

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

ILLINOIS-AMERICAN WATER COMPANY )
)
Petition for Issuance of an Expanded Certificate of )
Public Convenience and Necessity to Operate a )
Water Supply and Distribution System and )
Wastewater Collection and Treatment System; )
and for approval of certain provisions related to )
water and wastewater plant investment and )
refunds, a variance from the provisions of Rule 16, )
accounting entries, depreciation rates and water )
and wastewater rates. )
)

Docket No. 06-0782

Draft Order

By the Commission:

I. Introduction

On December 8, 2006, Illinois-American Water Company ("IAWC", "Company," or "Petitioner") filed a Petition with the Illinois Commerce Commission ("Commission") for a Certificate of Public Convenience and Necessity ("Certificate") pursuant to Section 8-406 of the Illinois Public Utilities Act ("Act"), authorizing IAWC to construct, operate and maintain a water supply and distribution system and a wastewater treatment and collection system, and in connection therewith, transact a public utility business in an area of McHenry County, Illinois, which is contiguous to the area for which the Company's predecessor, Citizens Utilities Company of Illinois ("Citizens"), was granted a Certificate ("Original Certificate") by the Commission in its Order dated April 25, 2001 in Docket No. 00-0194 (the "Docket 00-0194 Order"). IAWC also requested approval of certain provisions of an Amended and Restated Asset Purchase Agreement between Illinois American Water and Terra Cotta Realty Co. ("Terra Cotta") dated November 4, 2005 ("Agreement"), and of a variance from the provisions of IAWC's Chicago Metro Division's Rule 16 (Ill. C.C. No. 5, Sheet Nos. 53-57) ("Rule 16") with regard to the amount of the required construction deposit for additional wastewater treatment plant capacity. IAWC further requested approval of certain provisions of an agreement ("Westminster Agreement") between IAWC and WS Land Partners - Prairie Grove II, LLC ("Westminster"), an entity which serves as the agent of the entities which have purchased portions of the land located in the Expanded Area (the "Westminster Land"). IAWC also requested approval of accounting entries and rates for the Expanded Area.

On February 20, 2007, IAWC filed the Direct Testimony of Frederick Ruckman and Michael Hoffman. On May 21, 2007, IAWC filed an Amended Petition for a Certificate of Public Convenience and Necessity ("Amended Petition"), the Direct Testimony of Bob Khan, and the revised Direct Testimony of Mr. Hoffman. The Direct Testimony of Mr. Kahn replaced the Direct Testimony of Mr. Ruckman.

On February 28, 2008, the Staff of the Commission ("Staff") filed the Direct Testimony of William R. Johnson, Daniel G. Kahle, Janis Freetly and Cheri L. Harden.

An evidentiary hearing was held on March 5, 2008. At the conclusion of the hearing, the record was marked "Heard and Taken."

IAWC currently provides public water and/or wastewater service in portions of the State of Illinois through four Divisions: Chicago Metro, Eastern, Northern, and Southern. Within the four Divisions there are approximately thirty nine Districts.. The Chicago Metro Division serves incorporated and unincorporated areas in portions of Cook, DuPage, Will, Kendall, Grundy, Kane and McHenry Counties. IAWC is a public utility within the meaning of the Act, 220 ILCS 5/3-105.

## **II. Position of the Company**

### **A. Background**

IAWC's witness Mr. Khan provided background information on the Company's filing. He explained that the Company's Amended Petition expands on earlier agreements between IAWC or its predecessor, Citizens, and various entities. In 1999, Terra Cotta requested that Citizens provide water and wastewater service to an area near the Village of Prairie Grove, McHenry County, Illinois, known as the "Original Terra Cotta Area." Terra Cotta and Citizens entered into an Asset Purchase Agreement, dated February 16, 2000 (the "Original Agreement") whereby Citizens agreed to purchase from Terra Cotta certain water backbone facilities ("TC Water Backbone Plant"), water distribution mains ("TC Original Area Water Mains"), sewer backbone facilities ("TC Sewer Backbone Plant"), and sewer collection mains ("TC Original Area Sewer Mains"). Mr. Khan stated that the TC Sewer Backbone Plant included a wastewater treatment plant (the "Original Wastewater Plant") with a treatment capacity of 100,000 gallons per day (the TC Water Backbone Plant and TC Original Area Water Mains are referred to as "Existing TC Water Facilities" and the TC Sewer Backbone Plant and TC Original Area Sewer Mains as "Existing TC Sewer Facilities").

The major provisions of the Original Agreement relate to Existing TC Water Facilities, Existing TC Sewer Plant and Future Water and Sewer Facilities. Mr. Khan summarized these provisions as follows:

1. Existing TC Water Facilities. The Original Agreement required that Terra Cotta transfer ownership of the TC Water Backbone Plant, subject to required refunds on a per population equivalent, or "P.E." basis, as customers attach. The Original

Agreement further required Terra Cotta's consent for use of the TC Water Backbone Plant outside the Original Terra Cotta Area. For the TC Original Area Water Mains, the Original Agreement called for refunds of the cost of service connections constructed by Terra Cotta, between the main and the curb stop, and one and one half times estimated annual revenue from customers that attach to water mains constructed by Terra Cotta over a ten year period.

2. Existing TC Sewer Plant. The Original Agreement provided for transfer to Citizens of the Original Wastewater Plant, which had been constructed by Terra Cotta in 1973 and used by Terra Cotta since that time, with an upgrade in 1996-97, with no refund of costs related to the Original Wastewater Plant as customers attach. The Original Agreement provided for transfer to Citizens of the TC Original Area Sewer Mains, with no requirement for a refund of the associated cost.

3. Future Water and Sewer Facilities: The Original Agreement contemplated that Citizens would finance construction of future water backbone facilities in the Original Terra Cotta Area. For Future Sewer Backbone Facilities, under the Original Agreement, Terra Cotta was to pay the full cost of constructing future sewer backbone facilities with no refund obligation for Citizens.

Mr. Khan explained that Citizens filed the Original Agreement for approval by the Commission, to the extent required, in Commission Docket 00-0194. In the Docket 00-0194 Order, the Commission did not approve the Original Agreement, but did grant a Certificate to serve the Original Terra Cotta Area, or "Original Certificate," and indicated that certain provisions of the Original Agreement which relate to the water facilities were reasonable.

