for the rate areas in which the Company had Riders in effect ("Areas"). The Purchased Water Areas include Alpine Heights, Chicago Suburban, Fernway, Moreland, Southwest Suburban, Waycinden, and DuPage County; and the Purchased Wastewater Areas include Romeoville, Rollins, Country Club, and Valley View.

The Office of the Attorney General ("AG"), the Village of Homer Glen ("Homer Glen"), and the Village of Bolingbrook ("Bolingbrook") each filed petitions to intervene in this proceeding. Each of these petitions was granted.

Pursuant to notice given as required by law and by the rules and regulations of the Commission, an evidentiary hearing was held in this matter before a duly authorized Administrative Law Judge ("ALJ") of the Commission on January 3, 2007. At the hearing, IAWC, Staff, the AG, and Homer Glen each appeared and was represented by counsel. Bolingbrook did not appear. The Company presented the Direct Testimony with Attachments and Revised Supplemental Direct Testimony with Attachments of Michael J. Hoffman, Senior Financial Analyst, Rates & Regulations, American Water Works Service Company, Inc., in support of the 2005 reconciliations. The Company also presented the Rebuttal Testimony of Mr. Hoffman and the Rebuttal Testimony with Exhibits of Frederick L. Ruckman, General Manager-Network, Illinois-American Water Company. Commission Staff ("Staff") presented the Revised Direct Testimony and Schedules of Daniel G. Kahle, an Accountant in the Accounting Department of the Financial Analysis Division of the Commission. The AG and Homer Glen presented the Supplemental Direct Testimony with Exhibits of Scott J. Rubin. Homer Glen presented the Direct Testimony with Exhibits of Mary Niemiec. Bolingbrook did not file testimony. At the conclusion of the hearing the record was marked "Heard and Taken."

I. 2005 Rider Reconciliation

A. The Company's Position

In accordance with 83 Ill. Admin. Code § 655.50, the Company filed a Petition and an annual reconciliation for 2005 for each Purchased Water and Purchased Wastewater Area in which it had a Rider in effect. The submitted data was for operation during calendar-year 2005 of (i) Purchased Water Riders in IAWC's Alpine Heights, Chicago Suburban, Fernway, Moreland, Southwest Suburban, Waycinden and DuPage County Areas; and (ii) Purchased Wastewater Riders in IAWC's Romeoville, Rollins, Country Club and Valley View Areas.

The Company submitted IAWC Exhibits A through D, which contain the schedules and related documentation required by 83 Ill. Admin. Code § 655.50. Exhibits A through D, which were prepared for each Area: (i) were verified by an officer of the Company; (ii) include the formula factors and cost adjustments for the applicable Purchased Water or Purchased Wastewater Area; (iii) provide the current rates the Company pays suppliers for the applicable purchased water or purchased wastewater services; (iv) contain the water sales during the reconciliation year for the Purchased Water Areas, and the number of customers and equivalent billing units and/or wastewater flows (as appropriate) for Purchased Wastewater Areas; and (v) provide a summary of purchase costs and cost recovery during the 2005 reconciliation year, and the calculation of the utility-determined reconciliation component (*R*), for each Purchased Water and Purchased Wastewater Area.

Mr. Hoffman explained that, in accordance with 83 Ill. Admin. Code § 655.50, on March 17, 2006, the Company filed revised Information Sheets reflecting new Rider surcharge rates for each Purchased Water and Purchased Wastewater Area. For each Area, the Information Sheets include the (*R*) factor determined in Exhibits A through D for the Area. The Company caused notice of its filing of the proposed surcharge rates to be published in newspapers of general circulation, and it has posted notice at its business offices for each of the Areas. The Company also sent notice with the first billing after the filing to customers in each Area.

