

**STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION**

CONSUMERS ILLINOIS WATER COMPANY)	
AND OAKVIEW AVENUE WATER WORKS, INC.)	
)	
Petition for Approval Of Proposed Reorganization.)	Docket 03-0556
)	
)	
)	

DRAFT ORDER OF JOINT APPLICANTS

On September 12, 2003, Consumers Illinois Water Company ("CIWC" or "Company") and Oakview Avenue Water Works, Inc. ("Oakview") (hereby referred to jointly as the "Joint Applicants"), pursuant to Section 7-204 of the Illinois Public Utilities Act (the "Act") (220 ILCS 5/7-204), filed a Verified Joint Application, seeking approval for the purchase by CIWC ("Acquisition" or "Reorganization") of assets and property rights of Oakview and its current owner that are used and useful to provide water service ("Rate Base Items") and accounts receivable (the Rate Base Items and accounts receivable being referred to jointly as the "Assets"). In addition to all other applicable rates and charges, CIWC also seeks to implement a surcharge, the Required Plant Surcharge ("RPS"), to provide a return of and a return on CIWC's investment to install necessary improvements and upgrades.

Consistent with Section 9-201 of the Act (220 ILCS 5/1-101 *et seq.*), and the requirements of 83 Ill. Adm. Code, Part 255, notice of the filing in the form specified in 83 Ill. Admin. Code, § 255.20(b)(2)¹ was posted in the Company's business office in Kankakee, Illinois. Notices of the filing were published in a newspaper circulated throughout the present Oakview service area, and additional notices were published in the newspaper one week later. Also, on September 24, 2003, CIWC delivered a notice at the door of each affected customer.

Pursuant to due notice as required by law and the rules and regulations of the Commission, a prehearing conference was held before a duly authorized Administrative Law Judge of the Commission at its offices in Springfield, Illinois on September 30, 2003. Thereafter an evidentiary hearing was held on October 3, 2003. CIWC was

¹ The Commission's notice posting requirement (83 Ill. Admin. Code § 255.20(b)(2)) applies to utilities that have a business office in the area affected by a proposed tariff charge. Neither CIWC nor Oakview have such an office. Notice in the form described by the rule was posted in CIWC's business office in Kankakee, Illinois.

represented by counsel and presented the testimony of Thomas J. Bunosky, its Vice President and General Manager. Staff was represented by counsel and presented the testimony of Theresa Ebrey of the Accounting Department, Rochelle Phipps of the Finance Department, William Johnson of the Water Department, and Mike Luth of the Rates Department. At the conclusion of the hearing on October 3, 2003, this matter was marked "Heard and Taken."

I. POSITION OF THE PARTIES

A. Position of the Joint Applicants

CIWC is a public utility as defined in Section 3-105 of the Act, which provides water service to approximately 54,780 customers and wastewater service to approximately 10,770 customers in portions of Will County, Kankakee County, Vermilion County, Boone County, Knox County, Lee County and Lake County. The area presently served by Oakview Avenue would become a part of CIWC's University Park-Water service area in Will County, which has approximately 2,000 residential, commercial and industrial customers. All of the common stock of CIWC is owned by Consumers Water Company. All of the common stock of Consumers Water Company is, in turn, owned by Philadelphia Suburban Corporation ("PSC"). CIWC has 111 employees in Illinois (as of June 30, 2003). CIWC is staffed with experienced specialists in all aspects of water/wastewater public utility business and operations. CIWC's expertise extends, in particular, to the areas of water quality and compliance with applicable environmental law and regulations.

Oakview is a public utility that operates a small, troubled water system in Joliet Township, Will County, Illinois. Oakview serves approximately 111 water customers. The People of the State of Illinois, through the Office of the Attorney General of the State of Illinois ("AG"), have filed an enforcement action against Oakview in the Circuit Court of the Twelfth Judicial Circuit, Will County, Illinois ("Circuit Court") (03 CH 130), seeking that Oakview be directed to take the actions needed to comply with certain environmental laws and regulations, including, but not limited to installation of: (i) a storage tank; (ii) facilities to provide auxiliary power; and (iii) facilities to provide fluoride to the finished water (referred to as the "Compliance Items"). The Circuit Court has entered an Order requiring that Oakview install the Compliance Items. The items have not been installed. Oakview and Mr. Stourton, the current owner of Oakview (through a company called Lake Bayou, Inc. ("Lake Bayou")), have been found in willful contempt of court for failing to comply with the court's order. Mr. Stourton was sentenced to jail. When released Mr. Stourton was ordered to take all actions reasonably necessary to ensure a smooth transition of Oakview to a proposed buyer.