In the Docket 00-0194 Order, the Commission determined that the Original Agreement was unreasonable in that it did not provide for a refund to Terra Cotta of the cost advanced for the TC Sewer Backbone Plant. The Commission concluded that, for the purposes of Docket 00-0194, the principles of 83 Illinois Administrative Code Section 600.370(a), which applies by its terms to water backbone plant, would also apply in evaluating proposed levels of developer contribution for the TC Sewer Backbone Plant. The Commission found specifically that Citizens should refund to Terra Cotta the cost advanced for the TC Sewer Backbone Plant. The Commission's decision was affirmed on appeal in Illinois-American Water Co. v. Commerce Comm'n, 331 Ill. App. 3d 1030 (3rd Dist. 2002).

Mr. Khan further testified that, per the Original Agreement and a subsequent agreement between Terra Cotta and Citizens, dated June 13, 2001 ("June 13 Agreement"), Terra Cotta transferred to Citizens title to the Existing TC Water Facilities, Existing TC Sewer Facilities and related property rights. In the June 13 Agreement, Terra Cotta and Citizens agreed not to rescind or restructure the Original Agreement, except as required to comply with the Docket 00-0194 Order. On January 15, 2002, pursuant to an order in Docket 00-0476, Mr. Khan explained that the Company assumed Citizens' rights and obligations under the Original Certificate and acquired

certain water and wastewater assets of Citizens, including, among other things, Citizens' rights and obligations under the Original Agreement and the June 13 Agreement.

Mr. Khan also testified that the Original Certificate encompasses the Original Terra Cotta Area, which is comprised of approximately 1444 acres, and, to date, a total of approximately 241 residential units have been constructed in this area, in the Cobblestone Woods and Oak Grove subdivisions. Mr. Kahn explained that these residences receive water and wastewater service from IAWC through the Existing TC Water Facilities and Existing TC Sewer Facilities. Terra Cotta has acquired, or is under contract to acquire, an additional 235 acres of land. The Original Terra Cotta Area and newly-acquired areas comprise approximately 1,679 acres known as the "TC Land." Mr. Khan also explained that Terra Cotta sold 1,077 acres of the TC Land, known as "TC Acres," to Prairie Grove 1078 SPE. He noted that the "Expanded Area" for which IAWC seeks a Certificate in this proceeding encompasses the additional land acquired by Terra Cotta that is contiguous to the Original Terra Cotta Area. Together, the Original Terra Cotta Area and the Expanded Area comprise the "Combined Area."

#### **B. Relief Sought by IAWC**

Mr. Khan testified that IAWC seeks a Certificate to serve the Expanded Area, which encompasses the approximately 235 additional acres that Terra Cotta has now acquired, or is under contract to acquire. The Expanded Area is shown in IAWC Exhibit BK 3.3 and legally described in IAWC Exhibit BK 3.4. Mr. Khan also stated that IAWC seeks approval of certain provisions of the Agreement and the Westminster Agreement, to the extent discussed in his testimony. He described the purpose of the Agreement as threefold: first, to establish arrangements for the provision of public water and sanitary sewer service in the Expanded Area, and for the construction of additional and/or expanded water and wastewater facilities needed to serve expected customer growth in the Expanded Area; second, to comply with the terms of the June 13 Agreement; and third, to address matters covered by the Original Agreement in a manner consistent with the Docket 00-0194 Order and the applicable rules, regulations and policies of the Commission. Mr. Khan testified that IAWC also seeks approval of provisions of the Westminster Agreement that relate to construction and financing of water and wastewater collection mains for the TC Acres.

Mr. Khan explained that Westminster and Terra Cotta have requested that IAWC extend service to their developments. At present, except for service provided by IAWC in the Original Terra Cotta Area, there is no public water or sewer service provided in the Expanded Area. Other than service provided currently by IAWC in the Original Terra Cotta Area, there is no municipal corporation or other entity willing or able to provide water or sewer service to the Expanded Area.

Mr. Khan testified that, in the Combined Area, which includes all of the TC Land, the Company anticipates that approximately 1,805 additional residential units will be constructed, approximately 400 of which are to be constructed by Terra Cotta, and

approximately 1,405 of which are to be constructed by Westminster. These occupants will require public water and wastewater service, and Terra Cotta and Westminster have contracted with IAWC to provide that service pursuant to the Agreement and Westminster Agreement. Including the existing units in Oak Grove and Cobblestone, the Combined Area is presently expected to include a total of approximately 2,070 residential units. IAWC also anticipates that governmental (schools), retail and other commercial entities will be developed within the Combined Area, as residential development occurs. Mr. Khan noted, however, that the Company presently has no basis to project a precise level of future governmental, retail and commercial development.

Mr. Kahn stated that IAWC has the technical, financial and managerial ability to construct, operate and maintain a public water supply and distribution system, and a sewage treatment and collection system for the Expanded Area, without adverse financial consequences for existing customers. The provision of public water and sewer service in the Expanded Area will impose no financial burden on either the Company or its existing customers. Also, existing customers would experience benefits from growth of the IAWC system as common costs are spread over a larger customer base. He explained that the Company has taken steps to assure that any construction processes and supervision will be adequate and efficient, and that the cost it will incur for constructed facilities is the least cost means of providing the required water/wastewater service.

### **C. Water and Wastewater Facilities for the Expanded Area**

Mr. Khan explained that, pursuant to the Original Agreement, the June 13 Agreement and other documents, Terra Cotta transferred to Citizens title to the Existing TC Water Facilities and Existing TC Sewer Facilities. On January 15, 2002, IAWC acquired title to the Existing TC Water Facilities and Existing TC Sewer Facilities from Citizens, as approved by the Commission in Docket 00-0476. In addition, as successor to Citizens, IAWC is the lessee of property on which the Original Wastewater Plant is located. Under a lease agreement between Terra Cotta and Citizens, dated June 13, 2001, IAWC, as successor to Citizens, is permitted use of this property for wastewater treatment plant purposes, including use for additions and expansions of the Original Wastewater Plant.

Mr. Khan testified that the TC Water Backbone Facilities have a projected capacity of 4,950 P.E. This capacity is sufficient to accommodate the existing developments of Oak Grove and Cobblestone, and anticipated development in the TC Land over the next several years.

Mr. Khan explained that, under Section IV of the Agreement, IAWC will provide future water backbone plant for the TC Land, including the TC Acres, as required to provide water service that is adequate, reliable, efficient and environmentally safe, and in accordance with the Agreement and requirements of the Act. Under the Westminster Agreement, water backbone facilities for the TC Acres will include a portion of the

capacity of the Existing TC Water Facilities and such new wells, storage and other facilities as IAWC constructs in accordance with the terms of the Agreement.

