

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

Corix Utilities (Illinois) LLC; Hydro Star, LLC; Utilities, Inc.; and Each of the 23 Illinois Operating Subsidiaries of Utilities, Inc.	:	
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	:	12-0279
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Joint Application for Approval of a Proposed Reorganization.	:	
	:	
	:	

ORDER

By the Commission:

I. PROCEDURAL HISTORY

On April 12, 2012, Corix Utilities (Illinois) LLC (“Corix”); Hydro Star, LLC (“HS”); Utilities, Inc. (“UI”); and each of the 23 Illinois Operating Subsidiaries of Utilities, Inc. (“UI Operating Subsidiaries”) (collectively, “Applicants”) filed a verified Joint Application with the Illinois Commerce Commission (“Commission”) for approval of a proposed reorganization pursuant to Section 7-204 of the Public Utilities Act (“Act”), 220 ILCS 5/7-204.

Pursuant to proper notice, a prehearing conference was held before a duly authorized Administrative Law Judge (“ALJ”) of the Commission at its offices in Chicago, Illinois on June 7, 2012. A status hearing was subsequently held on August 15, 2012 and an evidentiary hearing was held on October 11, 2012. The Illinois Attorney General (“AG”) filed an appearance. No other party intervened in this matter. The Applicants, the Staff of the Commission (“Staff”), and the AG appeared by counsel at the hearings. At the evidentiary hearing the parties advised the ALJ that they had been engaged in efforts to enter into a stipulation whereby the parties would present to the ALJ a draft order that provides for the approval of the proposed transaction subject to the conditions identified in the stipulation and described in the draft order.

In support of the Joint Application, the Applicants offered the testimony of Steven M. Lubertozzi, Executive Director of Regulatory Accounting and Affairs for UI, and Hamish Cumming, Executive Vice President of Corix Infrastructure Inc. (“CII”), the ultimate parent company of Corix. Staff offered the testimony of the following witnesses: Mike Ostrander, Accountant in the Accounting Department of the Financial Analysis Division; William H. Atwood, Jr., Water Engineer in the Water Engineering Program of the Safety and Reliability Division; and Janis Freetly, Senior Financial Analyst in the Finance Department of the Financial Analysis Division. The AG did not offer any testimony, however, the AG moved for leave to file the direct and rebuttal

testimony of Scott J. Rubin, a Consultant and Attorney, in the event the parties were unable to enter into a stipulation. The motion was granted by the ALJ. The parties waived cross-examination and the filing of post-hearing briefs.

On October 26, 2012, the Applicants filed a stipulation (“Stipulation”) executed by all of the parties. Pursuant to the Stipulation, the parties represented that all outstanding issues have been fully resolved and that they propose no conditions, limitations or requirements should be adopted or imposed upon the Applicants other than those that the record shows were recommended in the Stipulation or recommended by Staff and accepted by the Applicants. On November 5, 2012, the Applicants filed a draft order agreed to by all of the parties and the record was subsequently marked “Heard and Taken.”

II. DESCRIPTION OF THE PROPOSED REORGANIZATION

The Joint Application states that UI is a wholly-owned subsidiary of Hydro Star Holdings Corporation (“HSHC”), which in turn is a wholly-owned subsidiary of HS. As a result of discussions between HS and Corix concerning the possible acquisition of HS by Corix (“the Transaction”), Corix and the members of HS entered into a Purchase and Sale Agreement (“Agreement”) dated February 17, 2012. Pursuant to and in accordance with the terms of the Agreement, 100% of the membership interests in HS will be acquired by Corix. The Joint Application represents that following consummation of the Transaction, CII may cause Corix to merge with and into HS, thereby eliminating one of the intermediate holding companies through which Corix will hold its interest in UI. According to the Joint Application, as a result of the Transaction, UI will be a wholly-owned subsidiary of Corix, and the separate corporate existence of UI will continue as will the separate corporate existence of each of the UI Operating Subsidiaries. From and after the effective time of the Transaction, all rights, duties and obligations of UI existing before the Transaction will continue and UI will remain the owner of the UI Operating Subsidiaries. With respect to the UI Operating Subsidiaries, the Applicants indicate that the Transaction occurs entirely “above the holding company level,” that is, none of the assets or securities of UI or of any UI Operating Subsidiary will be transferred or sold as a result of the Transaction. The Transaction will change only the ultimate owner of the membership interests of HS.