Oakview proposes to sell the Assets to CIWC, which has agreed to install the Compliance Items, and otherwise provide customers now served by Oakview with water service that is in all respects, adequate, efficient, reliable and environmentally safe and consistent with these obligations, and the least-cost means of meeting service obligations. Due to concerns with regard to the public health and safety, the Staff of the

Commission ("Staff"), Illinois Environmental Protection Agency ("IEPA") and the AG have requested that CIWC complete the Acquisition.

Subject to the approval of the Commission, CIWC has entered into an Asset Purchase Agreement with Oakview and Mr. Stourton, under which CIWC will purchase the assets used by Oakview to provide water service ("Assets"). A copy of the Asset Purchase Agreement is included in the Appendix, which accompanied the Application as Exhibit "A". Subsequently, six schedules/exhibits referenced in the Asset Purchase Agreement were filed. The purchase price for the Assets- consists of \$30,000 provided for in the Asset Purchase Agreement and \$55,500 of costs incurred to accomplish the acquisition ("Acquisition Cost"). Because CIWC is buying the Assets from Oakview and its current owner, Lake Bayou is not itself, and need not be, a party to the Asset Purchase Agreement. Under the Asset Purchase Agreement, CIWC will require that Oakview provide evidence at closing that Lake Bayou, Oakview's sole shareholder, has approved the transaction.

From and after the effective date of the Acquisition, Oakview will relinquish its utility business to CIWC. CIWC will continue to provide water service in the Area without interruption. The Area will become a part of CIWC's University Park-Water Division. Joint Applicants, therefore, request that the Commission approve an assignment to CIWC of the Certificate(s) of Public Convenience and Necessity previously issued to Oakview ("Certificate"), effective on the closing date of the Acquisition. The Area is depicted in Attachment "A" to this Order, and legally described in Attachment "B" to this Order.

From and after the closing date of the Acquisition and until such time as a change(s) is (are) approved by the Commission, CIWC, after the closing, proposes to place into effect the various rules, regulations, terms and conditions of service to the public approved by the Commission and in effect for the University Park-Water Division of CIWC. Until the first rate case of the University Park-Water Division following the closing, CIWC will continue to apply the flat monthly charge specified in Oakview's presently applicable tariffs. In addition, to avoid unreasonable subsidization of Oakview customers, CIWC proposes that, in addition to all other applicable rates and charges, Oakview customers be required to pay a surcharge ("Required Plant Surcharge" or "RPS") that provides a return of and on CIWC's actual investment in new plant required to install the Compliance Items and other upgrades deemed necessary by CIWC to provide adequate service (the Compliance Items and other necessary upgrades being referred to as the "Required Plant"). CIWC states that the Commission has authority to implement the RPS under Section 9-201 of the Act. (220 ILCS 5/9-201) The RPS, which is further discussed below, would become effective after verification by the Commission Staff that the Required Plant is in service and that the RPS represents the actual cost incurred to acquire and install the required Plant ("Plant Capital Cost"). The continuation of the RPS will be considered in the next University Park Water Division rate docket. If the Commission determines that the cost of the improvements at Oakview covered by the RPS should be kept separate from other Plant-in-Service amounts that will be part of the revenue requirement in the next University Park Water Division rate docket, then the RPS should be continued. If the Commission determines

that the cost of the improvements at Oakview covered by the RPS should be included with the costs of other Plant-in-Service that will be part of the revenue requirement in the next University Park Water Division rate docket, then the RPS should not be continued. In any event, the RPS would remain in effect for a period no longer than 120 months or until the Plant Capital Cost (return "on" and "of") is fully recovered.

Subsequent to the closing of the Acquisition, CIWC will enhance the adequacy, reliability, efficiency and safety of service provided to customers in the Area, with no detriment to CIWC's current customers. In the future, all aspects of the water service provided to present customers of Oakview will be the responsibility of CIWC, which has significant resources in Will County and a reputation for providing high quality water service. As customers of CIWC, the former Oakview customers will have access to CIWC's 24-hour customer service telephone line and technicians on call 24-hours per day.