Mr. Khan further explained that, under Sections V through IX of the Agreement, Terra Cotta, by itself or together with Westminster, will construct an "Initial Plant Expansion" of the Original Wastewater Plant to increase the design average flow from 100,000 gallons per day to 1.0 million g.p.d. Terra Cotta has entered into a "Design/Build Agreement" with Lintech Engineering, LLC and Joseph J. Henderson & Son for construction of the Initial Plant Expansion. The Design/Build Agreement updates an agreement initially signed by Terra Cotta in 2003. Construction of the Initial Plant Expansion will be subject to inspection and monitoring by IAWC. The Company has approved the engineering specifications for the Initial Plant Expansion, and, under the Agreement, has the right to approve any future changes to such specifications. Mr. Khan stated that under Section VII of the Agreement, after completion of the Initial Plant Expansion, and subject to approval of the Commission, Terra Cotta and IAWC will conduct a closing to confirm that ownership and control of the Initial Plant Expansion is held by IAWC. In addition, the Agreement provides that, if Terra Cotta fails to complete the Initial Plant Expansion within twelve months after the date on which the Commission's Order in this proceeding becomes final and no longer subject to appeal, the Company may elect to assume control of the construction before its completion. Funding for the Initial Plant Expansion will be provided by Terra Cotta, by itself or together with Westminster, through establishment of a cash construction escrow or a letter of credit in a form and from an institution satisfactory to IAWC. The Company will provide an investment in the Initial Plant Expansion in an amount discussed below.

Mr. Khan also explained that, under Section V of the Agreement, IAWC will reserve 1.0 m.g.d. of wastewater treatment capacity from the Initial Plant Expansion exclusively for the TC Land, and is referred to in the Amended Petition as the "Reserved Area." Also, under Section II.B of the Agreement, certain other land purchased by Terra Cotta and/or Westminster within two miles of the boundary of the Combined Area can, subject to the terms of the Agreement, be included in the Reserved Area, provided that IAWC concludes that such land can reasonably be served based on an engineering review, and that all applicable governmental approvals are obtained, including approval of the Commission. Mr. Khan stated that the 1.0 m.g.d. of reserved capacity is intended to provide 10,000 P.E. of capacity for the Reserved Area. He noted that, under the Agreement, there is no requirement for Terra Cotta, Westminster nor the "TC Land Entities," meaning any entities that purchase land from Terra Cotta or Westminster, to pay IAWC a connection or other capacity fee for use of the reserved 1.0 m.g.d. of capacity within the Reserved Area. Terra Cotta has agreed that development of the Reserved Area may only utilize a combined level of up to 10,000 P.E. of capacity from the 1.0 m.g.d. of reserved capacity. Mr. Khan further noted that if development of the Reserved Area requires a level of capacity above 10,000 P.E., arrangements for additional capacity will be made under Rule 16, or on such other terms as the Commission may approve.

Mr. Khan went on to explain that, under Section III.B(2) and (3) of the Agreement, water mains may be extended by Terra Cotta in the Original Terra Cotta Area pursuant to terms substantially similar to those of the Original Agreement, as approved in the Docket 00-0194 Order, and also substantially similar to the terms set forth in IAWC's Chicago Metro Division's Rules, Regulations and Conditions of Service, or "Standard Water Rules." Aside from minor language changes made for clarification of the provisions; for example, substituting IAWC as the utility in place of Citizens, these provisions are the same as the comparable provisions of the Original Agreement. Mr. Khan stated that, to the extent that the provisions of Section III.B (2) and (3) of the Agreement, applicable to the Original Terra Cotta Area, differ in minor respects from the comparable provisions of the Original Agreement, IAWC seeks approval of those provisions in this proceeding. Under the Westminster Agreement, Westminster will construct water and wastewater mains for the TC Acres, in accordance with provisions consistent with terms of the Standard Water Rules and Rule 11 of the Chicago Metro Division's Rules, Regulations and Conditions of Service, or "Standard Sewer Rules." Mr. Khan testified that, except as otherwise provided in the Agreement or the Westminster Agreement, water and wastewater mains will be extended in the Combined Area in accordance with the Standard Water Rules and Standard Sewer Rules, respectively. He also testified that all construction performed by Terra Cotta under the Agreement, or by Westminster under the Westminster Agreement, will comply with plans and specifications approved by IAWC. In addition, the Company will monitor and inspect all construction.

Mr. Khan stated that Terra Cotta and Westminster will provide property rights and/or rights-of-way for water and wastewater facilities. At present, IAWC is not aware of a need to acquire additional rights-of-way from private landowners. If it becomes necessary for the Company to acquire additional rights-of-way, IAWC will follow the requirements of 83 Illinois Administrative Code, Part 300.

#### **D. Funding of Facilities**

##### **(1) Water Backbone Plant**

Mr. Khan explained that, under Section III of the Agreement, IAWC's refunds for the TC Water Backbone Plant would continue to be made pursuant to the methodology approved by the Commission in the Docket 00-0194 Order. The amount of reimbursement payments is determined by dividing the actual cost of the TC Water Backbone Facilities, which is approximately \$1.4 million, by the number of population equivalents that can be served by the backbone facilities. He stated that, under the Agreement, the actual number of P.E.s that could be served by the backbone facilities is 4,950 P.E. Under Section 6 of the Original Agreement, the per P.E. refund is made as customers attach to the TC Water Backbone Plant in the Original Terra Cotta Area. He also stated that, under the Agreement, subject to the approval of the Commission, the per P.E. refund would be paid as customers attach to the TC Water Backbone Plant in the TC Land. IAWC seeks approval for this change.

As expanded water supply facilities are needed for the TC Land, Mr. Kahn testified that IAWC would, under Section IV of the Agreement, construct any additional water backbone plant without any requirement that Terra Cotta or any TC Land Entities provide a construction deposit or any other funding or collateral.

Mr. Khan also testified that the Original Agreement provides that IAWC will construct expanded water backbone in the Original Terra Cotta Area, and this approach was approved by the Commission in the Docket 00-0194 Order. The Original Agreement, however, requires Terra Cotta's consent for use of the TC Water Backbone Plant outside the Original Terra Cotta Area. Mr. Khan explained that, in return for IAWC's agreement to provide additional water backbone plant for the TC Land without investment by Terra Cotta or TC Land Entities, Terra Cotta has consented in the Agreement to use of the TC Water Backbone Facilities to serve any portion of the Combined Area outside the Original Terra Cotta Area, to the extent that the capacity of such facilities is adequate. The Company believes that the resulting flexibility in the use of the TC Water Backbone Plant will allow it to more efficiently serve customers.

