

Docket Nos.: 11-0059, 11-0141, and 11-0142 (Cons.)
Bench Date: 5/2/12
Deadline: 5/19/12

MEMORANDUM

TO: The Commission

FROM: Sonya J. Teague, Administrative Law Judge

DATE: April 26, 2012

SUBJECT: Great Northern Utilities, Inc.
Proposed general increase in water rates. (Tariffs filed on December 22, 2010)

Camelot Utilities, Inc.
Proposed general increase in water and sewer rates. (Tariffs filed December 30, 2010)

Lake Holiday Utilities Corporation
Proposed general increase in water rates. (Tariffs filed December 30, 2010)

RECOMMENDATION: Enter the attached Post-Exceptions Proposed Order on Rehearing (“PEPO”) and grant the request for oral argument.

On December 21, 2011, the Illinois Commerce Commission (“Commission”) granted the Applications for Rehearing filed by the Camelot Homeowner’s Association (the “Association”) and the Illinois Attorney General (the “Attorney General” or the “AG”) on the issue of the mitigation of rate shock.

An evidentiary hearing was convened before a duly authorized Administrative Law Judge on February 29, 2012 at the Commission’s offices in Chicago, Illinois. At the evidentiary hearing, Great Northern Utilities, Inc. (“Great Northern”), Camelot Utilities, Inc. (“Camelot”) and Lake Holiday Utilities Corporation (“Lake Holiday”) (collectively, the “Companies” or the “Utilities”), Staff of the Commission (“Staff”), the Association and the AG appeared and presented testimony. The record was subsequently marked “Heard and Taken”.

A Proposed Order was issued in this matter on April 13, 2012. On April 23, 2012, Briefs on Exceptions were filed by all of the parties. Reply Briefs on Exceptions were waived by the parties given the closely approaching deadline for Commission action in this proceeding, which is May 19, 2012.

On rehearing, the AG and the Association argue that a rate phase-in plan is necessary to mitigate the effects of rate shock on Great Northern and Camelot

customers. The Companies and Staff argue that the Commission should reject this argument and implement the full rate increases approved in the Final Order.

The AG proposed a rate phase-in plan in an effort to address rate shock. The AG's proposed plan will increase rates either by \$10 per month per year (equaling \$120 per year) or 20% of an average bill per year, whichever is greater. The Companies will be allowed to defer for future recovery the amount of revenue that exceeds these guidelines. The phase-in will take 9 years in the case of Great Northern, 10 years in the case of Camelot (water), and 6 years in the case of Camelot (sewer). The deferred amounts will be financed at 6.65%.

Staff made a secondary recommendation that if the Commission deems that a phase-in plan should be implemented, it should adopt the alternative phase-in plan proposed by Staff which is patterned after Commonwealth Edison Company's Rider RRS approved in *Commonwealth Edison Company*, Docket No. 06-0411 with certain modifications. Under Staff's proposed plan, rate caps will be implemented for the first three years of the phase-in plan but at different levels. The increase in an average customer bill will be capped at 40%, 25% and 10% below the uncapped bill levels per year in each of the years of 2012, 2013 and 2014. Participation in the plan will be voluntary and apply only to customers who opt-in by enrolling within a specified time period. The Companies will collect the deferral amounts during the last three years of the plan, 2015 through 2017, with a final adjustment to a participating customer's final bill if necessary. The deferral amounts will accrue carrying charges at a 3.20% annual rate.

None of the parties object to Staff's plan being implemented if the Commission determines that a phase-in plan is necessary. Staff and the Companies object to the adoption of the AG's plan. The Association does not take a formal position regarding which plan should be adopted but notes that Staff's plan seems to be a better option for customers.

The Companies take issue with the interest rates on deferral amounts proposed in the plans devised by the AG and Staff, particularly Staff's proposed rate, arguing that these plans are confiscatory because they do not allow the Companies to recover their overall cost of capital, which is 7.71%. The Companies also contend that a mechanism should be included if a plan is adopted for recovery of costs related to increased uncollectible account expense and administering the plan, either in the form of a rider or authorization to defer recovery until the next rate case.

The Companies and Staff maintain that if a plan is adopted, it should be optional. The AG and the Association argue that the adopted plan should be optional only if the Companies are not permitted to defer or otherwise recover the costs associated with modifying the billing system to allow the Companies to offer multiple billing options.

Additionally, the AG proposes that the Commission initiate an investigation into a possible consolidation of Utilities, Inc.'s ("UI") Illinois operations, including all operating companies, to determine whether there are rate mitigation possibilities on a company-

wide basis. The AG also proposes that UI prepare and file a cost of service study (“COSS”) for its entire Illinois operations for review and use in the investigation.

Finally, Staff recommends that the Commission include in this investigation, consideration of changes in UI’s rate design to a usage tier structure in order to encourage water conservation and thereby reduce customers’ bills.

The PEPO adopts Staff’s proposed rate phase-in plan. It finds that a rate phase-in plan is necessary to address the potential rate shock that Great Northern and Camelot customers may be experiencing and also finds that Staff’s proposed plan properly balances the interests of the ratepayers and the Companies. Additionally, the PEPO adopts Staff’s proposed 3.20% interest rate to be earned on the deferral balance, declines to adopt Staff’s optional feature but instead adopts the plan as a universal plan applicable to all customers, and declines to adopt the Companies’ proposal to include a mechanism for cost recovery related to increases in uncollectible account expense and administering the plan. The PEPO also recognizes the importance of the parties exploring the possibility of consolidating at least some of UI’s operating companies and directs the parties to work together informally to consider the possible benefits of consolidation. The PEPO further finds that a COSS is premature at this time and should only be undertaken once the parties have determined the extent of the possible consolidation. Finally, the PEPO declines to adopt Staff’s additional recommendation concerning consideration of a usage tiered structure rate design.

The PEPO reflects non-substantive changes made to the Proposed Order based on the Brief on Exceptions filed by the parties. Additionally, the PEPO addresses Staff’s argument in its Brief on Exceptions concerning the capabilities of the Companies’ current billing system. No changes, however, were made to the ultimate conclusions on any issues.

Oral Argument

The Companies request in their Brief on Exceptions oral argument to address “the issues associated with the Proposed Order on Rehearing’s determination the collection of the revenues necessary to provide utility service should be phased-in over six years.”

Section 9-201(c) of the Public Utilities Act (“Act”) requires the Commission to hear oral argument upon the request of any party, including an intervenor, who has submitted a post-hearing brief. The Companies filed a post-hearing brief and requested oral argument by the deadline for filing exceptions pursuant to Section 9-201(c) of the Act. Accordingly, they are entitled to present oral argument under the Act.

SJT: fs