According to Mr. Bunosky, CIWC is committed to providing adequate, efficient, safe and least-cost service, as is demonstrated by its consistent record of quality service. CIWC will bring this commitment to the Area. The Acquisition will not adversely affect CIWC's ability to provide adequate, reliable, efficient, safe and least-cost public utility services. The Acquisition will not result in the unjustified subsidization of non-utility activities by CIWC or its customers. At present, neither CIWC nor Oakview engages in a significant level of such activity. To the extent that CIWC engages in such activities in the future, it will continue to maintain its books and records in such a manner as to fairly and reasonably allocate utility and non-utility activities, and allow the Commission to identify costs and facilities that are properly included for ratemaking purposes.

Mr. Bunosky states that the Acquisition will not impair CIWC's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure. For the Area, the Acquisition should significantly enhance the Area's ability to access necessary capital needed for the Compliance Items and other service requirements on reasonable terms. CIWC will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities.

Mr. Bunosky notes that, due to the geographical separation of their service areas, there is no significant competition for customers and/or water sales between CIWC and Oakview. Accordingly, market conditions in Illinois after consummation of the Acquisition will be substantially the same as those currently existing. The Acquisition, therefore, is not likely to have a significant adverse effect on competition in Illinois.

According to Mr. Bunosky, the Acquisition is not likely to result in any adverse rate impacts on retail customers. The Acquisition also will not adversely affect CIWC's capital structure ratios, which are shown as of July 31, 2003, on Exhibit "D" in the Appendix to the Application. After closing, CIWC's capitalization will be consistent with the requirements of Section 6-103 of the Act (220 ILCS 5/6-103).

Mr. Bunosky states that the Acquisition will produce certain economies that will result in a reduced level of cost as compared to the level which would exist for separate companies ("Acquisition Savings"). The expected Acquisition Savings over ten years are detailed in Exhibit "E", which is included in the Appendix to the Application. CIWC proposes that all Acquisition Savings included in data for rate case test years be reflected in rates of the University Park-Water Division and, thereby, allocated in their entirety to ratepayers. CIWC, however, should not be required to quantify or otherwise demonstrate the existence of Acquisition Savings in any future rate proceeding.

To accomplish the Acquisition and, thereby, bring about the Acquisition Savings, CIWC will incur Acquisition Costs. The Acquisition Costs include legal fees and certain other costs necessary to combine the companies. As proposed by CIWC, the Acquisition Costs would not be recovered in rates.

As noted above, CIWC proposes that the Plant Capital Cost be recovered by use of the RPS, which would apply to customers within the Area. The RPS will be calculated as shown in Attachment "C" to this Order, when the actual total Plant Capital Cost is known. The presently estimated level of Plant Capital Cost is \$300,750, as shown in Attachment "D" to this Order. The RPS will recover the actual Plant Capital Cost over a 120-month period, including both a return "of" and a return "on" the unrecovered balance of Plant Capital Cost. As proposed by CIWC, the RPS would take effect after verification by Commission Staff that the Required Plant is in service and that the RPS reflects actual costs. The Staff would provide such verification in writing within ten business days after receiving CIWC's written request for verification accompanied by a spreadsheet calculating the RPS and copies of documentation supporting the total cost. Initially the carrying costs will be calculated using CIWC's last-allowed water rate of return, as of the time that the RPS is filed. After the RPS is filed and until the RPS is no longer in effect, that rate of return (referenced in paragraphs 11, 28, 30 and 31 of the Petition and Exhibit G, attached to the Petition) will be updated to reflect each subsequent Commission-authorized rate of return for the University Park Water-Division.

Based on the estimated cost level, the RPS amortizes recovery of the Plant Capital Cost at a fixed monthly cost per customer of \$33.20. Amounts collected through the RPS will be recorded as contributions in aid of construction. The accounting entries for the RPS are set forth in the Company's revised response to Staff Data Request TEE-003 attached to CIWC Exhibit 1.5 (Attachment "E") to this Order.

While in the Petition CIWC proposed to defer Acquisition Costs with accrual of a carrying charge and to recover those costs in the next University Park rate filing, that proposal was withdrawn in the Company's direct testimony. CIWC now proposes to forgo recovery of Acquisition Costs in rates. The Company proposes that Acquisition Costs should be allocated in their entirety to the Company's shareholders and not be recovered in rates. The Company proposes that Acquisition Savings included in test year data for future rate cases for the University Park-Water Division should be reflected in rates and, thereby allocated to ratepayers. CIWC will not be required in any future rate case to measure or quantify Acquisition Savings.

