

Aqua Illinois, Inc.

Vermilion Division

**Testimony
Exhibit 1.0**

Thomas Bruns

**AQUA ILLINOIS, INC.
DIRECT TESTIMONY
OF
THOMAS M. BRUNS**

WITNESS IDENTIFICATION AND BACKGROUND

Q. Please state your name and business address.

A. Thomas M. Bruns, 322 N. Gilbert Street, Danville, Illinois 61832.

Q. By whom are you employed and in what capacity?

A. I am Vice President and Regional Manager of the Vermilion Division of Aqua Illinois, Inc. ("Aqua Illinois" or the "Company") which owns and operates the water system serving the City of Danville and adjoining areas in Vermilion County, Illinois. Aqua Illinois is a subsidiary of Aqua America, Inc., headquartered in Bryn Mawr, Pennsylvania ("Aqua America").

Q. Please state your educational, professional and business background and experience.

A. I graduated from Ball State University in Muncie, Indiana in 1974, where I received a Bachelor of Science Degree in Geology. In 1979 I received my Masters from Indiana University in Geology, and thereafter served as an Associate Faculty member teaching Environmental Geology at IU's Indianapolis Campus from 1980 through 1997.

After graduating from Ball State University in 1974, I worked for the Indiana Department of Natural Resources ("IDNR") as an Engineering Geologist with IDNR's Division of Water from 1974 to 1984, and as the Division's Assistant Director from 1984 to 1986. From 1986 to 1989 I was IDNR's Deputy Director for Water and Mineral Resources programs, serving as Chief Operating Officer for five divisions with 370 employees and an annual budget of \$15 million. Following the drought of 1988, I was employed as Indianapolis Water Company's ("IWC") Principal Hydrologist, responsible for locating, developing and managing the utility's new well fields and its existing surface water supplies. During this

1 time I was Project Manager for the construction of IWC's new 12 MGD South Well Field
2 Treatment Plant and Pumping Station. From 1996 to 2002, served as IWC's Vice President
3 for Development Services for Indianapolis Water Company, responsible for record expansion
4 of customer base and service territory. From May 2002 to April 2003, after Indianapolis
5 Water Company was purchased by the City of Indianapolis, I helped transition 450
6 employees from the former Indianapolis Water Company to USFilter Indianapolis Water
7 (now Veolia Water). During that time period I served as Vice President of USFilter's
8 Customer and Community Affairs Division with a staff of 130 union and non-union
9 employees.

10
11 I was first hired by Aqua in June of 2004 as the Vice President and Regional Manager of
12 Aqua Indiana's Indianapolis Division, in which capacity I was responsible for the
13 management of Company water and wastewater operations in the central and southern parts
14 of Indiana. My duties included, among other things, preparing annual and long-term capital
15 and operating budgets, personnel supervision, managing capital projects, regulatory affairs,
16 and utility acquisitions. In October of 2006, I was named Vice President and Regional
17 Manager for Aqua Illinois' Vermilion Division.

18
19 I am currently a Licensed Professional Geologist in the State of Indiana and a Certified
20 Professional Geologist by the American Institute of Professional Geologists. My
21 professional affiliations include the Indiana and Illinois Sections of the American Water
22 Works Association, the American Institute of Professional Geologists and the American
23 Society of Dam Safety Officials. I am also a certified laboratory analyst and serve as the
24 Laboratory Director for the Company's Illinois Department of Public Health (IDPH)
25 regulated laboratory in our Vermilion Division.

26
27 **Q. What are your responsibilities as Vice President and Regional Manager of Aqua**
28 **Illinois?**

29 A. I have overall responsibility of the day-to-day operations of the Vermilion Division. I also
30 assist the Company's President and other officers in developing goals and objectives for the
31 Company, and in administering policies and procedures as approved by the Company's Board
32 of Directors. It is my responsibility to ensure that these goals and objectives are achieved. In
33 addition, and along with other Company officers, I interface with governmental and

1 regulatory agencies. I also formulate Vermilion Division financial objectives and budgets,
2 and provide the direction necessary to meet those objectives while remaining within
3 budgetary guidelines. I am also part of the Company's management team, which establishes
4 employee levels, working conditions and safety requirements within guidelines established
5 by the Board of Directors and the President of the Company. My responsibilities include
6 establishing guidelines for the negotiation of labor contracts with the labor union representing
7 employees in the Vermilion Division as well as other special contracts. I have the
8 responsibilities associated with providing excellent customer service, and developing and
9 controlling the Company's operating, maintenance and capital budgets as well as providing
10 direction in the areas of construction, purchases or other acquisitions, operation, maintenance
11 and protection of all property, facilities and equipment required to maintain water quality
12 standards and continuity of service.

