

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois-American Water Company)
)
) Docket No. 14-0105
)
Application for the Issuance of a Certificate)
of Public Convenience and Necessity to)
Provide Water Service to Areas in the Illinois)
Counties of Hardin, Gallatin, Pope, and Saline)
and for the Approval of the Purchase of Certain)
Assets of Hardin County Water Company, in)
Accordance with Section 8-406 of the Illinois)
Public Utilities Act.)

SUPPLEMENTAL STAFF REPORT

Introduction

On August 9, 2013, P.A. 98-0213, codified as 220 ILCS 5/9-210.5, went into effect. That Section of the Public Utilities Act ("Act") provides an alternative procedure that a large public utility may choose in establishing the ratemaking rate base of a water or sewer utility that the large public utility is acquiring.

Among other things, Section 9-210.5 requires that if a large public utility elects the procedures of that Section, then three appraisals shall be performed and the average of those appraisals shall represent the fair market value of the water or sewer utility being acquired. 220 ILCS 5/9-210.5(c). These appraisers must be selected by the Illinois Commerce Commission's ("Commission") water department manager within 30 days after the water department manager is officially notified. *Id.* Each appraiser is to be engaged on reasonable terms approved by the Commission. 220 ILCS 5/9-210.5(c).

Additionally, Section 9-210.5(c) states:

Each appraiser shall be a disinterested person licensed as a State certified general real estate appraiser under the Real Estate Appraiser Licensing Act of 2002.

Each appraiser shall:

- (1) be sworn to determine the fair market value of the water or sewer utility by establishing the amount for which the water or sewer utility would be sold in a voluntary transaction between a willing buyer and willing seller under no obligation to buy or sell;

- (2) determine fair market value in compliance with the Uniform Standards of Professional Appraisal Practice;
- (3) engage one disinterested engineer who is licensed in this State to prepare an assessment of the tangible assets of the water or sewer utility, which is to be incorporated into the appraisal under the cost approach;
- (4) if the water or sewer utility is a public utility that is regulated by the Commission, request from the manager of the Accounting Department a list of investments made by the water or sewer utility that had been disallowed previously and that shall be excluded from the calculation of the large public utility's rate base in its next rate case; and
- (5) return its appraisal, in writing, to the water or sewer utility and large public utility in a reasonable and timely manner.

If the appraiser cannot engage an engineer, as described in paragraph (3) of this subsection (c) [above], within 30 days after the appraiser is engaged, then the Commission's water department manager shall recommend the engineer the appraiser should engage. The Commission's water department manager shall provide his or her recommendation within 30 days after he or she is officially notified of the appraiser's failure to engage an engineer and the appraiser shall promptly work to engage the recommended engineer. If the appraiser is unable to negotiate reasonable engagement terms with the recommended engineer within 15 days after the recommendation by the Commission's water department manager, then the appraiser shall notify the Commission's water department manager and the process shall be repeated until an engineer is successfully engaged.

Id.

On February 3, 2014, Illinois-American Water Company ("IAWC") filed its Application for Certificate of Public Convenience and Necessity and Approval of Asset Purchase Agreement under Section 8-406 and Section 9-210.5. *See, generally*, Application for Certificate of Public Convenience and Necessity and Approval of Asset Purchase Agreement.

On March 4, 2014, IAWC provided a letter to the Manager of the Commission's water department proposing three appraisers to contract with to determine the fair market value of the Hardin County Water Company ("Hardin County").

On March 4, 2014, Staff of the Illinois Commerce Commission ("Staff") notified IAWC by letter that it had approved the following three appraisers: (1) Volkert, Inc.; (2) Bernardin-Lochmueller & Associates, Inc.; and (3) DJ Howard & Associates, Inc. (See Staff Report, Attachment A, Appraisal Letter.)

On March 14 and 18, 2014, IAWC provided to Staff the signed contracts between IAWC and the three appraisers approved by the Commission's water department manager. (See Attachments 1, 2 and 3.)

On March 20, 2014, Staff filed a Staff Report recommending that the Commission (1) find the contracts contain reasonable terms, and (2) approve the contracts entered into between IAWC and the three appraisers by entering an Interim Order in this matter.

To further assist the Commission in its review of the Appraisal Engagement Agreements terms, Staff is providing this Supplemental Staff Report.

Staff's Analysis of Appraisal Engagement Agreements Terms

_____As set forth in the Staff Report filed March 20, 2014, Staff reviewed the three engagement agreements provided by the Company, and found the terms of each to be reasonable. Each contract met the requirements of Section 9-210.5 of the Act, and none conflicted with any Commission laws, rules, or regulations. More specifically, each contract arranges for the engagement of an Illinois licensed Professional Engineer, pursuant to Section 9-210.5(c). Additionally, each contract requires the appraiser to meet the standards and requirements set out in Section 9-210.5 of the Act, including the cost approach laid out in Section 9-210.5(c)(3).

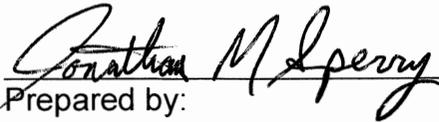
Moreover, the contracts each require the completion of the appraisal in conformance with the schedule set forth by the Administrative Law Judge, and requires completion one week before reports are due to Staff.

Finally, the maximum fees for the appraisers' work are not excessive. That conclusion is based in part upon Staff's experience with engineering fees in similar water and sewer system acquisitions. In addition, based on the Water Department's expectations of the appraisal value, each fee will be less than 5% of the appraised value, the maximum allowed to be included in the transaction and closing costs under Section 9-210.5(d).

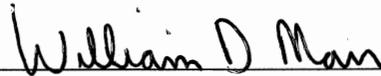
Recommendation

Staff has reviewed the terms of the engagement agreements, and consistent with the Staff Report filed March 20, 2014, Staff believes them to be reasonable.

Therefore, Staff recommends that the Commission (1) find the contracts contain reasonable terms, and (2) approve the contracts entered into between IAWC and the three appraisers by entering an Interim Order in this matter.



Prepared by:
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Illinois Commerce Commission



Reviewed by:
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Safety and Reliability Division
Illinois Commerce Commission



Approved by:
Harry Stoller, Director
Safety and Reliability Division
Illinois Commerce Commission

March 25, 2014

STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

Illinois-American Water Company

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Docket No. 14-0105

VERIFICATION OF HARRY STOLLER

STATE OF ILLINOIS)
)
COUNTY OF SANGAMON)

I, Harry Stoller, do on oath depose and state that I am competent to testify, that, if called as a witness herein, I would testify that the facts contained in the foregoing Supplemental Staff Report are true and correct, based upon personal knowledge.

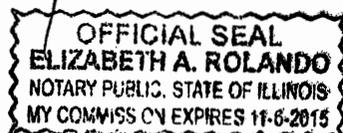


Harry Stoller

Signed and Sworn Before me this 25th day of March, 2014



Notary Public



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ILLINOIS COMMERCE COMMISSION

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Docket No. 14-0105

VERIFICATION OF WILLIAM D. MARR

STATE OF ILLINOIS)
)
COUNTY OF SANGAMON)

I, William D. Marr, do on oath depose and state that I am competent to testify, that, if called as a witness herein, I would testify that the facts contained in the foregoing Supplemental Staff Report are true and correct, based upon personal knowledge.

William D Marr
William D. Marr

Signed and Sworn Before me this 25th day of March, 2014

Laura H Young
Notary Public OFFICIAL SEAL
LAURA H YOUNG
NOTARY PUBLIC - STATE OF ILLINOIS
MY COMMISSION EXPIRES: 09/23/17