According to the Joint Application, because the proposed Transaction will occur entirely at the parent company level, it does not involve or require the sale, assignment or transfer of any property of the UI Operating Subsidiaries. The Applicants state that the UI Operating Subsidiaries will continue to hold all the licenses and authorizations they held prior to the Transaction. Because UI will continue to provide seasoned management and necessary funding to the UI Operating Subsidiaries, the Transaction will not adversely affect the UI Operating Subsidiaries’ ability to provide adequate, reliable, efficient, safe and least-cost public utility services. The Joint Application states that no appreciable cost savings will result from the proposed Transaction, primarily due to the fact that the Transaction will not impact UI or the UI Operating Subsidiaries on an operational level. The Applicants also indicate that they do not propose to allocate any

Transaction costs to the UI Operating Subsidiaries for ratemaking purposes.

III. SECTION 7-204 OF THE ACT

Section 7-204 of the Act governs reorganizations of Illinois public utilities. Under Section 7-204(b), no reorganization shall take place without prior Commission approval. The Transaction described in the Joint Application and summarized in Section II above constitutes a “reorganization” as defined under Section 7-204 of the Act and, therefore, Commission approval is required.

Section 7-204(b) of the Act provides that the Commission shall not approve any proposed reorganization if the Commission finds that the reorganization will adversely affect the utility’s ability to perform its duties under the Act. More specifically, before approving any proposed reorganization, Section 7-204(b) of the Act states that the Commission must find that:

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

Additionally, Section 7-204(c) of the Act 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.

Finally, in approving any proposed reorganization under Section 7-204, Section 7-204(f) authorizes the Commission to impose such terms, conditions or requirements as, in its judgment, are necessary to protect the interests of the public utility and its customers.

IV. THE APPLICANTS' POSITION

The Applicants contend that the proposed Transaction will be in compliance with the requirements of Section 7-204(b) of the Act. The Applicants state generally that nothing in the proposed Transaction will adversely affect the UI Operating Subsidiaries' ability to perform their duties under the Act.

With specific regard to Section 7-204(b)(1) of the Act, the Applicants state that the Transaction will not diminish the ability of the UI Operating Subsidiaries to provide adequate, reliable, efficient, safe and least-cost public utility service to the customers in the respective UI Operating Subsidiaries' service territories. Mr. Lubertozi testified that the proposed Transaction will not affect the manner in which the UI Operating Subsidiaries are operated. The Transaction is a remote parent company transaction and will only result in Corix acquiring indirect control over the UI Operating Subsidiaries. Because the UI Operating Subsidiaries will rely on essentially the same management, technology, processes and people that are providing service today, the current quality of service received by the UI Operating Subsidiaries' customers will continue after the Transaction.

With respect to Section 7-204(b)(2) of the Act, the Applicants aver that the Transaction will not result in any unjustified subsidization of non-utility activities by the utility or its customers. The UI Operating Subsidiaries currently do not engage in any unregulated activities, and no changes are foreseen in this regard at this time. Regarding Section 7-204(b)(3) of the Act, the Applicants maintain that the Transaction will not impact the ability of the UI Operating Subsidiaries to fairly and reasonably allocate their costs and facilities between utility and non-utility activities and the Transaction will not impair the Commission's ability to identify those costs and facilities that the UI Operating Subsidiaries may properly include when setting rates for ratemaking purposes in compliance with Section 7-204(b)(3) of the Act. Mr. Lubertozi testified that the UI Operating Subsidiaries will remain subject to the cost allocation requirements of all Commission regulations, as they are today, including those applicable to affiliate transactions.