CIWC points out that the recovery of the Plant Capital Cost is not properly characterized as an Acquisition Cost, since, to provide adequate and safe water service, any owner of the Assets would have been required to incur such costs.

In accordance with Commission policy and Accounting Instructions 17 and 21 of the Uniform System of Accounts (83 Ill. Adm. Code 605), CIWC proposes to record the original cost of Rate Base Items in the applicable plant accounts. The Rate Base Items include plant items listed by Oakview as items in rate base and other items listed as "leased" property, with respect to which Oakview paid the owner a rental expense. Under the Agreement, CIWC will acquire both types of used and useful Assets. A listing of the Rate Base Items is shown on Attachment "F" to this Order. CIWC states that the Order entered in this proceeding should provide that the original cost of the Rate Base Items will be included in the Rate Base of the University Park-Water Division.

B. Staff Position

Staff witness Ebrey has reviewed and concurs with the journal entries in Consumers Exhibit I (Second Revised), which set forth the correct entries to record the initial purchase of the water system. Staff recommends that the Commission order Consumers to file its final Journal Entries with the Commission, providing a copy to the Manager of Accounting, within 30 days of the completion of the purchase of this property.

Ms. Ebrey has further reviewed the calculation of the RPS and the associated journal entries the Company proposes to record the Required Plant and RPS collections as presented on the Attachment to Revised TEE-003 included in CIWC Exhibit 1.5. Ms. Ebrey agreed with the proposed journal entries and does not take issue with the methodology for calculating the RPS. Staff recommends that when the Required Plant is in service, the Company should provide the calculation, including all supporting documentation, be provided to the Manager of Accounting for verification prior to the implementation of the RPS.

Staff witness Ebrey agreed that Consumers is in compliance with Section 7-204(b)(2) and 7-204(b)(3).

Staff witness Ebrey noted that Section 7-204(c) states that the Commission shall not approve a reorganization without ruling on (i) the allocation of any savings resulting from the proposed reorganization; and (ii) whether the companies should be allowed to recover any costs incurred in accomplishing the proposed reorganization and, if so, the amount of costs eligible for recovery and how the costs will be allocated. Based on review of the Company's filing, Staff recommends:

1. That the Commission, in accordance with Section 7-204(c)(i), order that any cost savings resulting from the reorganization should not increase the revenue requirement in future rate filings, and

2. That the Commission, in accordance with Section 7-204(c)(ii), order that any costs incurred in connection with implementing the proposed reorganization should be included in the acquisition adjustment and be recorded "below the line" in account 426.

Pursuant to Section 7-204(b)(4) of the Act, the Commission must find that the Acquisition "will not significantly impair the utility's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure." (220 ILCS 7-204.)

Staff witness Phipps testified that Oakview's current owner² holds all of Oakview's equity and Oakview's only outstanding indebtedness is a short-term loan from an associated company. Following the Acquisition, Oakview will be merged into CIWC's University Park-Water Service area and CIWC will raise all of the debt capital for the University Park-Water Service area. CIWC's parent company, Philadelphia Suburban Corporation ("PSC"), will issue equity to the public and the proceeds thereof will be infused as equity into PSC's subsidiaries, including CIWC. (Staff Ex. 2.0, pp. 4-5.)

Ms. Phipps testified that CIWC has access to the capital markets on reasonable terms. Standard & Poor's ("S&P") categorizes debt securities on the basis of the risk that a company will default on its interest or principal payment obligations. The resulting credit rating reflects both the operating and financial risks of a utility. S&P rates PSC's subsidiary, Pennsylvania Suburban Water Co. ("PSWC"), 'A+'. S&P states, "The rating on [PSWC] reflects the strength of the consolidated business and financial profiles of the unrated parent, PSC." According to S&P, an obligor rated 'A' has a strong capacity to meet its financial commitments. (Staff Ex. 2.0, p. 5.)

Ms. Phipps testified that the Acquisition would not significantly impair Oakview's access to the capital markets. The Acquisition could potentially improve Oakview's access to the capital markets due to CIWC's strong financial condition, as evidenced by the published credit rating of its affiliate, PSWC. (Staff Ex. 2.0, p. 5.)

