

Aqua Illinois, Inc.)
)
Proposed general increase in)
Water rates for the Kankakee)
Water Division.)

**STIPULATION BETWEEN STAFF AND AQUA ILLINOIS, INC. CONCERNING
RESOLUTION OF THE CONTESTED ISSUES IN ICC DOCKET 10-0194**

Aqua Illinois, Inc. ("Aqua" or "Company") and the Staff of the Illinois Commerce Commission ("Staff"), by their respective counsel, hereby enter into this stipulation addressing a determination of a proposed reasonable return on equity ("ROE") for the Company in this proceeding.

STIPULATED RESOLUTION

In order to reduce the matters at issue in this proceeding, Aqua and Staff hereby agree and stipulate that, based upon the pre-filed testimony of Aqua witness Walker (Aqua Exs. 3.0 Rev., 6.0 Rev., and 9.0) and Staff witness Kight-Garlich (Staff Exs. 3.0 and 8.0) submitted in this proceeding, a reasonable ROE for Aqua's Kankakee Division is 10.03%. The derivation of this proposed ROE is as follows:

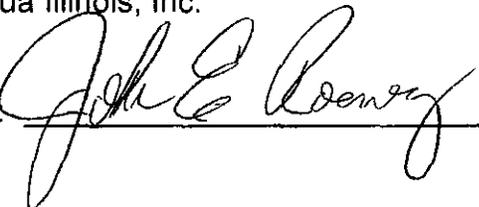
Aqua and Staff agree and stipulate that the cost of common equity estimates for smaller samples are prone to more measurement error (ICC Staff Ex. 8.0, p. 5, lines 97-98; Aqua Ex. 9.0, p. 7, line 150). Given this fact, Aqua and Staff agree to use Staff's proposed ROE analysis, subject to revising the weighting of Staff's Water Sample Group and Utility Sample Group to the following: 1/3 weighting to Staff's Water Sample and 2/3 weighting to Staff's Utility sample. This weighting results in a ROE of 10.03% for Aqua.

In light of this stipulation regarding ROE, the Company agrees that, for purposes of this case only, it will no longer oppose the other recommendations or adjustments proposed by Staff in Staff's rebuttal testimony: the resulting revenue requirement is set forth in the attached schedules.

Aqua and Staff agree that the foregoing stipulation is based upon the record in this proceeding, and that both Aqua and Staff can present alternative arguments on all issues in future Aqua rate cases.

Dated: August 26, 2010

Aqua Illinois, Inc.

By:  _____

Staff of the Illinois Commerce Commission

By:  _____

Aqua Illinois, Inc. - Kankakee Water Division
Statement of Operating Income with Adjustments
For the Test Year Ending December 31, 2011