## (2) Wastewater Backbone Plant

Mr. Khan explained that, under Section VIII of the Agreement, IAWC would provide an investment in the amount of \$322,202 for the Existing TC Sewer Backbone Facilities and Initial Plant Expansion. He stated that this amount is intended to cover the obligation that IAWC, as successor to Citizens, has to refund the cost advanced to Citizens for the TC Sewer Backbone Plant under the terms of the Docket 00-0194 Order and related appellate decision, and provide a reasonable level of investment in the Initial Plant Expansion. Terra Cotta constructed the Original Wastewater Plant in 1973 and upgraded it in 1996-97 at a cost of approximately \$449,221. Over the years that these facilities were in use, Terra Cotta recorded depreciation in the approximate amount of \$362,912. Accordingly, under the Uniform System of Accounts for Wastewater Utilities, 83 Illinois Administrative Code Part 650, the amount of the cost advanced for sewer backbone plant that is part of the Existing TC Sewer Facilities is \$86,309, as shown in accounting entries submitted by IAWC in Docket 00-0194. Mr. Kahn further stated that the \$322,202 investment amount specified in the Agreement consists of the \$86,309 refund of the cost advanced for the TC Sewer Backbone Plant, and a \$235,893 investment in the Initial Plant Expansion.

Mr. Khan discussed the Company's tariff provisions regarding the financing of wastewater backbone plant. Unless other terms are approved by the Commission, the financing of wastewater backbone plant is subject to Rule 16. He stated that under Rule 16.04(c), Terra Cotta and/or Westminster, as developer of the Sewer Facilities Area, would be required to pay a deposit in an amount equal to the cost of the Initial Plant Expansion. Under Rule 16.04(c)(ii), IAWC would pay a refund to the Reserved Area developer(s) as customers connect to the expanded wastewater plant capacity inside the development area. The per customer refund amount is equivalent to the estimated amount of annual treatment revenue to be received from each customer,

estimated to be \$327.48 in the case of each residential customer. Mr. Khan explained that, assuming that there are approximately 2,070 new residential customers in the Reserved Area, the potential amount of the refund that Terra Cotta could receive under Rule 16, if the anticipated development were to occur as expected, would be approximately \$677,883. This amount would be paid under Rule 16 as customers attach.

Mr. Khan testified that, as an alternative to this approach, IAWC and Terra Cotta agreed to the fixed payment discussed above, which includes a fixed component of \$235,893 for the Initial Plant Expansion. Under the agreed approach, IAWC is able to provide a fixed investment in the Initial Plant Expansion at a reasonable level, which is below the level of amount of investment that Chicago Metro Divisions customers might otherwise be required to support in rates if full build-out were to occur. Terra Cotta, on the other hand, receives a fixed certain investment now rather than the uncertainty that would exist under Rule 16. The Company believes that either the approach under Rule 16 or the agreed refund terms would be consistent with the finding in the Docket 00-0194 Order that the utility should provide an investment in sewer backbone plant. Under the circumstances of this transaction, however, the Company believes that the agreed approach is reasonable and should be approved.

### (3) Water and Wastewater Mains

Mr. Khan explained that, under the Westminster Agreement, Westminster will construct, at its expense, water distribution mains within the Westminster Land ("WM Water Mains") and transfer those WM Water Mains to IAWC. The Company will refund to Westminster, for each new customer that connects to a WM Water Mains and taking water service within the TC Acres, during the first ten-year period following construction of WM Water Mains, an amount equal to one and one-half times the average annual water revenue paid to IAWC by other similarly situated customers. These refunds would be paid to Westminster during the first ten year period following transfer of WM Water Mains. The total amount refunded will not exceed the total cost to Westminster the constructing the WM Water Mains. IAWC also will refund to Westminster the cost of the Company service line for each new customer.

Mr. Khan also explained that, under the Westminster Agreement, Westminster will construct, at its expense, wastewater collection mains within the TC Acres ("WM Wastewater Mains") and transfer those WM Wastewater Mains to IAWC. The Westminster Agreement will provide that IAWC will refund to Westminster an amount determined in accordance with the "Sewer Refund Methodology" approved in Docket 01-0645. In accord with the Sewer Refund Methodology, IAWC would refund to the Developer one and one-half times the amount of estimated per customer annual sewer collection service revenue from a customer similarly situated to each "Original Prospective Customer," as defined in Docket 01-0645, and contracts for at least one year of sewer service, commencing within 30 days after the date that service is first available. Mr. Khan stated that in no event would the total amount of sewer main

refunds paid to Westminster exceed the total cost of constructing the WM Wastewater Mains.

Mr. Khan further testified that the provisions of the Westminster Agreement that relate to sewer mains are a "special contract" under Rule 11.01(m) of the Standard Sewer Rules and thus require Commission approval, and, as noted above, certain provisions of the Agreement regarding Terra Cotta's construction of water mains for the Original Terra Cotta Area differ in minor respects from the comparable provisions of the Original Agreement. He stated that, except as provided in the Agreement and Westminster Agreement, the contribution/refund provisions of the Standard Water Rules and Standard Sewer Rules will apply in connection with the construction of water and sewer mains, respectively, for the Combined Area.

Mr. Hoffman demonstrated that the combined rate of return of 7.36% on water and sewer rate base in the Expanded Area, on an average basis after the 5th year of initiation of service, is comparable to the rate of return allowed in the Company's last case, Docket 02-0690. In this regard, Mr. Khan explained that IAWC is seeking approval to (i) modify the water refund methodology approved in Docket 00-0194 for the TC Water Backbone Plant to permit per P.E. refunds as customers attach throughout the Combined Area, rather than only in the Original Terra Cotta Area, (ii) approval to provide a fixed level of investment of \$322,202 for the Existing TC Sewer Facilities and Initial Plant Expansion, and (iii) approval of the funding proposal for the WM Wastewater Mains. If the Company were to receive lower levels of contributions, or provided higher levels of refunds, the Company's investment in water and sewer rate base would increase, reducing the rate of return and requiring other customers in the Chicago Metro Division to subsidize new customers in the Combined Area. Mr. Khan stated that, with the proposed level of investment by IAWC, Terra Cotta and Westminster, existing Chicago Metro Division customers will not be required to subsidize the water or wastewater service provided to new customers within the Combined Area.

#### **E. Accounting For Transaction**

Mr. Hoffman explained the accounting entries that IAWC proposes to make to record the net original cost of facilities that will be used to provide service in the "Combined Area" described by Mr. Khan, applicable depreciation rates, and proposed rates for water and wastewater service in the Combined Area.