Pursuant to Section 6-103 of the Act, in any reorganization, the Commission shall authorize the amount of capitalization of a public utility formed by a merger, which shall not exceed the fair value of the property involved. (220 ILCS 5/6-103.) Ms. Phipps testified that the Acquisition complies with the requirements of Section 6-103 of the Act since CIWC's capitalization will not change following the Acquisition. (Staff Ex. 2.0, p. 3.)

Staff witness William R. Johnson examined the Company's filing to determine whether it met the requirements of Section 7-204 of the Act. Specifically he examined Subsections 7-204 (b)(1), (b)(5), and (b)(6). Mr. Johnson requested that the Company provide customer notification of the proposed surcharge. The Company responded by publishing notice of the RPS over two consecutive weeks in a newspaper of general circulation in the Oakview area. Certificates of publication provided for the record show

² On October 7, 2003, the Company filed a Late-Filed Exhibit (CIWC Ex. 1.7) that stated that Lake Bayou is the sole shareholder of Oakview Avenue Water Works, Inc.

that the notices were published on September 24 and 28, and October 1 and 5, 2003. CIWC also placed a notice regarding the RPS at the front door of each Oakview customer. This occurred on Wednesday, September 24, 2003. In addition, a notice in the form specified in 83 Ill. Adm. Code, § 255.20(b)(2) was posted in the Company's business office in Kankakee, Illinois.

Additionally, Mr. Johnson discussed the many problems associated with the Oakview system, such as, continued low pressure problems, refusal to meet IEPA regulations and timelines, and the lack of providing adequate, reliable, efficient, and safe service to customers. He found that there was a need for expediency of review because of the Attorney General of the State of Illinois' current enforcement action against Oakview, and because construction on projects is needed immediately to allow customers to again receive continuous and adequate supply of water at reasonable pressure.

Staff witness Luth reviewed the CIWC estimate of the RPS and found it to be reasonable, given the assumptions used by CIWC to calculate its estimate [CIWC Exhibit G (Revised)]. Staff issued rates-related data requests to which CIWC replied. (CIWC Exhibit 1.5, pp. 26-30.) The Company's replies to those data requests indicate that CIWC will increase the capacity of the current Oakview water treatment and distribution system, even hypothetically assuming that its current condition is satisfactory, and therefore will provide improved service to Oakview customers, particularly when also considering the operating difficulties at Oakview described elsewhere in this Order.

Section 7-204 (b) (7) of the Act requires that the Commission find that "the proposed reorganization is not likely to result in any adverse rate impacts on retail customers." Since any owner or operator of Oakview would be required to install the Compliance Items specified in the Circuit Court's Order concerning the Attorney General's complaint against Oakview, rates would most likely increase as a result of the installation of the Compliance Items. Assuming that Consumers' estimates of Required Plant costs contemplated in the RPS are least-cost to meet the Circuit Court's Order, adverse rate impacts to Oakview are not likely as a result of the acquisition of Oakview by Consumers.

II. COMMISSION CONCLUSION

The Joint Applicants' Application for approval for the purchase by CIWC of assets and property rights of Oakview and its current owner that are used and useful to provide water service and accounts receivable is reasonable and should be approved. The Commission finds, under Section 7204(b), that:

- (1) the Reorganization will not diminish CIWC's ability to provide adequate, reliable, efficient, safe and least-cost public utility service;
- (2) the Reorganization will not result in any unjustified subsidization of non-utility activities by CIWC;

- (3) costs and facilities are fairly and reasonably allocated between utility and any non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by CIWC for ratemaking purposes;
- (4) the Reorganization will not significantly impair CIWC's ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure;
- (5) CIWC will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities;
- (6) the Reorganization is not likely to have a significant adverse effect on competition in those markets over which the Commission has jurisdiction; and
- (7) the Reorganization is not likely to result in any adverse rate impacts on retail customers.

The Commission notes that the water service presently provided by Oakview is deficient and that an environmental enforcement action was filed against Oakview by the Attorney General. The Commission believes that CIWC has a reputation for providing quality water service, and that CIWC will enhance the safety, reliability and adequacy of the water service received by customers of Oakview.

The expected Acquisition Savings over ten years are detailed in an Exhibit included in the Appendix to the Application. As proposed by CIWC, all Acquisition Savings included in data for rate case test years should be reflected in rates of the University Park-Water Division and, thereby, allocated in their entirety to ratepayers. CIWC, however, should not be required to quantify or otherwise demonstrate the existence of Acquisition Savings in any future rate proceeding. Acquisition should be treated for accounting (and ratemaking) purposes in the manner described above. CIWC should not recover any amount of the Acquisition Costs in rates.