Line No.	Description	Company Pro Forma Present (Co. Sch. C-1/C-2.1)	Staff Adjustments (Appendix, Pages 2 & 3)	Staff Pro Forma Present (Cols. b+c)	Company Proposed Increase (Co. Sch. C-1)	Staff Gross Revenue Conversion Factor	Proposed Rates With Staff Adjustments (Cols. d+e+f)	Adjustment To Proposed Increase	Staff Pro Forma Proposed (Cols. g+h)
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	(i)
1	Operating Revenues	\$ 18,272,764	\$ -	\$ 18,272,764	\$ 4,327,379	\$ 3	\$ 22,600,146	\$ (1,109,637)	\$ 21,490,509
2	Other Revenue	184,986	-	184,986	21,748	-	206,734	-	206,734
3	Total Operating Revenue	18,457,750	-	18,457,750	4,349,127	3	22,806,880	(1,109,637)	21,697,243
4	Uncollectible Accounts	241,899	-	241,899	56,998	2	298,899	(14,543)	284,356
5	Salaries & Wages, Employees	2,124,021	(123,199)	2,000,822	-	-	2,000,822	-	2,000,822
6	Salaries & Wages, Officers	123,199	-	123,199	-	-	123,199	-	123,199
7	Employee Pensions & Benefits	972,676	(37,254)	935,422	-	-	935,422	-	935,422
8	Purchased Power & Fuel	767,647	(20,957)	746,690	-	-	746,690	-	746,690
9	Chemicals	724,960	(44,310)	680,650	-	-	680,650	-	680,650
10	Materials & Supplies	267,147	-	267,147	-	-	267,147	-	267,147
11	Contractual Services - Engineering	-	-	-	-	-	-	-	-
12	Contractual Services - Accounting	44,339	-	44,339	-	-	44,339	-	44,339
13	Contractual Services - Legal	14,832	-	14,832	-	-	14,832	-	14,832
14	Contractual Services - Management	750,969	(75,309)	675,660	-	-	675,660	-	675,660
15	Contractual Services - Other	1,509,012	-	1,509,012	-	-	1,509,012	-	1,509,012
16	Lease Expense	6,056	-	6,056	-	-	6,056	-	6,056
17	Transportation Expense	264,253	-	264,253	-	-	264,253	-	264,253
18	Insurance Expense	262,254	-	262,254	-	-	262,254	-	262,254
19	Regulatory Commission Exp. Amort.	124,102	(1,625)	122,477	-	-	122,477	-	122,477
20	Miscellaneous Expense	729,881	(29,749)	700,132	-	-	700,132	-	700,132
21	Depreciation	3,465,496	-	3,465,496	-	-	3,465,496	-	3,465,496
22	Amort. Of Utility Plant Acq. Adj.	(50,472)	-	(50,472)	-	-	(50,472)	-	(50,472)
23	Amortization Expense	154,148	-	154,148	-	-	154,148	-	154,148
24	Taxes Other Than Income	975,143	-	975,143	-	-	975,143	-	975,143
25		-	-	-	-	-	-	-	-
26	Total Operating Expense								
27	Before Income Taxes	13,471,562	(332,403)	13,139,159	56,998	2	13,196,159	(14,543)	13,181,616
28	State Income Tax	202,922	24,216	227,138	313,325	(1)	540,462	(79,942)	460,520
29	Federal Income Tax	901,889	107,619	1,009,508	1,392,581	2	2,402,091	(355,303)	2,046,788
30	Deferred Taxes and ITCs Net	(42,520)	-	(42,520)	-	-	(42,520)	-	(42,520)
31	Total Operating Expenses	14,533,853	(200,568)	14,333,285	1,762,904	3	16,096,192	(449,788)	15,646,404
32	NET OPERATING INCOME	\$ 3,923,897	\$ 200,568	\$ 4,124,465	\$ 2,586,223	\$ -	\$ 6,710,688	\$ (659,849)	\$ 6,050,839
33	Staff Rate Base (Appendix, Page 4, Column (d))								\$ 71,692,408
34	Staff Overall Rate of Return (Stipulation)								8.44%
35	Revenue Change (Col. (i) Line 3 minus Col. (d), Line 3)								\$ 3,239,493
36	Percentage Revenue Change (Col. (i), Line 3 divided by Col. (d), Line 35)								17.55%

Aqua Illinois, Inc. - Kankakee Water Division
Adjustments to Operating Income
For the Test Year Ending December 31, 2011