Mr. Hoffman stated that during 2006 (effective May 14, 2006) the Company filed, for prospective application, a tariff that imposes a maximum on the level of unaccounted-for water ("UFW") recoverable under the Purchased Water Rider for each Purchased Water Area. The Company filed as Exhibit 1.1S in this docket a tariff showing these Maximums. Although the tariff was applicable prospectively, the Company also calculated in its Revised Supplemental Direct Testimony an adjustment for each of the three Purchased Water Areas in which 2005 UFW exceeded the applicable Maximum: DuPage County, Southwest Suburban, and Waycinden. The amount of the adjustment is equivalent to the cost incurred for purchased water above the applicable Maximum for each of the three Areas. The Company proposes implementing the adjustments as a Commission-ordered adjustment (*O_v*) under the Rider. Under the Company's proposal, the balance of the (*O_v*) adjustment for each of these Areas would (if approved by the Commission) be refunded to customers over a nine-month period, with interest accruing from January 1, 2006, as provided in 83 Ill.

Admin. Code Sections 655.50(c) and 280.70(e)(1). Exhibit D for each of the three Areas shows the calculation of the adjustment for the Area. Mr. Hoffman also explained that the Company filed revised Information Sheets, effective July 1, 2006 and October 1, 2006, reducing the estimated current cost of purchased water ("VSC") component of the DuPage County, Southwest Suburban, and Waycinden Riders to account for the reduction in the estimated cost of purchased water for 2006 caused by the application of the Maximums to these Areas.

With regard to wastewater operations, Mr. Hoffman explained that the Company reduced the (VSC) component of the Country Club Rider to reflect changes in the DuPage County storm sewer system (made in late 2005 and early 2006) that are expected to result in greater efficiencies in wastewater flow handling and a corresponding decrease in expected wastewater flows, thereby decreasing the expected cost of purchased wastewater for 2006 in this Area.

B. Staff's Position

Staff witness Kahle sponsored Schedules 1.1R through 1.5R. Schedule 1.1R summarizes Staff's proposals for each of the seven Purchased Water Areas and Schedule 1.3R summarizes Staff's proposals for each of the four Purchased Wastewater Areas. Schedule 1.2R compares the purchased water reconciliation components prepared by the Company to the purchased water reconciliation components calculated by Staff and Schedule 1.4R compares the Company's purchased wastewater reconciliation components to those calculated by Staff. Schedule 1.5R shows the amounts attributable to the three Purchased Water Areas (DuPage County, Southwest Suburban, and Waycinden) in which the level of UFW for 2005 exceeded the applicable Maximum.

The adjustments that Mr. Kahle proposes, which reflect in part the (O_v) adjustments proposed by the Company, are shown on Schedules 1.2R, 1.4R and 1.5R. With regard to the Purchased Water Areas, Mr. Kahle recommends (i) increasing revenues in Fernway by \$53 to correct for an understatement (Schedule 1.2(FE)R); (ii) decreasing revenues in Southwest Suburban by \$562 to correct for an overstatement, and decreasing costs by \$426,571 to reflect application of the applicable Maximum to this Area (consistent with the Company's proposal) (Schedule 1.2(SS)R); (iii) decreasing costs in Waycinden by \$72,054 to reflect application of the applicable Maximum (consistent with the Company's proposal) (Schedule 1.2(WA)R); and (iv) decreasing revenues in the DuPage County variable cost component by \$53 to correct for an overstatement, and decreasing costs by \$31,227 to reflect application of the applicable Maximum (as the Company proposed) (Schedule 1.2(DC)R). With regard to the Purchased Wastewater Areas, Mr. Kahle recommends (v) increasing costs in Romeoville by \$45 to correct for an understatement (Schedule 1.4(RO)R); (vi) decreasing costs in Country Club by \$959 to correct for overpayments, and decreasing the cumulative under-recovery by \$3,941 to reflect an amount the Company elected to forego (Schedule 1.4(CC)R); and (vii) decreasing by \$4,393 the cumulative under-recovery in Rollins to reflect another amount the Company elected to forego (Schedule 1.4(RO)R).