13
14 **Q. Are you familiar with the property, business and operations of the Vermilion Division?**

15 **A.** Yes, I am.
16

17 **INTRODUCTION**

18 **Q. What is the purpose of your testimony?**

19 **A.** The purpose of my testimony is to provide background information regarding the Vermilion
20 Division. In addition, I will discuss the facilities and operations of the Vermilion Division as
21 well as certain matters related to the projections developed for the Division. I will also
22 discuss: (i) Notice of the rate filing; (ii) future capital requirements; and (iii) business risks
23 facing the Company.
24

25 **Q. Would you provide an overview of the Company's filing with respect to Vermilion?**

26 **A.** Yes. In this proceeding, the Company has proposed an increase in rates for the Vermilion
27 Division. The rate increase proposed in this proceeding is based on data for a 2009 future test
28 year. I will discuss operating matters for the Vermilion Division. Mr. Paul J. Hanley will
29 discuss the development of the forecast for the test year, and sponsor the A, B, C, D and G
30 Schedules and Work Papers A, B, C, D and G. Mr. Hanley also will discuss the Company's
31 capital structure. Mr. Harold Walker III has provided a letter marked as Exhibit 3 stating that
32 the appropriate rate of return on common equity remains as supported in the Company's
33 pending Hawthorn Woods and Willowbrook rate applications. Mr. David R. Monie will

1 sponsor the E Schedules. Mr. Monie also has provided a Cost of Service Study.

2
3 **Q. Are you sponsoring any Exhibits in this proceeding?**

4 A. Yes. I sponsor the Major Additions in Recent Years set forth in Aqua Exhibit 1.1, the 2007
5 through 2009 Capital Additions set forth in Aqua Exhibit 1.2, the Letter of Transmittal set
6 forth in Aqua Illinois Exhibit 1.3, and the Public Notices set forth in Aqua Illinois' Aqua
7 Exhibit 1.4. These exhibits were prepared by me, or under my supervision and direction.
8

9 **HISTORY OF THE COMPANY**

10 **Q. Would you please give a brief history of Aqua Illinois?**

11 A. The history of Aqua Illinois, formerly Consumers Illinois Water Company ("CIWC"), dates
12 back to 1883 when the Danville Water Company was founded. The Company's common
13 stock is held by Aqua America, Inc. formerly Philadelphia Suburban Corporation ("PSC").
14 Aqua America is a Pennsylvania corporation with offices in Bryn Mawr, Pennsylvania.
15 Aqua America provides certain services to Aqua Illinois pursuant to the terms of a Services
16 Agreement approved by the Commission. PSC acquired ownership of CIWC under an
17 agreement, pursuant to which all of the outstanding common shares of CIWC were acquired
18 by a wholly-owned subsidiary of PSC. The merger was approved by the Commission in
19 Docket 98-0602, and closed on March 10, 1999. In January 2004, PSC changed its name to
20 Aqua America, Inc.; and in February 2004, CIWC changed its name to Aqua Illinois, Inc.
21

22 In 1883, the Danville Water Company constructed one of the first water filtration plants in
23 the Midwest. In 1913, the Danville Water Company was sold and renamed Inter-State Water
24 Company. In order to ensure enough water from the North Fork of the Vermilion River, a
25 dam was constructed in 1914 at the present site of the raw water intake. In 1926, the original
26 dam was removed and the current dam constructed, thus impounding Lake Vermilion. In
27 1929, Inter-State Water Company began providing water to the Village of Westville, and in
28 1956 added water service to the Village of Catlin. On November 12, 1986, CIWC acquired
29 the common stock of Inter-State Water Company. In 1988, CIWC purchased the Lake
30 Boulevard Water District and installed a main along North Vermilion to serve this new
31 addition. On September 21, 1995, Inter-State Water Company was merged into CIWC, with
32 CIWC as the surviving corporation. In 2001, CIWC acquired the assets of the Vermilion
33 County Airport water distribution system and the Walnut Hill Water Association. Water

1 mains were then installed to serve the additions of these two new systems. In 2002, CWIC
2 then acquired the assets of the Glendale Mobile Home Park water distribution system and
3 installed a main to serve this new addition. On November 19, 2003, CIWC acquired the
4 assets of the Village of Indianola water system. The Village of Indianola is a stand-alone
5 water system with a well, storage tank and distribution system. On March 17, 2004, Aqua
6 Illinois acquired the assets of the Village of Philo water system, a 510 customer system
7 located in Champaign County that purchases its water from Illinois American Water
8 Company.