For the reasons discussed, pursuant to Section 7-204(c) of the Act (220 ILCS 5/7-204(c)), the Commission finds as follows with regard to Acquisition Costs and Acquisition Savings:

(a) Actual Acquisition Costs incurred by CIWC should be allocated to CIWC's shareholder, recorded below-the-line in Account 426 as part of the Acquisition Adjustment; and

(b) Acquisition Savings included in test year data for future rate cases for the University Park-Water Division should be reflected in rates and, thereby, allocated to ratepayers. CIWC should not be required to quantify Acquisition Savings in any future case.

From and after the closing date of the Acquisition and until such time as a change(s) is (are) approved by the Commission, CIWC should place into effect the various rules, regulations, terms and conditions of service to the public approved by the Commission and in effect for the University Park-Water Division of CIWC. Until issuance of an Order in the next rate case of the University Park-Water Division, CIWC should continue to apply the flat monthly charge specified in Oakview's presently applicable tariffs. CIWC should be authorized to file a tariff sheet establishing this charge. CIWC also should be authorized to file tariff pages for the University Park-Water Division (including rules and regulations), as are required to implement the proposals approved herein (including the RPS discussed below), such tariff pages to become effective immediately upon closing of the Acquisition.

To avoid unreasonable subsidization of Oakview customers, CIWC proposes that, in addition to all other applicable rates and charges, Oakview customers should be required to pay the proposed "Required Plant Surcharge" or "RPS" that provides a return of (through amortization) and on (through a rate of return) CIWC's actual investment in new plant for the Required Plant. Because of the dilapidated condition of Oakview system, the RPS is an appropriate method for Consumers to recover the cost of improvements that will increase plant-in-service by an estimated factor of 10 or more. The Commission has authority under Section 9-201 of the Act to implement a rate surcharge, such as the RPS. The RPS, which is further discussed below, would become effective after verification by the Commission Staff that the Required Plant is in service and that the RPS represents actual costs. The Staff should provide such verification in writing within ten business days after receiving CIWC's written request for verification accompanied by a spreadsheet calculating the RPS and copies of documentation supporting the total cost. Initially, the carrying costs will be calculated using CIWC's last-allowed water rate of return, as of the time that the RPS is filed. After the RPS is filed and until the RPS is no longer in effect, that rate of return (referenced in paragraphs 11, 28, 30 and 31 of the Petition and Exhibit G, attached to the Petition) will be updated to reflect each subsequent Commission-authorized rate of return for the University Park Water-Division.

The RPS amortizes recovery of the Plant Capital Cost at a fixed monthly cost per customer. The RPS would remain in effect for a period not to exceed 120 months, or until the Plant Capital Cost (return "on" and "of") is fully recovered. After 120 months, the Plant Capital Cost is fully recovered through amortization and the RPS should be terminated. Based on a present case estimate, the monthly amount of the RPS would be \$33.20, as shown in Attachment "C" to this Order. As indicated, the RPS ultimately made effective should be based on the actual cost of Required Plant, and not an estimated cost.

In accordance with the Uniform System of Accounts for Water Utilities ("USOA"), an Acquisition Adjustment in the estimated amount of \$20,544.00, the difference between the applicable purchase price for Rate Base Items and net original cost, should be recorded in Account 114, upon the closing of the Acquisition. The instructions for Account 114 of the USOA provide that the amount recorded in that account "shall be

amortized, or otherwise disposed of, as the Commission may approve or direct.” The Commission approves disposition of the Acquisition Adjustment as a one-time credit to Account 426. In accordance with Commission policy and Accounting Instructions 17 and 21 of the Uniform System of Accounts (83 Ill. Adm. Code 605), CIWC should record the original cost of Rate Base Items in the applicable plant accounts. The Rate Base Items include plant items listed by Oakview as items in rate base and other items listed as “leased” property, with respect to which Oakview paid the owner a rental expense. Under the Agreement, CIWC will acquire both types of used and useful Assets. The original cost of the Rate Base Items, as shown on Attachment “F” to this Order, should be included in the Rate Base of the University Park-Water Division at the time of its next rate proceeding.