Mr. Kahle recommends that the Commission adopt the purchased water surcharge reconciliation presented on Schedule 1.1R and the purchased sewer treatment surcharge reconciliation presented on Schedule 1.3R. He also recommends that the refund and collection of each (O_v) factor as proposed by Staff (and interest) be included in the water and sewer charge calculated with the Company's first Information Sheet filed subsequent to the Order in this Docket.

Mr. Kahle notes that, in a filing with the Commission's Chief Clerk dated June 15, 2006, the Company indicated that the quantity of wastewater offloaded for treatment attributable to the Country Club Area had been reduced by approximately 60%, and that significant reductions began in November 2005. According to Mr. Kahle, the quantity of wastewater offloaded in November and December 2005 was down nearly 37% from the corresponding months of the previous year, which had the effect of reducing the monthly residential sewage treatment charge from \$34.75 to \$16.50. Mr. Kahle stated that the Company did not reflect this reduction in its 2006 wastewater surcharges until July 1, 2006. Accordingly, Mr. Kahle recommends that the Commission place IAWC on notice that it should be more vigilant in monitoring and filing revised Rider surcharge rates as soon as it becomes aware of conditions that significantly change.

C. The Position of the AG and Homer Glen

Mr. Rubin filed both Direct and Supplemental Direct Testimony in this proceeding. In his Direct Testimony, Mr. Rubin testified that the Company's reconciliation data suggested that IAWC has sold more water than it purchased from the supplier in three of seven districts. AG/HG Ex. 1.0 at 9. Mr. Rubin recognized that although water sales might exceed purchases from the supplier in any given reporting month because of timing differences attributable to when retail and purchased water meters are read, Mr. Rubin contended that the differences between purchases and sales were too large in Alpine Heights, Moreland, and Waycinden to be due to just timing differences. *Id.* at 8. While Mr. Rubin acknowledged that wholesale meters could have been under-recording, he pointed out that the Company owned and was responsible for two of the three wholesale meters. He also expressed concern about whether the retail meters were properly recording usage. *Id.* at 10.

Mr. Rubin also testified that the Company's levels of UFW were high. According to Mr. Rubin, the term "UFW" refers to a combination of "non-revenue water," such as water used to fight fires or for system maintenance, and "truly" unaccounted-for water, such as water lost through leakage. Mr. Rubin contended that Chicago Suburban, DuPage, and Southwest Suburban each experienced years when the level of UFW was "excessive" and that over the last three years the UFW levels have fluctuated widely. *Id.* at 12. For example, in 2003, in the Chicago Suburban area, the Company would have to purchase 5,000 gallons while it sold only 4,000 gallons, revealing a lost or unaccounted for water percentage of 21%. In 2004 and 2005, the UFW rate declined to the 10-11% range. The Southwest Suburban area UFW fluctuated from 6.5% in 2002 to 17.5%, 11%, to more than 15% in subsequent years. *Id.* at 3. In Mr. Rubin's opinion, fluctuations of this magnitude could be caused by faulty meter reading and poor record-keeping rather than because of physical operations.

Mr. Rubin also considered the unaccounted-for-flow ("UFF") calculation required by the Illinois Department of Natural Resources required for users of Lake Michigan water. He stated that UFF is a subset of UFW, and is always a lower number. *Id.* at 17. Mr. Rubin identified three Company districts with UFF above the Illinois Department of Natural Resources level of 8% in 2004 and 2005. *Id.* at 17. Mr. Rubin alleged that the Company did not appear to be engaged in rigorous program to minimize the level of wasted water. *Id.* at 18. He also challenged the Company's cited authorities concerning acceptable ranges of UFW, taking the position that UFW should be less than 10% citing the American Water Works Association Committee Report, which he attached to his Direct Testimony at AG/HG Ex. 1.12. *Id.* at 20.

