OFFICIAL FILE
ILLINOIS COMMERCE COMMISSION

ORIGINAL

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

ILLINOIS COMMERCE COMMISSION
JUL 27 10 40 AM '00
CHIEF CLERK'S OFFICE

CONSUMERS ILLINOIS WATER COMPANY	)	
	)	
Petition for authority to incur indebtedness	)	99-0449Supp.
in an aggregate principal amount not to	)	00-0422
exceed $4,500,000 and to enter into certain	)	
documents in connection therewith.	)	

DRAFT ORDER

On June 16, 2000, Consumers Illinois Water Company ("Consumers" or the "Company"), filed a verified petition with the Commission for authority under Section 6-102(b) of the Public Utilities Act (the "Act") (220 ILCS 5/6-1-2(b)) to issue and sell or incur on or before December 31, 2001 in one or more transactions indebtedness in an amount not to exceed $4,500,000 to finance or refinance various improvement projects described herein (the "2000 Project").

Consumers had previously filed, in Docket 99-0449 a verified petition for authority under Section 6-102(b) of the Act to issue and sell or incur on or before December 31, 2000 in one or more transactions indebtedness in an amount not to exceed $6,000,000 to finance or refinance a nitrate abatement project (the "1999 Project"). The Commission's Order in Docket 99-0449 (the "1999 Order") authorizing such issuance was entered January 26, 2000. Consumers has elected not to finance the 1999 Project in the manner described in the 1999 Order and seeks to modify and amend the 1999 Order to provide for the financing of the 2000 Project as more specifically described below.

Pursuant to notice given in accordance with the law and the rules and regulations of the Commission, the matter came on for hearing before a duly authorized Hearing Examiner at the Offices of the Commission in Springfield, Illinois, on July 26, 2000. At the hearing, the Company was represented by counsel and presented testimony and exhibits in support of the Petition. One witness testified on behalf of the Company: Kathy L. Pape, its Treasurer. One witness testified on behalf of the Commission Staff: Rochelle Langfeldt, a member of the Finance Department of the Financial Analysis Division. At the conclusion of the hearing, the matter was marked "Heard and Taken." Consumers also submitted a Draft Order.

STATUTORY BASIS FOR THE RELIEF SOUGHT BY PETITIONER

Section 6-102 of the Act provides that before the Company may issue indebtedness, the Commission must first authorize the issuance in an order setting forth the amount of the issue and the purpose of the bonds. Section 6-102(b) applies to bond issuances in a cumulative principal amount that are 10% or more in a calendar year, or 20% or more in a 24-month period, of the aggregate principal amount of bonds, notes, and other evidences of indebtedness outstanding, except in the situation where 90% or more of the proceeds of the indebtedness will be used for the purpose of refunding existing indebtedness. The evidence presented by Consumers, as described below, indicates that the amount of long-term debt expected to be outstanding at the date of issuance of the $4,500,000 of indebtedness for which approval is sought herein (such outstanding bonds, notes and indebtedness at May 31, 2000 being $37.4 million) will exceed 10% or more in a calendar year, or 20% or more in a 24-month period, of the aggregate principal amount of bonds, notes, and other evidences of indebtedness outstanding at the date of issuance of such new indebtedness. Further, less than 90% of the proceeds of such new indebtedness will be used for the purposes of refunding, redeeming or refinancing outstanding issues of the Company's securities. Accordingly, the provisions of Section 6-102(b) of the Act apply. Section 6-102(b) provides the Commission with the discretion to hold a hearing. The Commission has the power to refuse its approval of applications to issue securities if it finds that the issuance of the securities would be contrary to the public interest.

DESCRIPTION OF THE PROPOSED TRANSACTION

Consumers proposes to incur indebtedness in substantially the manner set forth in the 1999 Order and as described below. Because of the substantial similarity between Dockets 99-0449 and 00-0422 and to avoid confusion regarding Consumer's authority to issue indebtedness, Consumers amended its Petition in this Docket 00-0422 and supplemented its Petition in Docket 99-0449 so that, subject to obtaining the necessary authorization and approval from this Commission under Section 6-102(b) of the Act, Consumers will have authority to issue and sell or incur in one or more transactions indebtedness in the form of (i) one or more series of its First Mortgage Bonds (the "Taxable Mortgage Bonds"), and/or (ii) loan obligations to one or more governmental bodies or political subdivisions of the State of Illinois, including without limitation the Will-Kankakee Regional Development Authority (collectively, the "Governmental Issuer") in connection with the issuance by the Governmental Issuer of one or more series of tax-exempt water facility revenue bonds (the "Governmental Bonds") for the benefit of Consumers, such loan obligations to be secured by First Mortgage Bonds (the "Tax Exempt Mortgage Bonds"). The Taxable Mortgage Bonds and the Tax Exempt Mortgage Bonds are together referred to as the "Bonds."

