

Docket No.: 14-0105
Meeting Date: 11/06/14
Deadline: 01/03/15

MEMORANDUM

TO: The Commission
FROM: Larry Jones, Administrative Law Judge
DATE: October 22, 2014
SUBJECT: Illinois-American Water Company ("IAWC")

Application for the Issuance of a Certificate of Public Convenience and Necessity ("Certificate") 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 ["Hardin"], in Accordance with Section 8-406 of the Illinois Public Utilities Act ["Act"].

RECOMMENDATION: Entry of the attached order (1) approving the purchase by IAWC of the Hardin water system assets, and (2) granting a Certificate to IAWC for the area served by Hardin.

In this proceeding, IAWC seeks approval to purchase the water distribution system assets of Hardin in accordance with the terms of an Asset Purchase Agreement ("Agreement"). IAWC also seeks issuance of a Certificate of Public Convenience and Necessity to provide water service to an area in and around Hardin's service territory, pursuant to Section 8-406 of the Act.

Hardin provides water service to 513 customers in Hardin County and four other counties. According to IAWC, the operators, including the primary operator who is 79 years old, perform all repairs, maintenance, meter reading, billing and other duties. The operators have indicated that they are no longer willing or able to operate and manage the water system, and Hardin is seeking to sell its water system assets to IAWC. For operational and rate purposes, Hardin will be served by IAWC's Interurban District.

Section 9-210.5

IAWC has elected to use the procedures set forth in Section 9-210.5 of the Act to establish its "ratemaking rate base" for the Hardin system. Section 9-210.5 went into effect on August 9, 2013. Section 9-210.5(b) offers an optional procedure whereby "a large public utility that acquires a water or sewer utility may request that the

Commission use, and, if so requested, the Commission shall use, the procedures set forth under this Section to establish the ratemaking rate base of that water or sewer utility at the time when it is acquired by the large public utility.”

Section 9-210.5 (c) provides, in part, “If a ... utility elects the procedures under this Section to establish the rate base of a water or sewer utility that it is acquiring, then 3 appraisals shall be performed. The average of these 3 appraisals shall represent the fair market value of the water or sewer utility that is being acquired.”

IAWC entered into engagement agreements with the three appraisers selected by Staff. An Interim Order was entered which approved the engagement agreements for the purposes described in Section 9-210.5, subject to conditions.

The average of the three appraisals is \$1,681,667, which “[represents] the fair market value of the water ... utility that is being acquired” pursuant to Section 9-210.5(c).

Section 9-210.5(d) provides, “The lesser of (i) the purchase price or (ii) the fair market value determined under subsection (c) of this Section shall constitute the rate base associated with the water or sewer utility as acquired by and incorporated into the rate base of the district designated by the acquiring large public utility under this Section, subject to any adjustments that the Commission deems necessary....”

Here, however, there is no difference between (1) the purchase price and (2) the fair market value, because Section 2.2 of the Agreement provides, in part, “The consideration for the System and the Acquired Assets (‘the Purchase Price’) shall be the fair market value of the System and the Acquired Assets as determined pursuant to the appraisal process set forth in 220 ILCS 5/9-210.5, et seq.”

Therefore, it is the fair market value that “constitute[s] the rate base” pursuant to Section 9-210.5(d). With appraisal fees, the ratemaking rate base is \$1,744,567.

Recommendation

The attached order would find that the Agreement should be approved. It would also find the “public convenience and necessity” criteria in Section 8-406(b) have been met, and that a Certificate should be issued to IAWC for an area consisting primarily of the area served by Hardin.

The accounting treatment proposed by the Commission Staff would be approved.

The deadline in the case is January 3, 2015.

LMJ/js