In his review of Company data, Mr. Rubin found that, for DuPage County, Southwest Suburban, and Waycinden, the total of the daily meter readings provided by the Company in discovery did not match the monthly totals shown on the respective Exhibit C for each Area. Mr. Rubin further testified that the data for Southwest Suburban and Waycinden provided by the Company, if accurate, showed that the Company purchased 1.2 billion gallons more water in Southwest Suburban than it reported in its reconciliation data. *Id.* at 16.

Mr. Rubin originally recommended that the Commission prohibit the Company from using an automatic purchased water surcharge rate for variable costs until a comprehensive billing and metering audit was completed. Instead, he recommended that a purchased water surcharge rate per 1,000 gallons be established based on the lowest level of UFW in the Company's filings for each Area, using zero where the lowest UFW was less-than-zero. *Id.* at 20-21.

As for purchased wastewater, Mr. Rubin recommended that the level of infiltration and inflow for Country Club be reduced by 50% to account for repairs made to the DuPage County storm sewer system in October 2005. *Id.* at 25-26.

In Supplemental Direct Testimony, which Mr. Rubin filed after receiving IAWC's discovery responses and Revised Supplemental Direct Testimony, Mr. Rubin noted that the Company had addressed his concerns relating to (i) "negative UFW," *i.e.*, apparent sales in excess of water purchased from the supplier; (ii) high UFW; and (iii) the upgrade in the storm sewer system affecting the Country Club Area. AG/HG Ex. 2.0 at 1. Mr. Rubin stated that he continues to have concerns about the Company's metering, billing and accounting records, along with the level of UFW in IAWC's Purchased Water Areas. Mr. Rubin recommended that the Company's most recently filed purchased water and purchased wastewater surcharge rates be allowed to take effect, and that the Commission closely review future reconciliation filings and metering records to ensure they are prepared using accurate data. Mr. Rubin also recommends that the Commission monitor IAWC's efforts to reduce UFW, "including carefully reviewing the UFW filings the Company is required to make before the end of 2006 under a new statute, 220 ILCS 5/8-306(m)." *Id.* at 3-4.

In addition to adopting Mr. Rubin's findings, Ms. Niemiec alleged that, according to the Homer Glen Water and Sewer Task Force's ("Task Force") Interim Report ("Report"), the Company's level of UFW in Homer Glen is 18% and IAWC has no

incentive to aggressively control UFW. HG Ex. 1.0 at 6. Ms. Niemiec contended that the Task Force found that unauthorized uses of fire hydrants by developers and private parties were occurring in Homer Glen, and that there was a lack of routine maintenance of fire hydrants. According to Ms. Niemiec, the Task Force believed that the level of UFW in Homer Glen was “double the norm” for other water systems in that area. Ms. Niemiec also referenced complaints made by Homer Glen residents against IAWC concerning high water bills, which are under review in another proceeding. *Id.* at 7.

D. The Company’s Response

In Rebuttal Testimony, Mr. Hoffman stated that the Company accepts, for purposes of this proceeding, the adjustments and (O_v) factors that Staff proposed. Mr. Hoffman notes that Staff’s adjustments and (O_v) factors incorporate the (O_v) adjustments proposed relating to the DuPage County, Southwest Suburban, and Waycinden UFW Maximums as applied to the 2005 reconciliation. Mr. Hoffman also indicates that IAWC will monitor operation of the Purchased Water and Purchased Wastewater Riders and revise its rates within a reasonable time after it becomes aware of conditions that cause significant changes in recoverable costs, as Mr. Kahle suggests. Mr. Hoffman observes that, in his Supplemental Direct Testimony, Mr. Rubin does not object to the Company’s reconciliation data and recommends that the Company’s most recently filed surcharge rates be allowed to take effect.

Mr. Ruckman filed Rebuttal Testimony responding to issues raised by Mr. Rubin and Ms. Niemiec. Mr. Ruckman recognized Mr. Rubin’s recommendations that the Commission should: (i) reasonably review the Company’s future reconciliation filings and records to assure that they are prepared using accurate data, and (ii) monitor the Company’s efforts to reduce UFW in conjunction with the UFW filings required by 220 ILCS 5/8-306(m). Mr. Ruckman notes that the Company accepts these recommendations.