9 10 **CORPORATE STRUCTURE**

11 **Q. Will you please describe how the operations of Aqua Illinois are organized?**

12 **A.** Aqua Illinois consists of several divisions, some of which provide water and wastewater
13 service and some of which provide only water service, in seven Illinois' counties and each
14 with a separate tariff. As noted, my testimony relates to the proposed rate increase for the
15 Vermilion Division, which is the Company's Division that provides water service to
16 customers in Vermilion and Champaign Counties in east-central Illinois.

17 18 **PRESENT AND PROPOSED RATES**

19 **Q. Mr. Bruns, please discuss the present rates of the Vermilion Division.**

20 **A.** The Division's present rates were established by a Commission Order in Docket No. 04-0442,
21 dated April 20, 2005. The rates approved in that case were developed based on a future test
22 year ending December 31, 2005.

23
24 **Q. Has the Company filed new and revised tariff sheets for the Vermilion Division?**

25 **A.** Yes. By letter of transmittal, which has been identified as Aqua Illinois 1.3, the Company
26 filed with the Commission both new and revised tariff sheets for the Vermilion Division.
27 The proposed tariff sheets are set forth in Schedules E-1 and E- 2, which are part of Aqua
28 Illinois Exhibit 6.

29
30 **Q. Will the Company publish public notices of its filing in newspapers of general
31 circulation in the Vermilion area?**

32 **A.** Yes. Such notices will be published once each week for two consecutive weeks in the
33 following newspapers of general circulation in the Vermilion service area: the Danville

1 Commercial News and the Vermilion County News-Gazette. Copies of the notice and
2 certificates of publication attesting to the dates of publication for the public notices will be
3 submitted as Aqua Illinois Exhibit 1.4 when the certificates become available.
4

5 **Q. Will the public notice be posted in the Company's business offices?**

6 **A.** Yes. Notices of the size and in the form specified by the Commission have been posted in
7 two conspicuous places in the business office of the Company at 322 N. Gilbert Street,
8 Danville, Illinois in accordance with 83 Ill. Admin. Code 255. In addition, copies of the
9 tariffs and applicable rules and regulations will be maintained in the office. Also, employees
10 who are able to explain these schedules to our customers will be available at all times during
11 regular office hours.
12

13 **Q. Will the Company also provide a notice and a description of the rate filing in bills
14 sent to customers?**

15 **A.** Yes. The notice will be included in the first bill sent to each customer after the rate
16 filing.
17

18 **Q. What are the primary reasons for proposing this increase in revenues?**

19 **A.** The primary reason for this request is to allow the Company sufficient opportunity to earn a
20 fair return of and on its capital investment, which is necessary to comply with federal and
21 state drinking water regulations and to provide safe and reliable water at the level of
22 customer service our customers expect. The requested increase is also necessary to permit
23 the recovery of operating and maintenance expenses. As previously discussed, the
24 Vermilion Division's last rate Order was issued in Docket No. 04-0442 and was based on a
25 future test year of 2005. The 2009 test year levels of expenses and rate base have increased
26 significantly over the levels reflected in that Order.
27

28 **Q. Please comment on the business risks related to water quality regulation.**

29 **A.** There are a number of uncertainties that pose concerns for all water suppliers. The Safe
30 Drinking Water Act ("SDWA") was first enacted in 1974 and regulations were developed by
31 the United States Environmental Protection Agency ("USEPA") for 21 substances that had
32 previously been identified in U.S. Public Health Standards. The SDWA has undergone two
33 major revisions (1986 and 1996) and the USEPA has issued more than 15 major drinking

1 water regulations since 1974. Currently, over 80 substances are regulated and many have
2 different reporting frequencies and requirements. Therefore, there is a real potential to
3 inadvertently violate the monitoring and reporting requirements of one of the rules. In
4 addition, there are specific public notification requirements that must be followed for both
5 monitoring and actual standard violations. A water supplier's vulnerability is highlighted
6 when one considers that the complexity of the requirements often causes confusion among
7 the regulators themselves. In December 1999, two rules were promulgated as part of a
8 group of rulemakings being developed to balance the risk of microbial contaminants (e.g.,
9 *Cryptosporidium*) and the by products of chemical disinfection (e.g., chloroform). These
10 rulemakings are part of a group known as the Microbial/Disinfection By-Product
11 ("MJDBP") Rule Cluster and five additional rulemakings, including the Long Term and
12 Enhanced Surface Water Treatment Rule, are currently scheduled for this category. Thus,
13 while the economic effects of water quality regulation are highly uncertain pending the
14 finalization of these five additional rulemakings; it is clear that there will be additional
15 regulation. Indeed, the proposed rulemakings, depending on their final form, could likely
16 have a significant impact on Aqua's capital and operating budgets over the next 5 years.
17 Water companies are unique among utilities because of their impact on human health.
18 Water companies should receive proper recognition of this human health risk in rate
19 regulation, for the companies will always bear the responsibility for complying with
20 significant health regulations.