With regard to accounting, in accordance with Commission policy and the Uniform System of Accounts for Water Utilities, 83 Illinois Administrative Code Part 605, and the Uniform System of Accounts for Sewer Utilities, 83 Illinois Administrative Code Part 650, the Company proposes to record the original cost of all water and wastewater facilities for the Expanded Area in Account 101 for water and sewer service, separately. Mr. Hoffman explained that the original cost of the water and wastewater facilities for the Expanded Area will be the gross cost of the facilities. Where a developer will make a contribution or deposit for water facilities, and the Company will make refunds as customers attach. The Company proposes to record the anticipated amount of the

refunds for water facilities in Account 252 — Advances for Construction. The difference between the actual construction costs for water facilities and the amount recorded in Advances for Construction will be recorded in Account 271 — Contributions-in-Aid-of-Construction. As refunds are paid, the amount of the refunds would be entered as a debit to Account 252 — Advances for Construction. Where a deposit is non-refundable, it would be recorded in Account 271 — Contributions-in-Aid-of-Construction. Mr. Hoffman also explained that, where a developer will make a contribution or deposit for sewer facilities, the accounting entries for the sewer assets would be the same as those for water in that the actual cost for construction of sewer assets would be recorded as Utility Plant In Service in Account 101, and the anticipated amount for refunds would be recorded in Account 252. The difference between the construction cost and the amount recorded in Account 252 would be recorded in Account 271. As refunds are paid, the amount of the refunds would be entered as a debit to Account 252. As in the case of water facilities, where a construction deposit is non-refundable, it would be recorded in Account 271. The proposed accounting entries were set forth in IAWC Exhibit MJH-4.1.

#### **F. Depreciation**

For the Combined Area, Mr. Hoffman explained that IAWC proposes to use the depreciation rates of the Chicago Metro Division, as presently in effect or as subsequently revised. The Commission last evaluated these depreciation rates in IAWC's last rate case, Docket 02-0690.

#### **G. Water/Wastewater Rates**

Mr. Hoffman also testified that, in the Original Terra Cotta Area, IAWC currently charges for water service and wastewater service the rates set forth in the tariffs of the Chicago Metro Division, as now in effect or as may be subsequently modified by Order of the Commission. The specific tariffs are Ill. C.C. No. 4, Sheet Nos. 36 and 37 for water service and Ill. C.C. No. 5, Sheet Nos. 37 and 38 for wastewater service. The Company proposes to apply these same rates in the Combined Area. In addition, all other applicable water and wastewater charges for the Chicago Metro Division would apply to service within the Expanded Area, including, but not limited to, public and private fire protection charges, returned check charges, late-payment fees and State and municipal add-on taxes or fees.

As discussed above, Mr. Hoffman demonstrated that, if the proposed water rates and sewer service rates are charged within the Combined Area, the expected combined rate of return of 7.36% on the water and sewer rate bases, on an average basis for the 5th year after initiation of service in the Expanded Area, are comparable to the 7.38% rate of return on rate base allowed by the Commission in IAWC's last rate proceeding, Docket 02-0690. The expected combined rate of return of 7.36% reflects the proposed level of investment in water and wastewater facilities in the Combined Area. Therefore, Mr. Hoffman concluded that the proposed rates are not in excess of reasonable rates.

### **III. Position of Staff**

#### **A. Certificate**

Staff witness Johnson testified that IAWC is requesting a Certificate to construct, operate and maintain a water and wastewater supply system consisting of approximately 235 acres of land ("Expanded Area") which is adjacent to IAWC's current certificated area. He noted that the Company's predecessor, Citizens, was granted a Certificate to serve the existing Terra Cotta service area in Docket No. 00-0194. Pursuant to the Commission's Order in Docket No. 00-0476, IAWC assumed Citizens' rights and obligations under the Original Certificate. He explained that the Expanded Area for which IAWC seeks a Certificate in this proceeding encompasses the additional land acquired by Terra Cotta that is contiguous to the Original Terra Cotta Area. Together, the Original Terra Cotta Area and the Expanded Area compromise the "Combined Area".

Mr. Johnson also stated that no working easements will be required since the facilities will be installed next to right-of-way on the developers' property. Also, the Company provided Mr. Johnson with a copy of the Agricultural Mitigation Agreement and stated that the Company will comply with it.

On March 6, 2007, Mr. Johnson conducted a site inspection of the water facilities and found that construction of subdivisions was ongoing and new development signs were posted throughout the proposed Expanded Area. Mr. Johnson noted that it was apparent that development would continue to occur well into the future. The Terra Cotta service area consists of two wells that treat water with chlorine gas, liquid 116 Hydrofluosilicic acid (fluoridation), and polyphosphate (iron sequestering), and a 500,000 gallon water-spheroid tower. Currently, Mr. Johnson testified, all Terra Cotta wastewater is treated by the "old" plant which is a round activated sludge "package" treatment plant. He noted that a larger, new treatment facility was recently completed immediately south of the existing plant. The new facilities will come on-line when enough new customers connect to the system. Mr. Johnson testified that the old plant is to be decommissioned when the new one is operational. Based on his review, he concluded that it appears that IAWC has sufficient water and wastewater capacity to serve the proposed Expanded Area.

Mr. Johnson further testified that the Company anticipates that approximately 1,805 additional residential units will be constructed. The occupants will require water and wastewater service, and Terra Cotta and Westminster (WS Land Partners – Prairie Grove III, LLC) have contracted with IAWC to provide service. He stated that the Company does not have a basis to project a precise level of future governmental, retail, and commercial development, but it expects governmental (school), retail and other commercial entities will be developed within the Expanded Area as residential development occurs. He noted that the Company stated that the Expanded Area is adjacent to the existing certificated area and is not served by another utility. Mr. Johnson stated that the Commission regulated utilities in the vicinity are Crystal Clear

Water Company, Holiday Hills Utilities, Inc., Killarney Water Company, McHenry Shores Water Company, Nunda Utility Company, and Walk-up Woods Water Company. However, none of these utilities provide wastewater service and none have shown an interest in serving the area or have been requested by the developers to do so. Additionally, IAWC currently provides service in the area. It would be cost prohibitive for the other utilities identified above to extend mains and potentially add capacity to serve the additional customers.

As required by 83 ILL. Adm. Code 200.150(b), IAWC has served a copy of the Petition on each municipality located partly or wholly within the Expanded Area, or with a corporate boundary that is within one and one-half miles of the Expanded Area. IAWC's notice of service of the Petition is on file with the Commission

Mr. Johnson also testified that IAWC has demonstrated that the proposed extension of services is the least-cost method of providing water and wastewater service to customers in the Expanded Area. He stated that the Company manages construction of backbone facilities using a competitive bidding process to ensure that the cost incurred for the facilities is the least cost approach. Additionally, construction of both water and wastewater facilities are subject to inspection and monitoring by IAWC. He noted that IAWC 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. IAWC consistently demonstrated that its water and wastewater systems are well operated and its equipment is well maintained. Additionally, he explained, IAWC is a subsidiary of American Water Works Company which is more than 100 years old and has subsidiaries in 16 States with nearly 6,900 employees. This suggests that resources for supervision, operations, and plant facilities are available if needed. Further, Mr. Johnson noted that the Company stated that they employ construction managers and engineers who are experienced in managing backbone plant construction efficiently. He stated that policies and procedures are in place to ensure efficient construction and supervision. All construction by Terra Cotta and Westminster (under the applicable agreements) will be in accordance with plans and specifications approved by IAWC. Also, Mr. Johnsons stated that IAWC will monitor and inspect all construction

Mr. Johnson therefore recommended that the Commission grant IAWC a Certificate to provide water and wastewater service for the proposed Expanded Area, which is legally described in IAWC EX BK 3.4 Parcels A1, A2, A3 and A4.