As Mr. Ruckman explained, UFW is a measure of water produced that does not reach customers and cannot be otherwise accounted-for. UFW is a subset of non-revenue water (“NRW”). IAWC Ex. 2.0R at 2. Mr. Ruckman states that NRW includes water used for purposes other than sales to customers that can be identified and accounted-for—such as main flushing and water used within the utility’s own facilities—as well as water used for fire fighting, street cleaning and sewer main flushing. According to Mr. Ruckman, UFW is the portion of NRW that cannot be accounted-for. Mr. Ruckman states that, pursuant to 220 ILCS 5/8-306(m), IAWC was required to file tariffs prior to December 31, 2006, that establish maximum percentages of UFW recoverable in rates for each of its water service areas, including the Purchased Water Areas. *Id.* at 3. Mr. Ruckman explained that, during the first half of 2007, the Company will complete economic analyses to determine an appropriate UFW level for each water service area. Based on the results of these economic studies, the Company will determine whether the maximum UFW percentages established under the tariffs filed in 2006 should be modified.

Mr. Ruckman explained that 10% to 20% is a recognized range of UFW under American Water Works Association (“AWWA”) standards. Mr. Ruckman observed that

other regulatory jurisdictions, such as the Pennsylvania Public Utility Commission and the Ohio Public Utility Commission, have recognized UFW levels of 15-20%. *Id.* at 5. Mr. Ruckman notes that the Company did not distinguish between UFW and NRW in the reconciliation data submitted in this proceeding, and that the proposed (O_v) adjustments resulting from the application of the UFW Maximums to the 2005 reconciliation data (for DuPage County, Southwest Suburban, and Waycinden) are based on NRW, not UFW. Mr. Ruckman noted that the Maximums provide a significant economic incentive for IAWC to control UFW in the Purchased Water Areas. Mr. Ruckman also noted that the Company has taken significant steps to minimize the level of UFW. *Id.* at 6-8.

Mr. Ruckman also responded to issues Mr. Rubin raised with regard to metering data. According to Mr. Ruckman, Mr. Rubin's concern regarding Alpine Heights was that the Company's Exhibit C for that Area suggested that IAWC has sold more water than it purchased. As Mr. Ruckman observed, however, the purchased water meter for the Area is "over-sized" to allow for adequate fire flow and, as a result, is 60% accurate at low flows and 95% accurate at intermediate flows. Mr. Ruckman explained that the Village of Orland Park—the municipality served by IAWC in this Area—is aware of the under-registration issue and has asked the Company to keep the existing meter in place, as it is necessary to provide Orland Park with adequate fire flows. Mr. Ruckman also noted that Alpine Heights is a small system which often experiences low flow. As a result, the meter does not register some of the water that enters the distribution system.

Mr. Ruckman noted that Mr. Rubin raised similar concerns with the DuPage County metering data. According to Mr. Ruckman, Mr. Rubin stated that the total of daily meter readings produced to the AG in discovery did not match the total shown on the applicable Exhibit C. Mr. Ruckman explained, however, that the data originally produced was limited to the one purchased water meter classified as being within its DuPage operational area. However, seven purchased water meters serve the area classified under the Purchased Water Rider as "DuPage County." When the Company revised the data to include all of the purchased water meters in the DuPage County Purchased Water Area, the difference between the monthly totals shown on Exhibit C and the total of the daily purchased water meter readings was minimal. Mr. Rubin also alleged that the level of UFW in DuPage County was high for each year from 2003-2005. However, Mr. Ruckman noted that the level of UFW for this Area is in line with the authorities he cites in his testimony. *Id.* at 11.