21
22 **Q. Have the water quality regulations enacted to date affected Aqua Illinois?**

23 **A.** Yes. SDWA regulations have required a significant level of investment in plant
24 improvements to meet applicable water quality standards. In 2000, the Vermilion Division
25 incurred costs of approximately \$6 million to provide facilities for nitrate reduction and other
26 regulatory compliance needs. In 1999, the Company's Candlewick Water Division invested
27 \$1.2 million in iron removal and storage facilities. In the Kankakee Division, the Company
28 has installed power generation equipment to prevent the loss of plant pressure and also
29 installed supervisory control and data acquisition ("SCADA") equipment for better
30 monitoring and control. In addition, the Company has constructed additional storage
31 capacity and upgraded its filters to meet the more stringent requirements on filter
32 performance. Also, the Vermilion Division constructed a \$1.3 million Clarifier in 1996 to
33 insure compliance with more stringent turbidity and microbial standards. In 1991, the

1 Vermilion Division also invested approximately \$13.2 million in new water treatment
2 facilities to meet standards in existence at that time. Operations and maintenance expense
3 have also increased. Furthermore, as a result of water quality regulations, additional
4 laboratory expense is incurred for additional testing and training of personnel. Additionally,
5 the disposal costs for water treatment residuals have increased significantly due to regulation.
6

7 **VERMILION DIVISION AND FACILITIES**

8 **Q. Would you please describe the area served by the Vermilion Division?**

9 A. The Vermilion Division provides residential, commercial, industrial and municipal water
10 service, including fire protection, to customers located in Vermilion County, Illinois. The
11 Division provides retail service to its customers in the City of Danville, the Village of Tilton,
12 and the Village of Indianola in Vermilion County, and provides wholesale water service to
13 the Villages of Catlin and Westville. The Division also provides water service to the
14 residents of the Village of Philo in Champaign County. The Vermilion Division serves
15 approximately 17,800 retail customers directly and, through service provided to its wholesale
16 customers, provides water service to a total population of approximately 55,000.
17

18 **Q. Will you please describe the Vermilion Division's facilities?**

19 A. Yes. Vermilion obtains its water supply from the north fork of the Vermilion River on which
20 there are two dams. The upper dam, built in 1925, forms an artificial reservoir known as Lake
21 Vermilion. The second dam, located at the purification and pumping plant, creates an
22 impoundment from which the raw water pumps withdraw raw water. There are four
23 submersible, flood-proof raw water pumps ranging in capacities from 2 to 9 million gallons
24 per day that lift the untreated raw water to the treatment plant where it is treated with ferric
25 chloride, lime, carbon dioxide, polymers, chlorine, hydrofluosilicic acid and powdered
26 activated carbon. The water is mixed with these chemicals, allowed to settle and then
27 filtered. It is then chlorinated and stored in a 1.25 million-gallon clearwell before being
28 pumped to the distribution system. The treatment process includes state-of-the-art
29 instrumentation featuring distributed programmable logic controllers and personal computer
30 controls with graphics and report capabilities. The facility includes laboratory capabilities
31 for the process and quality control to assure customers the highest water quality. There is
32 also a stand-alone nitrate removal plant, capable of removing nitrates from the finished
33 drinking water when needed.

1
2 The Vermilion Division's distribution system is made up of 276 miles of mains ranging in
3 size from 1- inch to 24 - inches, on which there are 17,727 meters and 1,789 fire hydrants.
4 The total storage capacity is 8.65 million gallons. The bulk of the storage consists of two
5 3.0 million gallon standpipes and five elevated tanks that have capacities of 1,000,000 (2);
6 500,000, 96,000 and 55,000 gallons.
7

8 For the twelve months ending December 31, 2006, the Division's water production
9 facilities delivered to their distribution systems approximately 2.89 billion gallons for a
10 daily average of 7.80 million gallons. The maximum delivery day occurred on June 24,
11 2006, with approximately 10.35 million gallons delivered.
12