Line No.	Description	Subtotal	Production		Incentive	Employee	Parent Co.	Rate Case	Total
		Operating Statement Adjustments	Cost of Unaccounted-for Water (St. Ex. 6.0, Sch. 6.15)	(Source)	Compensation (St. Ex. 7.0, Sch. 7.1)	Benefits (St. Ex. 7.0, Sch. 7.2)	Service Chgs. (St. Ex. 7.0, Sch. 7.3)	Expense (St. Ex. 7.0, Sch. 7.4)	Operating Statement Adjustments
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(i)	(k)
1	Operating Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Other Revenue	-	-	-	-	-	-	-	-
3	Total Operating Revenue	-	-	-	-	-	-	-	-
4	Uncollectible Accounts	-	-	-	-	-	-	-	-
5	Salaries & Wages, Employees	-	-	-	(123,199)	-	-	-	(123,199)
6	Salaries & Wages, Officers	-	-	-	-	-	-	-	-
7	Employee Pensions & Benefits	-	-	-	-	(37,254)	-	-	(37,254)
8	Purchased Power & Fuel	-	(20,957)	-	-	-	-	-	(20,957)
9	Chemicals	(25,207)	(19,103)	-	-	-	-	-	(44,310)
10	Materials & Supplies	-	-	-	-	-	-	-	-
11	Contractual Services - Engineering	-	-	-	-	-	-	-	-
12	Contractual Services - Accounting	-	-	-	-	-	-	-	-
13	Contractual Services - Legal	-	-	-	-	-	-	-	-
14	Contractual Services - Management	-	-	-	-	-	(75,309)	-	(75,309)
15	Contractual Services - Other	-	-	-	-	-	-	-	-
16	Lease Expense	-	-	-	-	-	-	-	-
17	Transportation Expense	-	-	-	-	-	-	-	-
18	Insurance Expense	-	-	-	-	-	-	-	-
19	Regulatory Commission Exp. Amort.	-	-	-	-	-	-	(1,625)	(1,625)
20	Miscellaneous Expense	(29,749)	-	-	-	-	-	-	(29,749)
21	Depreciation	-	-	-	-	-	-	-	-
22	Amort. Of Utility Plant Acq. Adj.	-	-	-	-	-	-	-	-
23	Amortization Expense	-	-	-	-	-	-	-	-
24	NET OPERATING INCOME	-	-	-	-	-	-	-	-
25		-	-	-	-	-	-	-	-
26	Total Operating Expense								
27	Before Income Taxes	(54,956)	(40,060)	-	(123,199)	(37,254)	(75,309)	(1,625)	(332,403)
28	State Income Tax	3,961	2,924	-	8,994	2,720	5,498	119	24,216
29	Federal Income Tax	17,602	12,997	-	39,972	12,087	24,434	527	107,619
30	Deferred Taxes and ITCs Net	-	-	-	-	-	-	-	-
31	Total Operating Expenses	(33,393)	(24,139)	-	(74,233)	(22,447)	(45,377)	(979)	(200,568)
32	NET OPERATING INCOME	\$ 33,393	\$ 24,139	\$ -	\$ 74,233	\$ 22,447	\$ 45,377	\$ 979	\$ 200,568

Aqua Illinois, Inc. - Kankakee Water Division
Interest Synchronization Adjustment
For the Test Year Ending December 31, 2011

Line No.	Description (a)	Amount (b)
1	Rate Base	\$ 71,692,408 (1)
2	Weighted Cost of Debt	3.09% (2)
3	Synchronized Interest Per Staff	2,215,295
4	Company Interest Expense	<u>2,214,591</u> (3)
5	Increase (Decrease) in Interest Expense	<u>704</u>
6	Increase (Decrease) in State Income Tax Expense	
7	at 7.300%	<u>\$ (51)</u>
8	Increase (Decrease) in Federal Income Tax Expense	
9	at 35.000%	<u>\$ (228)</u>

(1) Source: (Appendix, Page 4, Column (d).

(2) Source: ICC Staff Exhibit 3.0, Schedule 3.01.

(3) Source: Company Schedule C-5.4, Line 17.

Aqua Illinois, Inc. - Kankakee Water Division
Adjustment to Cash Working Capital
For the Test Year Ending December 31, 2011

Line No.	Description	Amount	Source
(a)	(b)	(c)	(d)
1	Total Operating Expenses Before Income Taxes	\$ 13,181,616	ICC Staff Ex. 6.0, Schedule 6.1, Line 27, Col (i)
	Less:		
2	Uncollectible Accounts Expense	(284,356)	ICC Staff Ex. 6.0, Schedule 6.1, Line 4, Col (i)
3	Annual Amortization of Rate Case Expense	(122,477)	ICC Staff Ex. 6.0, Schedule 6.1, Line 19, Col (i)
4	Depreciation Expense	(3,465,496)	ICC Staff Ex. 6.0, Schedule 6.1, Line 21, Col (i)
5	Real Estate Tax Expense	<u>(177,974)</u>	Company Schedule B-8, Line 6, Col. (B)
6	Total Cash Operating Expenses	9,131,313	
7	45 (lag days) / 360 (30 day month year)	<u>12.50%</u>	45 / 360
8	Cash Working Capital Per Staff	\$ 1,141,414	Line 6 x Line 7
9	Cash Working Capital per Company	<u>1,182,761</u>	Company Schedule B-1, Line 14, Col. (E)
10	Adjustment to Working Capital	<u>\$ (41,347)</u>	Line 8 less Line 9