Mr. Rubin raised similar issues with regard to the Southwest Suburban metering data. First, Mr. Rubin contended that the difference between the total of the daily meter readings and the total shown on Exhibit C indicated incomplete data or problems with metering and billing. In response, Mr. Ruckman noted that, during 2005, the Company transported 1,159,268 thousand gallons of water to the Village of Plainfield. The cost of this water is not recoverable under the Rider, and the transported water should be excluded from the total of the daily meter readings for purposes of Mr. Rubin's computation. Second, Mr. Rubin alleged that the fluctuation in UFW levels between 2002 and 2005 seemed unusual. Mr. Ruckman noted, however, that the level of UFW in Southwest Suburban is consistent with the authorities he cites.

Mr. Rubin alleged that sales appeared to exceed purchases in Waycinden as well. In response, Mr. Ruckman noted that Mr. Rubin's contention was based on a comparison of the total of the daily meter readings produced in discovery and the total purchases shown on the applicable Exhibit C. As Mr. Ruckman explained, the total on Exhibit C was incorrectly converted to 100's of cubic feet (based on a misunderstanding of the data shown in the bill from the water supplier), and the Company has since amended Exhibit C accordingly.

Responding to Ms. Niemiec, Mr. Ruckman notes that the Task Force Report she refers to was never finalized. *Id.* at 14. Mr. Ruckman stated that the Task Force's main concerns were resolved. Mr. Ruckman noted that the level of UFW referred-to in the Report is actually a reference to NRW, not UFW. Also, according to Mr. Ruckman, the level of UFW recovered from Homer Glen customers is based on the level of UFW for the entire Southwest Suburban Area, which is below the indicated level of UFW in Homer Glen. As Mr. Ruckman noted, the applicable Maximum for Southwest Suburban is 12%. *Id.* at 15. Mr. Ruckman also noted that the applicable Maximum is consistent with AWWA standards and other authorities referenced in his testimony. As to past complaints from Homer Glen customers regarding high water bills, Mr. Ruckman noted that those complaints are being addressed in another proceeding and that the complaints related primarily to drought conditions experienced in 2005.

II. Commission Analysis and Conclusion

For the reasons given by Staff, the Commission concludes that the 2005 purchased water and purchased wastewater reconciliations proposed by Staff and accepted by the Company are reasonable and should be adopted. The (O_v) factors, as calculated by Staff, represent (i) an over-collection to be refunded to customers in Fernway, Southwest Suburban, Waycinden, DuPage County, and Country Club; (ii) an under-recovery to be collected in Romeoville; and (iii) a reduction in cumulative under-recoveries in Country Club and Rollins. The Commission finds that the (O_v) factors as calculated by Staff should be implemented with the first Rider surcharge filing following the date of this Order (expected to be effective April 1, 2007), and should be effective for a nine-month refund period with interest calculated from January 1, 2006, in accordance with 83 Illinois Administrative Code, Sections 655.50(c) and 280.70(e)(1). As recommended by Staff witness Kahle, IAWC should monitor conditions affecting purchased water and wastewater costs, and file revised Rider surcharge rates within a reasonable time after it becomes aware of changed conditions. The Commission notes that Mr. Rubin, the witness sponsored by the AG and Homer Glen, does not contest the reconciliation data proposed by Staff. Mr. Rubin also recommends that (i) the Commission should reasonably review the Company's future reconciliation filings and records to assure that they are prepared using accurate data, and (ii) the Commission should monitor the Company's efforts to reduce UFW in conjunction with tariff filings under 220 ILCS 5/8-306(m). The Commission finds that the Company has accepted these recommendations, and that they should be adopted.