13 PRESENT RATES AND PROPOSED INCREASE

14 **Q. Mr. Bruns, what is the percentage rate increase being sought by the Vermilion**
15 **Division in this proceeding?**

16 A. Even though operating costs increases and the Division's capital improvements to
17 the system would justify a 20.87% increase in revenues, we are proposing new
18 rates that will increase the Division's annual operating revenue by approximately
19 19.0%. We have limited our requested increase in recognition of the fact that the
20 Danville area has a number of customers on fixed and limited incomes.
21

22 **Q. What are the primary reasons for proposing this increase in revenues?**

23 A. The requested increase is necessary to permit the Division to recover operating expenses and
24 provide the Company with an opportunity to earn a fair return on its investment in utility
25 plant. As noted above, the Division's last Rate Order was issued in Docket No. 04-0442 and
26 was based on a future test year of 2005. The 2009 test year levels of the expenses and rate
27 base have increased over the levels reflected in the last Order. For the 2009 test year, the rate
28 of return on rate base as well as common equity capital for the Division has declined. The
29 primary cause of the need for increased revenue for the Division is the additional investment
30 in various facilities to replace aging infrastructure and improve pressure and fire protection
31 capabilities in the system. These facilities include a new 1 million gallon elevated storage
32 tank in the northwest part of the City of Danville (commonly known as the "Denvale" area)
33 and replacement of under-sized water mains in the distribution system. Additionally, a new

1 250,000 gallon elevated tank will be construction in the Village of Philo to replace an
2 existing 96,000 gallon tank that has reached the end of its useful life.

3
4 **PLANT INVESTMENT**

5 **Q. Do you have an Exhibit that shows the Vermilion Division's capital projects for 2007**
6 **through 2009?**

7 A. Yes. The Divisions capital projects for 2007, 2008 and 2009 are shown in Aqua Illinois
8 Exhibit 1.2. As indicated, the largest categories in 2008 and 2009 are elevated storage
9 facilities in Philo and Danville and water main replacements throughout the distribution
10 system.

11
12 **Q. Please further discuss the investment in facilities included in Exhibit 1.2.**

13 A. A detailed summary of plant additions included as the Company's 2007 through 2009
14 capital projects is set forth in Exhibit 1.2. Major capital projects in these years are
15 necessary to insure system reliability and to comply with the SDWA as well as the
16 Company's guidelines to ensure safe drinking water to our customers.

17
18 **MATERIALS AND SUPPLIES**

19 **Q. Please discuss the Division's projection of its test year balance of materials and**
20 **supplies inventory as shown on Aqua Illinois Exhibit 6.0, Schedule B-8.1,**
21 **sponsored by Mr. Hanley.**

22 A. Mr. Hanley discusses the method used to compute the inventory balance. In my opinion, the
23 resulting test year balance of material and supplies inventory, as shown in Aqua Illinois
24 Exhibit 6.0, Schedule B-8.1 for the Vermilion Division, is reasonable and reflects the levels
25 of materials and supplies that the Division must have on hand for normal operations and
26 emergency repairs.

27
28 **LABOR COSTS**

29 **Q. Would you please comment on the forecasted level of payroll expense for the**
30 **Vermilion Division?**

31 A. Yes. Payroll expense for the Division is affected by the collective bargaining agreement with
32 the International Brotherhood of Electrical Workers. The increased payroll expenses in 2009
33 are based on general inflation rates and competitive market analysis of wage increases in the
34 water utility industry. A Plant Utility Worker position and three Customer Service and

1 Remittance Center positions have been eliminated since the last rate case. All other positions
2 remain the same as in the last rate case.
3

4 **TANK PAINTING**

5 **Q. Please discuss the forecasted level of tank painting cost for the Vermilion Division**
6 **addressed on Schedule B-10 in Exhibit 6.0.**

7 A. During the second quarter of 2008, the Vermilion Division will paint the interior and exterior
8 of the 500,000 gallon elevated tank off of Lynch Road on the east side of the City of
9 Danville. A contract for the painting of the Lynch Road Tank has been awarded and the cost
10 of the painting is expected to be \$280,000. The Company proposes to amortize this expense
11 over a ten-year period. The unamortized balance of this cost is included in rate base.
12

13 **SLUDGE DISPOSAL COST**

14 **Q. Please discuss how the sludge disposal expense was developed for 2008 and 2009.**

15 A. The sludge disposal expense is based on the annual projection of sludge produced from the
16 treatment plant that is pumped to the three lagoons across the river from the treatment
17 facility. A contract has been secured to haul dry tons of sludge from the lagoons each year.
18 This amount is the estimated amount of sludge that is produced each year from the treatment
19 plant, which is based on the volume of water produced and the quality of the river water
20 experienced during the year. The contract sets the unit price of the dry tons removed each
21 year at \$40.00 per dry ton hauled.
22