III. FINDINGS AND ORDERING PARAGRAPHS

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

- (1) Consumers Illinois Water Company is engaged in the business of providing water and/or wastewater service to the public in Illinois and, as such, is a public utility within the meaning of the Public Utilities Act;
- (2) Oakview Avenue Water Works, Inc. is engaged in the business of providing water service to the public in Illinois and, as such, is a public utility within the meaning of the Public Utilities Act;
- (3) the Commission has jurisdiction over CIWC and Oakview, and of the subject matter of this proceeding;
- (4) the conclusions and recitals of the fact set forth in the Commission Conclusion section of this Order, including the specified findings under Section 7-204(b) and 7-204(c), are supported by the evidence and the record, and are hereby adopted as findings of fact and conclusions of law;
- (5) the Acquisition and Asset Purchase Agreement should be approved;
- (6) effective upon closing of the Acquisition, CIWC should be authorized to assume the Certificate(s) of Public Convenience and Necessity authorizing Oakview to provide water public utility service and conduct a water utility business in the Area shown on Attachment “A” to this Order and legally described in Attachment “B” to this Order;
- (7) effective upon closing, Oakview should be authorized to discontinue and abandon the public utility business it presently provides;
- (8) CIWC should be authorized to adopt for the area presently served by Oakview, the Rules, Regulations and Condition of Service applicable to CIWC’s University Water Division; until a rate order is issued in the next rate case of the University Park-Water Division, CIWC should be permitted

to utilize Oakview's present flat monthly charge and to file a tariff page so indicating; CIWC may also apply the RPS in the Area previously served by Oakview;

- (9) CIWC should be authorized to file tariff pages as needed to implement the proposals approved herein (including the RPS), such tariff pages to become effective immediately upon closing of the Acquisition;
- (10) upon verification by Staff that the Required Plant is in service and that the RPS represents the actual costs of the Required Plant, the Company should be authorized to initiate the RPS described in the "Commission Conclusion" section above, and the RPS should remain in effect in accordance with its terms for up to 120 months or until the Plant Capital Cost (return "on" and "of") is recovered, unless in a subsequent University Park Water Division rate case, the Commission determines that the cost of the improvements at Oakview covered by the RPS should be included in the revenue requirement with the costs of other Plant-in-Service; Staff should provide written verification that the Required Plant is in service and that the RPS represents actual costs within ten business days after CIWC requests such verification, in writing, and provides a spreadsheet calculating the RPS with supporting documentation;
- (11) the Acquisition Adjustment proposed by CIWC, and CIWC's proposed related accounting entries are reasonable and should be approved;
- (12) the original cost of the Rate Base Items as shown in Attachment "F" should be reflected in the rate base of the University Park-Water Division;
- (13) after closing, CIWC's capitalization will be consistent with the requirements of Section 6-103 of the Act; and
- (14) Joint Applicants should be authorized to perform such other and further actions or transactions which may be necessary or appropriate to carry out the actions proposed in the Verified Application.

IT IS THEREFORE ORDERED that the Acquisition and Asset Purchase Agreement are approved.

IT IS FURTHER ORDERED that the ratemaking treatment of Acquisition Costs and Acquisition Savings shall be as specified in the Commission Conclusion section above.

IT IS FURTHER ORDERED that, effective on closing of the Acquisition, CIWC shall assume the Certificate(s) of Public Convenience and Necessity that authorize Oakview to provide to serve the Area shown in Attachment "A" and legally described in Attachment "B".

IT IS FURTHER ORDERED that, effective upon the closing of the Acquisition, Oakview shall discontinue and abandon its public utility business.

IT IS FURTHER ORDERED that CIWC may file such tariff sheets as are appropriate to implement the proposals approved herein (including the RPS), such tariff pages to become effective upon closing of the Acquisition.

IT IS FURTHER ORDERED that, within ten business days after receipt from CIWC of a written request for verification that the Required Plant is in service accompanied by a spreadsheet calculating the RPS and copies of documentation supporting the total cost, Staff will provide such verification.

IT IS FURTHER ORDERED that CIWC's proposed disposition of the Acquisition Adjustment and accounting entries related to the Acquisition are hereby approved.

IT IS FURTHER ORDERED that the net original cost of the Rate Base Items shown on Attachment "F" to this Order be reflected in rate base in the next University Park-Water rate case.

IT IS FURTHER ORDERED that, after closing, CIWC is authorized to utilize its actual level of capitalization as such now exists or may be revised.

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

By Order of the Commission this ___ day of _____, 2003.