Staff witness Freetly testified regarding IAWC's ability to finance the proposed construction under Section 8-406(b)(3) of the Act. She described the Company's proposals and proposed funding for the plant expansions and main extensions. She testified that IAWC estimates that it will invest \$1.3 million over the first five years through refunds as customers connect into the system. This investment is in addition to IAWC's \$322,202 initial investment in the TC Sewer Backbone Plant. IAWC will initially finance the cost of its proposal through internally generated funds and short-term debt, if needed. Ms. Freetly stated that any short-term debt would eventually be replaced by

a combination of long-term debt and equity. Ms. Freetly testified that IAWC will not finance the construction of the WM Water Mains, the service lines or the WM Wastewater Mains. Rather, IAWC will reimburse the developers at the time customers attach. Thus, IAWC's investment in the proposed main extensions would quickly produce new revenue. Moreover, Mr. Freetly explained, IAWC is capable of raising the funds required to pay the required refunds. Ms. Freetly noted that the Company's net utility plant was \$637,354,257 as of December 31, 2006; its total utility operating revenues for the twelve months ended December 31, 2006, was \$170,354,474.9, while IAWC's initial costs would be \$322,202. That amount represents 0.05% of the Company's net utility plant and 0.19% of the Company's total utility operating revenue. The Company's total investment of \$1.3 million represents 0.20% of the Company's net utility plant and 0.76% of the Company's total utility operating revenue. Thus, Ms. Freetly testified, the cost of the proposed expansion would be de minimis relative to the Company's total utility plant and operating revenue. Further, she notes that IAWC's total capital, comprised of short-term debt, long-term debt and common equity, was \$546 million as of December 31, 2006. The total investment of \$1.3 million represents 0.23% of IAWC's December 31, 2006 capital structure. Ms. Freetly stated that IAWC has met the requirement of Section 8-406(b)(3) of the Act and concluded that the Company is capable of financing the proposed main extensions without significant adverse financial consequences for the utility or its customers.

#### **B. Request for Approvals**

Mr. Johnson testified that IAWC is not asking for Commission approval of the Agreement and Westminster Agreement. Rather, the Company seeks approval of certain provisions of the Agreements as they pertain to variances from Commission Rules and Company tariffs.

#### **C. Requested Approvals for Water Backbone Plant**

Mr. Johnson testified that IAWC is asking for approval of Section III.B.1 of the Agreement, which modifies the water refund methodology approved in the Docket 00-00194 Order for the Terra Cotta Water Backbone Plant. The modification provides for per P.E. refunds as customers attach throughout the original Terra Cotta Area plus the newly-acquired areas (TC Land) rather than in only the Original Terra Cotta Area. Mr. Johnson also testified that IAWC seeks approval of provisions of Section IV of the Agreement, which describes the agreed arrangements for the funding of additional water backbone plant.

Mr. Johnson testified that IAWC's Original Agreement with Terra Cotta stated that the reimbursement payments or refunds for the Terra Cotta Water Backbone Plant would be determined by dividing the actual cost of the Terra Cotta Water Backbone Facilities by the number of P.E.s that can be served by the backbone facilities. The refund was to be made to Terra Cotta as customers from the Original Terra Cotta Area attached to the system. Mr. Johnson explained that, under the Agreement, the refund would be paid as customers from both the Original Terra Cotta Area and the newly-

acquired area attach to the system. Mr. Johnson stated that he did not object to the Company's proposal. He explained that including the newly acquired area into the Original Terra Cotta Area refund mechanism allows Terra Cotta to potentially collect refunds in a more timely fashion. The additional acreage has been obtained by Terra Cotta and the plant facilities originally built by Terra Cotta and transferred to IAWC will be serving the newly acquired area. Therefore, he concluded, it is reasonable for Terra Cotta to get refunds for connection to the plant facilities by customers of the newly acquired area.

Mr. Johnson also testified that the Original Agreement requires Terra Cotta's consent for use of the Terra Cotta Water Backbone Plant outside the Original Terra Cotta Area. He explained that, under the Agreement, IAWC would provide additional water backbone plant for the TC Land without investment by Terra Cotta and Terra Cotta has agreed that the water backbone plant can be used to serve any portion of the Combined Area outside the Original Terra Cotta Area without their consent, to the extent that the capacity of such facilities is adequate. Mr. Johnson stated that he did not object Company's proposal in this regard. He agreed with IAWC that the flexibility in the use of the Terra Cotta Water Backbone Plant will allow it to more efficiently serve customers in the expanded area.

#### **D. Requested Approval for Wastewater Backbone Plant**

Mr. Johnson stated that IAWC's current Rule 16(c)(ii) requires that IAWC pay a refund to the developer as customers connect to the wastewater plant. The per customer refund amount is equivalent to the estimated amount of annual treatment revenue to be received from each customer. Mr. Johnson testified that IAWC is requesting a variance from Rule 16, and is proposing an alternative under which it provides an investment in the amount of \$322,202 for the Existing TC Wastewater Backbone Facilities and Initial Plant Expansion. The investment consists of an \$86,309 refund of the cost for the Terra Cotta sewer backbone plant, and a \$235,893 investment in the initial plant expansion. Mr. Johnson stated that this amount is intended to cover the obligation that IAWC, as successor to Citizens, has to refund the cost advanced to Citizens for the TC Sewer Backbone Plant under the terms of the Docket 00-0194 Order and related appellate decision, and provide a reasonable level of investment in the Initial Plant Expansion. The Order in Docket No. 00-0194 stated that IAWC must give refunds for sewer backbone plant to Terra Cotta. The Commission concluded that the principles of 83 Ill. Adm. Code Section 600.370(a) would apply in evaluating proposed levels of developer contribution for sewer backbone plant. The Company, in Docket No. 00-0194, requested approval of an agreement between itself and Terra Cotta whereby no refunds were to be given for sewer backbone plant. Staff argued that refunds should be given. The Commission agreed with Staff, and the Commission's Order in Docket 00-0194 was upheld by the Illinois Appellate Court. (*IAWC v. ICC*, 331 Ill. App. 3d 1030, 1037; 772 N.E.2d 390, 396; (2<sup>nd</sup> Dist. 2002))