23 **COST OF SERVICE RATE DESIGN**

24 **Q. Will the increase to large general water service customers in the Vermilion**
25 **Division under the proposed rates be an across-the-board increase?**

26 A. No. A cost of service study was completed to demonstrate that it is in the best interest of all
27 parties that the rate increase for Large General Water Service customers be different than the
28 requested increase in general service rates. To this end, the Company proposes a 19.59% rate
29 increase for Large General Water Service users, as shown in Exhibit 4.0 for the Vermilion
30 Division.
31

32 **OTHER ITEMS**

33 **Q. Is there any other change to your testimony or exhibits that you wish to note?**

1 A. Yes, there is. I would note that on Schedule E-2, Vermilion Section No. 8, Original
2 Sheet No. 13 (“Interim Provision for Drinking Water for Infants Six Months of Age or
3 Less”) will show the entire Original Sheet No. 13 being deleted. The Vermilion
4 Division has constructed a nitrate removal treatment plant that effectively reduces
5 nitrate content in the Company’s finished water to a level that meets or exceeds state
6 and federal drinking water standards. This Sheet is no longer needed, since the nitrate
7 removal system has been operating successfully since 2001.

8

9 **CONCLUSION**

10 **Q. Does this conclude your testimony?**

11 A. Yes, it does.

**2006 Capital Additions
Vermilion Division**

Year	Description	Amount
2006	Concrete Drive/Lot at Treatment Plan	449,219
2006	Upgrade Sub Soil Pumps	5,479
2006	Improve Sludge Valves	10,005
2006	Upgrade Air Conditioner	8,367
2006	Upgrade Electrical Breaker	9,000
2006	Loop Detector for Gate	2,626
2006	Upgrade Security Cameras	6,304
2006	Lake Riprap 50/50 Program	14,920
2006	Riprap Program	500
2006	New 8 MGD Low Service Pump	59,447
2006	Emergency Repair 9 mgd pump	840
2006	Rewind Starter for 4 mgd pump	20,880
2006	New Carbon Feed System	21,731
2006	Chemical Level Sensors	3,720
2006	Overflow Pad - W. Newell Tank	714
2006	Mains	2,828,121
2006	New & Replacement Services	443,167
2006	Surcharge Eligible Meters	339,014
2006	Non-Surcharge Eligible Meters	930,353
2006	New & Replaced Hydrants	23,333
2006	New Plotter for Engineering	7,075
2006	Purchase New Computers	26,505
2006	New AutoCAD Software	11,150
2006	New Backhoe for Distribution Dept.	194
2006	New Hammerhead Mole	5,087
2006	New Power Sprayer for Plant	542
2006	Replace Propeller Meters at Plant	7,222
2006	Improvements to 2 mgd HS Pump	14,447
2006	Wireless SCADA	78,260
<hr/>		
2005	Cost for 2005 Land Sales	1,625
2005	Improvements to Plant Elevator	5,638
2005	New Ceiling Tile at Plant House	1,333
2005	Improvements to Dam False Gate	19,086
2005	New UPS Backup for Plant	1,041
<hr/>		
Total 2006 Additions		<u>5,356,944</u>

2007, 2008 & 2009 Capital Additions Vermilion Division			
Description	2007	2008	2009
Lake Level Sensors	1,946		
Security Lights at Dam	2,989		
New Valve Operators for Raw Water Supply	46,084		
Philo Source & Supply Main	718,651		
Booster Station (North Vermilion)	181,147		
Battery Backup Systems	994		
Siding Replacement	3,624		
Decant Return Lines from Lagoons to Raw Water Intake	310,000		
Improve Sludge Valves	5,709		
Control Board for Raw Water Pumps	2,600		
New Lab Computers	8,705		
Philo Scada System	84,266		
Main to New Tank (Eng. Design)	864		
Menard's Main Extension	4,560		
Wireless SCADA	1,344		
Distribution System Study and Flow Model	56,635		
New Roof on House at Plant	9,382		
Seal Asphalt Parking Lot at Gilbert Street Office	1,630		
Paint Building	163		
Upgrade Security Cameras	269		
Service Link	60,775		
Office Modifications	5,528		
Fork Lift	3,702		
Office Furniture		15,000	
Chlorine Scrubber	30,000	200,000	
Main to New Old Ottawa Road Elevated Tank		185,000	
Dam Gates - Install Motorized Units			400,000
Data Switches		8,000	-
Meter Replacements	163,661	200,000	200,000
New Meters		20,000	20,000
Service Renewals	551,662	88,000	288,000
New Services	206,099	121,000	48,000
RipRap Projects	38,776	30,000	30,000
Valve Replacements		20,000	20,000
Desktop PCs	5,226	4,800	9,000
Misc Lab Equip		10,000	10,000
Tools & Equipment	2,785	35,000	35,000
Concrete Rehab for Dam	11,000	30,000	30,000
Concrete Lot at Plant	4,993	30,000	30,000