Docket 99-0449 was amended to provide as follows:

(A) The maximum aggregate amount of the Bonds issuable pursuant to Docket 99-0449 will not exceed $4,500,000;

(B) no Bonds will be issued after December 31, 2001; and

(C) the Bonds will be issued for the purposes of financing or refinancing the 2000 Project (which consists of the Hobbie Transmission Main, Bradley Standpipe Transmission Main, and Bourbonnais Elevated Storage Tank as described on Petitioner's Exhibit 1.7) or other capital expenditures and paying costs of issuance.

Petitioner's witness Ms. Pape testified that the Company still expected to complete the nitrate abatement project described as the 1999 Project. The 1999 Project will be financed with internally generated funds and short term debt, and if necessary common equity. The modification to Docket 99-0449 is not intended to affect any conclusion or finding reached by the Commission in the 1999 Order regarding the 1999 Project.

To accomplish the financing for the 2000 Project, Consumers proposes the following:

a. In connection with the issuance of Taxable Mortgage Bonds, Consumers will execute and deliver one or more Supplemental Indentures (each a "Taxable Supplemental Indenture"), each for the purpose of supplementing and amending the Mortgage and Deed of Trust dated June 1, 1939, as supplemented, modified or amended (the "Consumers Indenture") from Consumers to State Street Bank and Trust Company, as successor trustee and creating a new series of First Mortgage Bonds to be issued thereunder. Each series of Taxable Mortgage Bonds will mature on a date or dates not more than 35 years from the date of issuance, will bear interest at a fixed rate or rates of interest (subject to the limitation described below), will be subject to redemption and tender for purchase and have such other characteristics as shall be determined by Consumers' Board of Directors in accordance with the terms and provisions of the Consumers Indenture and based on market conditions at the time of issuance but subject to the terms set out in this Order.

b. In connection with the Tax Exempt Mortgage Bonds, Consumers will execute, and deliver one or more Supplemental Indentures (each a "Tax Exempt Supplemental Indenture"), each for the purpose of supplementing and amending the Consumers Indenture and creating a series of Tax Exempt Mortgage Bonds to be issued to secure Consumers' obligations with respect to a corresponding series of Governmental Bonds to be issued by a Governmental Issuer. The Governmental Issuer will lend or make available the proceeds of each series of Governmental Bonds to Consumers pursuant to a loan agreement or similar instrument (the "Loan Agreement") between Consumers and the Governmental Issuer. It is intended that Company's payments required for principal, interest, redemption or purchase of each series of Tax Exempt Mortgage Bonds and under each Loan Agreement will be sufficient to pay the interest on and to redeem or pay at maturity the corresponding series of Governmental Bonds. Although the Governmental Issuer will be the issuer of the Governmental Bonds, as required to exempt the interest on such Bonds from federal and/or state income taxation, neither the credit of the Governmental Issuer nor that of the State of Illinois will be pledged for the payment of the Governmental Bonds. The Governmental Issuer's right, title and interest in the applicable series of Tax Exempt Mortgage Bonds and the Loan Agreement will be pledged and assigned to a trustee to be selected by Consumers (the "Bond Trustee") under one or more Indentures (each a "Bond Indenture") pursuant to which each series of the Governmental Bonds will be issued. The Governmental Issuer's right, title and interest in the applicable series of Tax Exempt Mortgage Bonds and the Loan Agreement so assigned shall constitute security for the payment of the Governmental Bonds and the interest and the redemption premium, if any, thereon. All payments by Consumers on each series of Tax Exempt Mortgage Bonds of principal, interest and premium, if any, will be made prior to or on the dates when the corresponding payments are required to be made on the Governmental Bonds. Each series of Tax Exempt Mortgage Bonds (and the corresponding Governmental Bonds) will mature on a date or dates not more than 35 years from their date of issuance, will bear interest at fixed rates of interest (subject to the limitation described below), will be subject to redemption and tender for purchase and have such other characteristics as hereafter shall be determined by Consumers' Board of Directors in accordance with the terms and provisions of the Consumers Indenture, the applicable Loan Agreement, and applicable Bond Indenture and based on market conditions at the time of issuance but subject to the terms set out in this Order.