Mr. Johnson stated that he did not object to the Company's proposal. He stated that IAWC's proposal provides a total investment/refund amount of \$322,202, which meets the Commission's guideline for providing refunds for wastewater backbone plant. It will also provide Terra Cotta with a guaranteed refund amount. Mr. Johnson testified that under IAWC's current Rules (Rule 16.04(c)(ii)), IAWC would pay a refund to the developer as customers connect to the wastewater plant. The per customer refund amount is equivalent to the estimated amount of annual treatment revenue to be received from each customer, which is estimated to be \$327.48 per residential customer. Assuming 2,070 new residential customers attach in the 10 year period, Mr. Johnson noted that under Rule 16 the potential refund amount would be approximately \$677,883. However, many times developments do not reach their anticipated full capacity or the 10 year refund time period that is followed in Rule 16 is passed before the developments are completely built. Mr. Johnson concluded that IAWC's proposed investment/refund provides guaranteed money upfront to Terra Cotta, while at the same time the investment/refund amount is below the level that Chicago Metro Division customers might otherwise be required to support in rates if Rule 16 were followed and full-build out were to occur.

#### **E. Requested Approvals for Water Main Refunds**

Mr. Johnson stated that Westminster will construct water mains for the TC Acres in accordance with provisions consistent with terms of the Standard Water Rules of the Chicago Metro Division's Rules, Regulations and Conditions of Service. He explained that the Company proposes to refund to Westminster, for each new customer that connects to WM Water Mains and taking service within the TC Acres, during the first ten-year period following construction of WM Water Mains, an amount equal to one and one-half times the average annual water revenue paid to IAWC by other similarly situated customers. These refunds would be paid to Westminster during the first ten-year period following transfer of the WM Water Mains. Mr. Johnson noted that the total amount refunded would not exceed the total cost to Westminster of the construction costs of the water mains.

Mr. Johnson stated that he did not object to the Company's proposal as the refund mechanism follows the Company's current Rules, Regulations and Conditions of Service tariffs. He also did not object to IAWC's proposal for water main refunds as stated in the Westminster Agreement for the same reason.

#### **F. Requested Approval for Wastewater Main Refunds**

Mr. Johnson testified that Westminster will construct, at its expense, wastewater collection mains within the Westminster Land and transfer them to IAWC. IAWC will then refund to Westminster an amount determined in accordance with the "Sewer Refund Methodology" approved in Docket No. 01-0645. Mr. Johnson explained that the Sewer Refund Methodology provides refunds to the developer based upon one and one-half times the amount of estimated per customer annual sewer collection service revenue from a customer similarly situated to each "Original Prospective Customer"

(those customers who sign contracts for at least one year's sewer service and guarantee to the Company that they will take sewer service at their premises within thirty days after the date sewer service is available), and contracts for at least one year of sewer service, commencing within 30 days after the date service is first available. The total amount of the refund paid to the developer could not exceed the total cost of construction of the wastewater mains. Mr. Johnson stated that, because the Sewer Refund Methodology is considered a special contract under IAWC's Rule 11.01(m) of their Rules, Regulations and Conditions of Service tariffs, IAWC must receive Commission approval. Mr. Johnson stated that he did not object to the Company's proposal since it parallels the water main refund mechanism prescribed by 83 Ill. Adm. Code 600.370(b) and was approved by the Commission in Docket No. 01-0645.

Mr. Johnson also explained that the Company has stated that the contribution/refund provisions of the Standard Water Rules and Standard Sewer Rules will apply in connection with the construction of water and sewer mains in the Combined Area. With reference to the size of the mains proposed and how the cost difference between an eight inch main and a larger size would be handled, Mr. Johnson explained that the Company stated that proposed water mains will range in size from 8" to 12". The developers will pay for the additional cost of larger mains required for domestic and fire protection needs of the development.

#### **G. Depreciation**

IAWC is proposing to use the Chicago Metro Division depreciation rates for the Combined Area, as currently in effect or as subsequently revised. Mr. Johnson had no objection to IAWC using the same depreciation rates that are currently in effect for the Chicago Metro Division, which includes the Original Terra Cotta Area.

#### **H. Rules and Regulations**

Mr. Johnson explained that the Company's existing Chicago Metro service area Rules, Regulations and Condition of service tariffs for water (ILL.C.C. No. 4) and sewer (ILL.C.C. No. 5) will be applicable to the Expanded Area. He agreed with the Company's proposal to use current Rules, Regulations and Conditions of Service tariffs that are on file with the Commission for customers of the Expanded Area since they were approved for the Original Terra Cotta service area.

#### **I. Accounting Entries**

Mr. Kahle recommended approval of the accounting entries proposed by the Company. He also recommended that: 1) the Company file the journal entries recording the transaction with the Chief Clerk's Office and a copy to the Commission's Manager of Accounting within 60 days of the transaction, and if the transaction has not occurred within 6 months of the date an order is entered in this proceeding, the Company should file a status report with the Commission and a copy to the Commission's Manager of Accounting; and 2) the Company should file a copy of the

Agreement and the Westminster Agreement with all attachments with the Chief Clerk's Office and a copy to the Commission's Manager of Accounting within 60 days of the transaction being executed.

#### **J. Rates**

Staff witness Harden summarized the rates currently in effect for the Chicago Metro area. She noted that Mr. Khan testified "the Combined Area is presently expected to include a total of approximately 2,070 residential units. IAWC also anticipates that governmental (schools), retail and other commercial entities will be developed within the Combined Area, as residential development occurs." She further noted the Company has estimated the number of new customers through 2011, and has shown a steady increase in customers in Oak Grove, the South 40 acres, the Northeast 160 acres and the existing Terra Cotta service territory. She concluded that the billing determinants are reasonable based on the estimated build out of this area. She recommended that the Commission find that the Company's proposed water and wastewater rates for the Expanded Area are reasonable and should be put in place before the Company offers water and wastewater service.