2007, 2008 & 2009 Capital Additions Vermilion Division			
Description	2007	2008	2009
Misc WTP Equipment		85,000	25,000
Vehicle Replacement		130,000	-
Laptop PC's		3,100	-
Infrastructure Enhancement		7,000	-
Philo 250,000 Gallon Elevated Tank	48,704	700,000	
Private Line Replacement			40,000
Main Breaks - Replacements	690	25,000	25,000
New and Replacement Hydrants	396,349	10,000	10,000
Security Improvements		20,000	20,000
QIPS Main Replacement	1,653,332	400,000	1,150,000
Highway Relocation	59,013	-	60,000
QIPS Hydrant Replacement		20,000	20,000
1 MG Elevated Tank at Old Ottawa Road		1,500,000	-
Developer Refunds		15,000	15,000
Meritage Handhelds		-	21,000
Total Vermillion Additions	4,683,858	3,911,900	2,506,000

Aqua Illinois, Inc.
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January 2, 2008

Via Hand Delivery

Ms. Elizabeth Rolando
Chief Clerk
Illinois Commerce Commission
527 East Capitol Avenue
Springfield, IL 62706

Re: Aqua Illinois, Inc. – Vermilion Water Division
Proposed Increase in Water Rates

Dear Ms. Rolando:

Attached hereto for filing on January 2, 2008, to become effective for service rendered on or after February 16, 2008, are four (4) copies of the following Tariff Sheets:

ILL C.C. No. 47, Section No. 8
Fifth Revised Sheet No. 2
Canceling Fourth Revised Sheet No. 2
Fifth Revised Sheet No. 3
Canceling Fourth Revised Sheet No. 3
Fifth Revised Sheet No. 4
Canceling Fourth Revised Sheet No. 4
Fifth Revised Sheet No. 5
Canceling Fourth Revised Sheet No. 5
Fifth Revised Sheet No. 8
Canceling Fourth Revised Sheet No. 8
First Revised Sheet No. 9
Canceling Original Sheet No. 9
First Revised Sheet No. 10
Canceling Original Sheet No. 10
First Revised Sheet No. 11
Canceling Original Sheet No. 11
First Revised Sheet No. 12
Canceling Original Sheet No. 12
First Revised Sheet No. 13
Canceling Original Sheet No. 13

proposing a general increase in water rates for Aqua Illinois, Inc.'s Vermilion Water Division ("Division"). Under the new rates, the Division's annual revenue for water service would increase by approximately \$2,448,314, an increase of approximately 19.0%.

As the enclosed testimony of Mr. Thomas Bruns explains, the requested increase is necessary to provide the Company with an opportunity to earn a fair return on its investment in utility plant and to recover operating expenses. The Vermilion Water Division last rate Order was issued on April 20, 2005 in Docket No. 04-0442. The rates established in that case were based on a future test year ending December 31, 2005. Since that time, the Division's expenses and rate base have increased considerably. For the 2009 test year, the rate of return on rate base for the Vermilion Water Division has declined to 6.11% at present rates. One of the most significant factors affecting the need for increased revenue for the Division is the Company's additional investment in various facilities to address deficiencies in the system. These facilities consist of over 9.8 miles of replacement mains, installation of radio frequency meters, a new 250,000 gallon elevated tank to be constructed in the Philo water system, a 1.0 million gallon elevated tank to be constructed to serve an area west of Lake Vermilion, a new decant water return pumping system and a chlorine scrubber project. Recognition of increased expenses and rate base is necessary to enable the Company to earn a reasonable rate of return on the investment in utility plant.

The proposed tariff changes are identified and explained in Schedules E-1 through E-7 of Aqua Illinois Exhibit 6.0, and the enclosed testimony of Mr. David Monie. Enclosed for filing is one copy of the Testimony and Exhibits of the Company's witnesses and Schedules of the Requirements. In addition, a copy of the Testimony and Schedules are provided in electronic format. Also enclosed is one copy of the General Information Requirements, submitted pursuant to Subpart B, Section 285.305 and 285.325 of the Requirements, and one copy of the work papers supporting the Schedules of the Requirements, submitted pursuant to Subpart C, Section 285.410 of the Requirements.