c. The Taxable Mortgage Bonds will be issued to one or more institutional investors (each a "Purchaser") pursuant to a private placement made directly by Consumers or through one or more placement agents (each a "Placement Agent"). Each such purchase will be pursuant to a bond purchase agreement or similar contract (each a "Purchase Agreement") pursuant to which Consumers will agree to issue the Taxable Mortgage Bonds and the Purchaser will agree to purchase the Taxable Mortgage Bonds, all on the terms and conditions set forth therein. Consumers expects to pay any Placement Agent a fee for its services in connection with the issuance of a series of Taxable Mortgage Bonds in an amount not to exceed 0.5% of the principal amount thereof.

d. At the request of Company, the Governmental Issuer will issue and sell for cash each series of Governmental Bonds (i) to one or more underwriters (each an "Underwriter") pursuant to a public offering of the Governmental Bonds or (ii) pursuant to a private placement to one or more Purchasers. In connection with any public offering, Consumers, the Governmental Issuer and the Underwriter will enter into a bond purchase agreement or underwriting agreement ("Underwriting Agreement") whereby the Underwriter will agree to purchase the Governmental Bonds and reoffer such Governmental Bonds to the public. The Underwriter will pay a price of 100% of the principal amount of the bonds, less a commission or underwriting discount in an amount not to exceed 3% of the principal amount thereof. In connection with a private placement, Consumers, the Governmental Issuer and the Purchaser will enter into a Purchase Agreement. In connection with a private placement of Tax Exempt Mortgage Bonds, Consumers expects to pay any Placement Agent a fee for its services in connection with the issuance of a series of Tax Exempt Mortgage Bonds in an amount not to exceed 0.5% of the principal amount of the Tax Exempt Mortgage Bonds.

e. If Consumers can obtain a bond insurance policy at a cost which will result in debt service on any series of Bonds, on a present value basis, being less than the debt service on such Bonds without such bond insurance policy, Consumers will purchase such a policy, in which event the policy premium will be paid out of proceeds from sale of such Bonds as an expense of the offering. Such a policy would constitute a guaranty by the issuer of the bond insurance (the "Bond Insurer") of payments of principal and interest on the applicable Bonds. In connection with any bond insurance, Consumers may enter into an insurance agreement or reimbursement agreement with the Bond Insurer (an "Insurance Agreement") obligating Consumers to reimburse the Bond Insurer for any amounts paid by the Bond Insurer on Consumers' Bonds and including any covenants of Consumers or conditions required by such Bond Insurer.

f. The interest rate on the Governmental Bonds and corresponding Tax Exempt Mortgage Bonds, determined at the time of sale, shall not exceed a rate equal to the rate shown by the most recently available Revenue Bond Index as published in The Bond Buyer, plus 85 basis points. The interest rate on the Taxable Mortgage Bonds, determined at the time of sale, shall not exceed a rate equal to the most recently available yield on 30 Year U.S. Treasury Bonds as published in The Bond Buyer or the Wall Street Journal, plus 235 basis points.

Promptly after the issuance of each series of Taxable Mortgage Bonds or Governmental Bonds, Consumers will file a Special Report with the Commission setting forth applicable information with respect to such financing including, the issuance date, the exact principal amount, purchase price, the maturity date or dates, the interest rate or rates or method of determining the same, the interest payment dates, the redemption or tender provisions, the amount of any bond insurance premium, the names of each Purchaser, Placement Agent, Underwriter, Bond Trustee, Bond Insurer and Governmental Issuer and the Underwriter's or Placement Agent's discount or commission. A copy of the final form of the applicable documents for a series or issuance will be filed with the applicable Special Report.

The Trustee is not, and none of the Bond Trustee, the Underwriters, the Purchasers, the Placement Agents, the Governmental Issuer or the Bond Insurer is expected to be, an "affiliated interest" of Consumers as defined in the Act. Consumers will not enter into any transaction with any "affiliated interest" pursuant to the financings without seeking the further approval of the Commission.