#### **IV. Commission Analysis and Conclusion**

For the reasons given by IAWC and Staff, the relief requested by IAWC in its Amended Petition is reasonable and should be granted, subject to the conditions recommended by Staff. The Commission finds that the provisions of Section 8-406 of the Act have been met and that the public convenience and necessity require the provision by IAWC of public water service to, and the conduct by IAWC of a water public utility business in, the Expanded Area, as set forth above. The Commission also finds that, under IAWC's contribution and refund proposals for water backbone plant, sewer backbone plant and water and wastewater mains, the investment levels proposed by IAWC are reasonable. If the Company were to receive lower levels of contributions, or provided higher levels of refunds, the Company's investment in water and sewer rate base would increase, reducing the rate of return and requiring other customers in the Chicago Metro Division to subsidize new customers in the Combined Area. With the proposed level of investment by IAWC, Terra Cotta and Westminster, existing Metro Division customers will not be required to subsidize the water or wastewater service provided to new customers within the Combined Area.

The Commission further concludes, with respect to the Agreement and the Westminster Agreement, that: (1) Section III.B.1 of the Agreement, which modifies the water refund methodology approved in the Docket 00-0194 Order for the TC Water Backbone Plant to permit per P.E. refunds as customers attach throughout the TC Land, is reasonable and should be approved; (2) provisions of Sections III.B (2) and (3) of the Agreement, applicable to the Original Terra Cotta Area and relating to refunds for water main extensions, are reasonable and should be approved to the extent they differ in minor respects from the comparable provisions of the Original Agreement; (3) the agreed arrangements for the funding of future water backbone plant described in

provisions of Section IV of the Agreement are reasonable and should be approved; (4) construction of the Initial Plant Expansion is reasonably necessary and the arrangements for contribution of wastewater backbone facilities set forth in the Agreement are reasonable and should be approved; (5) IAWC's funding proposal for the TC Sewer Backbone Facilities and Initial Plant Expansion, including a variance from the provisions of Rule 16 with regard to the amount of the required developer contribution for wastewater backbone capacity is reasonable and should be approved, and the \$322,202 investment for the Existing TC Sewer Backbone Facilities and Initial Plant Expansion (consisting of the \$86,309 refund of the cost advanced for the TC Sewer Backbone Plant, and a \$235,893 investment in the Initial Plant Expansion) is reasonable and should be approved; (6) the funding of WM Water Mains as set forth in the Westminster Agreement (Section E) is reasonable and should be approved; and (7) the funding of WM Sewer Mains as set forth in the Westminster Agreement (under the "Sewer Refund Methodology" approved in Docket 01-0645) is reasonable and should be approved.

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

## **VI. Findings and Ordering Paragraphs**

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

- (1) IAWC is a public utility engaged in the business of furnishing water and wastewater utility service to the public in portions of the State of Illinois and is a public utility within the meaning of Section 3-105 of the Act;
- (2) the Commission has jurisdiction over the Petitioner and the subject matter hereof;
- (3) the facts recited and conclusions reached in the prefatory portion of this Order and conclusions reached in the Commission Analysis and Conclusion section (Section VI) are supported by the record and are hereby adopted as findings of fact and law;
- (4) no public water utility company, other than IAWC, within, or within a reasonable proximity to, the Expanded Area is willing or able to render public water utility service;
- (5) IAWC has demonstrated that the proposed certificate is necessary to provide adequate, reliable, and efficient service to customers within the Expanded Area;
- (6) IAWC has demonstrated that the proposed extension of services is the least-cost method of providing water and sewer service to customers in the Expanded Area;

(7) IAWC 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;

(8) The Company's proposed certificated service area, which is legally described in IAWC EXHIBIT 3.0, IAWC EX BK 3.4, should be approved;

(9) the provision of public water service in the Expanded Area will impose no financial burden on either IAWC or its customers;

(10) certain provisions of the Agreement and the Westminster Agreement should be approved as set forth in the Commission Analysis and Conclusion section (Section IV);

(11) the form of accounting entries for the cost of water and wastewater facilities and related developer deposits or contributions, as proposed by IAWC and set forth in IAWC Exhibit MJH-4.1, are reasonable and should be approved;

(12) IAWC should file with the Commission the actual journal entries recording the transactions set forth in the Agreement and Westminster Agreement with the Chief Clerk's Office, with a copy to the Commission's Manager of Accounting, within 60 days of the transactions, and if any of the transactions have not occurred within 6 months of the date an order is entered in this proceeding, the Company should file a status report with the Commission and a copy to the Commission's Manager of Accounting;

(13) the Company should file a copy of the Agreement, with all attachments, with the Chief Clerk's Office, with a copy to the Commission's Manager of Accounting, within 60 days of the Commission's final order in this proceeding;

(14) the Company should file a copy of the Westminster Agreement, with all attachments, with the Chief Clerk's Office, with a copy to the Commission's Manager of Accounting within 60 days of execution;

(15) the proposed water rates for the Expanded Area, which are the same as those for the Chicago Metro Division, are reasonable and should be approved;

(16) the depreciation rates for IAWC's Chicago Metro Division should also be approved for the Expanded Area;

(17) the Company's existing Chicago Metro service area Rules, Regulations and Condition of service tariffs for water (ILL.C.C. No. 4) and sewer (ILL.C.C. No. 5) should be made applicable to the Expanded Area;

(18) IAWC should adhere to the terms of the Agricultural Impact Mitigation Agreement between IAWC and the Illinois Department of Agriculture, dated November 23, 1992.

IT IS THEREFORE ORDERED by the Commission that a Certificate is hereby granted to Petitioner pursuant to Section 8-406 of the Act 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 water and sewer systems and, in connection therewith, the provision of public utility water and sewer service by Illinois-American Water Company in the Expanded Area, as shown in a map identified as IAWC Exhibit BK 3.3 and as legally described in IAWC EX BK 3.4 (Parcels A1, A2, A3 and A4).

IT IS FURTHER ORDERED that certain provisions of the Agreement and the Westminster Agreement are approved as set forth in the Commission Analysis and Conclusion section (Section VI);

IT IS FURTHER ORDERED that the form of accounting entries for the cost of water and wastewater facilities and related developer deposits or contributions, as set forth in IAWC Exhibit MJH-4.1, are hereby approved;

IT IS FURTHER ORDERED that the proposed water rates for the Expanded Area, which are the same as those for the Chicago Metro Division, are hereby approved;

IT IS FURTHER ORDERED that the depreciation rates for IAWC's Chicago Metro Division are hereby approved for the Expanded Area;

IT IS FURTHER ORDERED that the Company's Chicago Metro service area Rules, Regulations and Condition of service tariffs for water (ILL.C.C. No. 4) and sewer (ILL.C.C. No. 5) are applicable to the Expanded Area;

IT IS FURTHER ORDERED that IAWC shall comply with findings (12), (13), (14), and (18) of this Order; and

IT IS FURTHER ORDERED that this Order is final and is not subject to the Administrative Review Law.

By order of the Commission this \_\_\_\_ day of \_\_\_\_\_, 2008.