III. Findings and Ordering Paragraphs

The Commission, having given due consideration to the entire record herein and being fully advised in the premises, is of the opinion and finds that:

- (1) Illinois-American Water Company is in the business of furnishing water and wastewater service to the public in portions of the State of Illinois, and is a public utility as defined in Section 3-105 of the Illinois Public Utilities Act (220 ILCS 5/3 105);
- (2) the Commission has jurisdiction over IAWC and of the subject matter of this proceeding;
- (3) the statements of facts set forth in the prefatory portion of this Order are supported by the evidence and the record and are hereby adopted as findings of fact; the Appendix attached hereto provides supporting calculations for various portions of the Order;
- (4) pursuant to the terms of IAWC's effective Purchased Water and Purchased Wastewater Riders, IAWC had surcharges in effect during 2005 for the Alpine Heights, Chicago Suburban, Fernway, Moreland, Southwest Suburban, Waycinden and DuPage County Purchased Water Areas; and the Romeoville, Rollins, Country Club and Valley View Purchased Wastewater Areas;
- (5) IAWC filed revised Information Sheets for the Alpine Heights, Chicago Suburban, Fernway, Moreland, Southwest Suburban, Waycinden and DuPage County Purchased Water Areas; and the Romeoville, Rollins, Country Club and Valley View Purchased Wastewater Areas, effective April 1, 2006, showing revised surcharge rates that reflected the (*R*) component calculated by IAWC for the reconciliation of Purchased Water and Purchased Wastewater Rider revenues and costs for the calendar year 2005;
- (6) the (*O_v*) factors recommended by Staff, reflecting an over-collection to be refunded to customers in the Fernway, Southwest Suburban, Waycinden, DuPage County, and Country Club Areas; an under-recovery to be collected in the Romeoville area; and a reduction in the cumulative under-recovery to be collected from customers in the Country Club and Rollins Areas, should be adopted;
- (7) for the 2005 calendar year, the Company's Purchased Water and Purchased Wastewater Rider reconciliations should be approved as shown in the Appendix attached hereto;
- (8) the refund under the (*O_v*) factors shall commence with the effective date of the surcharge rates specified in the Company's next Information Sheet filing, which is expected to be effective on April 1, 2007, and remain in effect over a nine-month period; and

- (9) the refunds made pursuant to the (O_v) factors shall include interest calculated from January 1, 2006 in accordance with 83 Ill. Admin. Code Sections 655.50(c) and 280.70(e)(1).

IT IS THEREFORE ORDERED by the Illinois Commerce Commission that the reconciliation of purchased water and sewer treatment costs and revenues submitted by Illinois-American Water Company for the reconciliation period January 1, 2005 through December 31, 2005, is hereby approved as modified by this Order and reflected in the attached Appendix.

IT IS FURTHER ORDERED that, in calculating the surcharge rates for the purposes of the next Information Sheet filings for the Fernway, Southwest Suburban, Waycinden, DuPage County, Romeoville, Country Club and Rollins Areas, Illinois-American Water Company shall include, along with other components specified in 83 Ill. Admin. Code § 655.50(c), the (O_v) factors recommended by Staff.

IT IS FURTHER ORDERED that the (O_v) factors recommended by Staff, reflecting (i) an over-collection to be refunded to customers in the Fernway, Southwest Suburban, Waycinden, DuPage County, and Country Club Areas; (ii) an under-recovery to be collected in the Romeoville area; and (iii) a reduction in the cumulative under-recovery to be collected from customers in the Country Club and Rollins Areas, shall become effective on the effective date of the next Information Sheet filing, expected to be April 1, 2007, and remain in effect over a nine-month period.

IT IS FURTHER ORDERED that refunds provided under the (O_v) factors placed into effect in accordance with this Order shall include interest calculated from January 1, 2006 in accordance with 83 Ill. Admin. Code Sections 655.50(c) and 280.70(e)(1).

IT IS FURTHER ORDERED that any motions or objections or petitions in this proceeding that have not been specifically ruled on shall be disposed of in a manner consistent with the findings and conclusions herein.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Illinois Public Utilities Act and 83 Ill. Admin. Code § 200.800, this Order is final. It is not subject to the Administrative Review Law.

By Order of the Commission this 6th day of March, 2007.

(SIGNED) CHARLES E. BOX

Chairman