THE COMPANY'S FINANCIAL CONDITION

The Company introduced into evidence a statement of its financial condition as of June 30, 2000; its balance sheet and statement of reinvested earnings as of June 30, 2000; its income statement for the twelve months ended June 30, 2000; its Computation of Earnings applicable to Bond Interest for the 12-month period ended June 30, 2000. From the Company's evidence, the following data have been developed as of June 30, 2000.

Assets and Other Debits

Utility Plant	$137,949,211
Less: Accumulated Depreciation	(36,538,113)
Other Plant, CWIP, Adj., Net	4,473,996
Net Utility Plant	$105,885,094
Other Assets	5,999,074
Deferred Debits	7,501,254
Total Assets and Other Debits	$119,385,422

Liabilities and Other Credits

Common Equity	$ 39,542,901
Preferred Stock and Premium	401,150
Total Equity	$ 39,944,051
Long Term Debt	$ 37,390,377
Short Term Debt	2,000,000
Current and Accrued Liabilities	4,345,131
Deferred Credits	16,461,589
Other Liabilities	2,574,470
Contributions in Aid of Construction	19,244,275
Total Liabilities and Other Credits	$119,385,423

Petitioner's witness Ms. Pape testified as to the Company's capital structure and anticipated financings. She indicated that the Company had determined not to issue $6,000,000 of indebtedness for purposes of the 1999 Project. She further indicated that the Company's recent projections indicated a need for the $4,500,000 in Bonds as well as an equity issuance of $3,000,000 in common stock which likely would occur prior to December 31, 2000. Such equity issue would be available to refinance short-term debt (including short-term debt incurred to temporarily finance the 1999 Project) and other general corporate purposes. Petitioner is not seeking approval of the issuance of the common stock in this proceeding and will seek such approval at an appropriate time. Based on these factors, the Company's expected capitalization following issuance of the Bonds and assuming the $3,000,000 of additional equity and an increase to retained earnings of $1,919,961 would be as follows:

Capitalization Ratios

	Amount Outstanding	Percent of Total Capital	Pro forma Adjustments	Pro forma Amount Outstanding	Pro forma Percent of Total Capital
Short-term Debt	$ 2,000,000	2.52%		$ 2,000,000	2.25%
Long-term Debt	$37,390,377	47.13%	$4,480,000[1]	$41,870,377	47.19%
Preferred Stock	$401,150	0.51%		$ 401,150	0.45%
Common Equity	$39,542,901	49.84%	$4,919,961	$44,462,862	50.11%
Total Capital	$79,334,428	100.00%	$4,480,000	$88,734,389	100.00%

[1] Also reflects sinking fund payment of $20,000 on City of Danville Note.

Ms. Pape testified that the pro forma capitalization ratios referred to above were reasonable and within Consumers' targeted range of capitalization ratios.

Ms. Langfeldt entered a statement into the record that she concluded Consumers can incur up to $4,500,000 in new long-term debt without adversely affecting the financial condition of the Company. For this reason, Ms. Langfeldt did not object to the proposed debt issuance.

USE OF THE PROCEEDS

The proceeds of the Bonds will be used to (1) finance a portion of Consumers' costs of construction of the 2000 Project, (2) finance a portion of Consumers' capital expenditures, (3) refinancing short-term debt incurred for such purposes and/or (4) pay certain expenses associated with the financing. To the extent Tax Exempt Mortgage Bonds are issued, all proceeds thereof will be used in a manner that satisfies the requirements of tax-exempt water facility revenue bonds.

Consumers will necessarily incur certain costs and expenses in connection with the financings and proposes to pay such costs and expenses from a portion of the proceeds obtained through the issuance of the Bonds. Expenses related to the Bonds will be recorded in account 181 (unamortized debt expense) and amortized out of income over the life of the related Bonds. Consumers estimates that the total expenses incurred in connection with the Bonds should not exceed $372,475 assuming all the Bonds are Tax Exempt Mortgage Bonds.

COMMISSION'S CONCLUSION

Based on the evidence, the Commission concludes that the Company's proposal to issue or incur indebtedness in an amount not to exceed $4,500,000 in the form of: (i) Taxable Mortgage Bonds and/or (ii) Tax Exempt Bonds be approved. The Commission further concludes that the proposed use of the proceeds from the Bonds and for the 2000 Project is reasonable and appropriate. Pursuant to Section 6-102 (a) and (b) of the Act, the Commission finds that the money, property or labor to be procured or paid for by the Bonds is reasonably required for the purposes specified in this order and issuance of the Bonds is reasonable and not contrary to the public interest.

FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the entire record herein and being fully advised in the premises, is of the opinion and finds that:

(1) Consumers Illinois Water Company, an Illinois corporation with its principal place of business in Kankakee, Illinois, is engaged in the business of furnishing water and sewer utility service to the public in the State of Illinois, and is a public utility within the meaning of the Act;

(2) the Commission has jurisdiction over Consumers and of the subject matter herein;

(3) the statements of fact set forth in the prefatory portion of this Order as supported by the evidence and the record and are hereby adopted as findings of fact;

(4) in view of the Commission's policy and practice of maintaining continuing surveillance of the books and records of Petitioner, it is not deemed necessary for purposes of this proceeding to make a physical valuation of Petitioner's property;

(5) the proceeds to be received from the issuance or incurrence of Bonds are reasonably required for the purposes of financing a portion of Consumers' costs of construction of the 2000 Project, financing a portion of Consumers' capital expenditures, refinancing short-term debt incurred for such purposes and/or paying certain expenses associated with the financing as specified herein;

(6) the issuance or incurrence of Bonds and the payment of costs and expenses associated with the proposed transactions, all as herein above described, through the carrying out of the agreements described herein and related transactions herein proposed, will be in the interest of Consumers and the public, and the Commission's approval thereof should reasonably be granted.

IT IS THEREFORE ORDERED that:

A. The Illinois Commerce Commission's consent, approval, and authorization is granted for:

(1) the issuance or incurrence by the Company of not to exceed $4,500,000 in aggregate principal amount of (i) one or more series of its Taxable Mortgage Bonds, and/or (ii) indebtedness under one or more Loan Agreements in connection with the issuance by the Governmental Issuer of one or more series of tax-exempt Governmental Bonds for the benefit of Consumers, such loan obligations to be secured by Consumers' Tax Exempt Mortgage Bonds;

(2) the application of the net proceeds from the issuance of the Bonds to the purposes set forth in Finding (5) herein and the payment by the Company of certain expenses in connection with transactions herein above set forth;

(3) The entering into and execution and delivery by the Company of a Supplemental Indenture with and to State Street Bank and Trust Company, as trustee under the Consumers Indenture in connection with each issuance of Bonds;

(4) The entering into and execution and delivery by the Company of a Loan Agreement and such other instruments required by the Governmental Issuer in connection with each issuance of Tax Exempt Mortgage Bonds;

(5) The entering into and execution and delivery by the Company of an Insurance Agreements with any Bond Insurer in connection with any municipal bond insurance policy as described in herein; and

(6) the taking of such other actions as are appropriate, reasonable, and proper to the accomplishment of the purposes set forth herein.

B. Approval is granted upon the following conditions:

(1) Consumers shall, before issuing any of the Taxable Mortgage Bonds, cause the following identification number assigned in the 1999 Order to be placed on the face thereof:

ILLINOIS COMMERCE COMMISSION

Identification No. 6142;

(2) Consumers shall, before issuing any of the Tax Exempt Mortgage Bonds, cause the following identification number assigned in the 1999 Order to be placed on the face thereof:

(3) Consumers shall file reports as required by 83 Ill. Adm. Code § 240 relative to the issuance or incurrence of the Bonds, and the application of the proceeds thereof and shall file with such reports copies of the financing documents entered into;

(4) Within 10 days after the closing of each issuance of Bonds, Petitioner shall file a report with the Commission including the final terms of such sale, the identity of the parties thereto and copies of the financing documents entered in connection therewith;

(5) without further order of this commission, none of the Bonds shall be issued or incurred by Consumers after December 31, 2001;

(6) without further order of this commission, none of the Bonds shall be issued or sold other than in compliance with the limitations described herein.

(7) proceeds realized from the sale of the Bonds shall be used only for the purposes stated in Finding (5) hereof.

C. Consumers has paid $12,000 in connection with the financing approved in the 1999 Order which, as noted above, is amended hereby to provide that the Bonds issued thereunder are limited to $4,500,000 and are to be issued for the purposes of financing or refinancing the 2000 Project and other purposes noted in Finding (5) hereof. Accordingly, no further fee is required in connection with this proceeding.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Act and 83 Ill. Adm. Code 200.880, this Order is final; it is not subject to the Administrative Review Law.

By Order of the Commission of this __ day of _______, 2000.

(SIGNED)

Chairman

(SEAL)