A copy of this letter along with the requisite number of copies of the enclosed materials is also being provided today to the Director of the Financial Analysis Division of the Commission as follows: ten copies of the Testimony and Exhibits of the Company's witnesses, ten copies of Exhibit 6 (containing the Schedules of the Requirements) and ten copies of the General Information Requirements and Work papers. In addition, an electronic copy of this filing is included to the Chief Clerk's office.

In accordance with 83 Ill. Admin. Code Part 225, the Company has posted public notice of the proposed changes concurrently with this filing and will cause notice of the instant filing to be published in a secular newspaper in an area where there are customers affected by the filing. The Company will also send notification of this filing to its customers in the first bill issued after the filing date.

Copies of filings and notices in this proceeding should be sent to:

Mr. Thomas Bruns
Vice President & Regional Manager
Aqua Illinois, Inc.
322 N. Gilbert Street
Danville, IL 61382
tmbruns@aquaamerica.com

Ms. Kimberly Joyce
Manager – Regulatory Relations
Aqua America, Inc.
762 W. Lancaster Avenue
Bryn Mawr, PA 19010
kajoyce@aquaamerica.com

Mr. Terry J. Rakocy
President
Aqua Illinois, Inc.
1000 S. Schuyler Avenue
Kankakee, IL 60901
tjrakocy@aquaamerica.com

Mr. Paul J. Hanley
Assistant Controller
Aqua Illinois, Inc.
1000 S. Schuyler Avenue
Kankakee, IL 60901
pjhanley@aquaamerica.com

I am also enclosing an additional copy of this letter with attachments for your convenience in acknowledging receipt thereof. Please return the copy in the stamped return envelop to myself.

Please do not hesitate to call should you have any questions.

Very truly yours,
AQUA ILLINOIS, INC.



Terry J. Rakocy
President

Encl.
cc (w/ encl.): Director of the Financial Analysis Division

PUBLIC NOTICE**Notice of Proposed Change in Schedule of Rates
to
Customers of the Vermilion Division of Aqua Illinois, Inc.****January 2, 2007**

Dear Customer:

Aqua Illinois, Inc. hereby gives notice to the public that it has filed with the Illinois Commerce Commission (ICC) a proposed change in its rate schedules for water service in all areas served by the Vermilion Division, which includes the City of Danville, the Villages of Tilton, Philo and Indianola, unincorporated areas in Vermilion County and with purchased water service to the Villages of Westville and Catlin. The changes for all classes of water service, if approved by the ICC, would result in an overall revenue increase of 19 percent. Had the company requested the entire amount necessary to recover its capital investment and operating costs, the increase would have been 21 percent. However, based on our concern for affordability of water service for many of our customers, Aqua has elected to reduce the amount of the proposed increase. The proposed increase in rates is set out in Tariff ILL. C.C. No. 47 filed with the Illinois Commerce Commission.

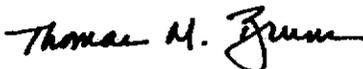
Since the last rate order in 2005 (filed in 2004) through the applicable period covered by this rate filing (June 2009), Aqua will have put into service nearly \$20 million in infrastructure improvements, including two new elevated tanks, safety and process improvements for source-of-supply and water treatment, as well as projects that upgraded the distribution system to enhance water quality and fire protection service—representing improvements of approximately \$1,100 per water customer.

If this rate request is granted in full as filed, an average monthly residential bill (4,800 gallons) would increase by \$8.21, (\$.27 cents per day) to \$49.76. At the new rate, customers would have a full day's worth of water (158 gallons) for \$1.64 per day.

Customers should be advised that the Illinois Commerce Commission may alter or amend the rates or conditions of service after hearings held pursuant to 83 Ill. Adm. Code 200 and may increase or decrease individual rates in amounts other than those requested by the company. An interested party may file a petition to intervene in the hearings pursuant to 83 Ill. Adm. Code 200.

A copy of the proposed change in rate schedules may be inspected by any interested party at the business office of the company at 322 North Gilbert Street in Danville, Illinois. All parties interested in the matter may obtain information with respect thereto either directly from Aqua Illinois or by addressing the Chief Clerk of the Illinois Commerce Commission, 527 East Capitol Avenue, Springfield, Illinois 62701.

Aqua Illinois, Inc.
Vermilion Division



Thomas M. Bruns
Vice President and Regional Manager