Concerning Section 7-204(b)(4) of the Act, the Applicants assert that the Transaction will not impair the UI Operating Subsidiaries' ability to raise necessary capital. The Transaction will be effected by a membership interest purchase at the remote parent company level. UI will continue to be responsible for raising capital and the Transaction will have no adverse impact on the ability of UI either to raise capital on reasonable terms or to maintain a reasonable capital structure. Mr. Lubertozi stated that following the consummation of the Transaction, UI may possess an increased ability to raise capital and maintain a reasonable capital structure adequate to meet its

operational needs through access to the financial resources of CII.

With respect to Section 7-204(b)(5) of the Act, the Applicants maintain that, following the completion of the proposed Transaction, the UI Operating Subsidiaries will continue to be subject to the jurisdiction of the Commission, and, therefore, would continue to be subject to all applicable laws, regulations, rules, decisions and policies governing regulated public utilities. Regarding Section 7-204(b)(6) of the Act, Mr. Lubertozi testified that nothing in the proposed Transaction will result in any adverse effect on competition in the markets over which the Commission has jurisdiction. As for Section 7-204(b)(7) of the Act, Mr. Lubertozi stated that the Transaction will not result in any adverse rate impacts on retail customers.

Concerning Section 7-204(c) of the Act, Mr. Lubertozi testified that he does not anticipate that the UI Operating Subsidiaries would realize any cost savings through the Transaction because no duplication of functions would result from the Transaction and thus no savings are expected from the elimination of any redundancies. According to Mr. Lubertozi, any Transaction savings that do occur will be passed on to ratepayers in later rate proceedings. Mr. Lubertozi also testified that the Applicants do not seek to recover any of the Transaction costs that they may incur in accomplishing the proposed Transaction.

V. STAFF'S POSITION

Staff reviewed the Joint Application, Mr. Lubertozi's direct testimony and the Applicants' responses to data requests. Based upon that review, Staff's direct testimony concluded that the Transaction will satisfy the requirements of Section 7-204 of the Act, provided that certain concerns were addressed in the Applicants' rebuttal testimony.

With specific regard to Section 7-204(b)(1) of the Act, Mr. Atwood testified that the Transaction will not diminish the ability of the UI Operating Subsidiaries to provide adequate, reliable, efficient, safe and least-cost public utility service to the customers in the respective UI Operating Subsidiaries' service territories. With respect to Section 7-204(b)(5) of the Act, Mr. Atwood testified that, following the completion of the proposed Transaction, the UI Operating Subsidiaries will continue to be subject to all applicable laws, regulations, rules, decisions and policies governing regulated public utilities. Regarding Section 7-204(b)(6) of the Act, Mr. Atwood testified that it is not likely the proposed Transaction will have a significant adverse effect on competition in those markets over which the Commission has jurisdiction. With respect to Section 7-204(b)(7) of the Act, Mr. Atwood testified that the Transaction is not likely to result in any adverse rate impacts on the UI Operating Subsidiaries' retail customers.

In summary, Mr. Atwood recommended that the Commission find that the proposed Transaction meets the requirements of Sections 7-204(b)(1), (b)(5), (b)(6), and (b)(7) of the Act.

With respect to Section 7-204(b)(2) of the Act regarding any unjustified

subsidization of non-utility activities, Mr. Ostrander testified that in their rebuttal testimony the Applicants should provide an update on the status of a project UI started to revise its cost allocation processing. Regarding Section 7-204(b)(3) of the Act, Mr. Ostrander recommended that the Commission adopt two conditions to assure the proposed Transaction will not impact the ability of the UI Operating Subsidiaries to fairly and reasonably allocate their costs and facilities between utility and non-utility activities. First, Mr. Ostrander recommended that Staff should be granted access to all books, accounts, records and personnel of UI and its subsidiary companies, as well as to independent auditor's working papers, to the extent permitted by the rules and policies of the independent auditor. Second, Mr. Ostrander recommended that UI and its affiliated subsidiaries should conduct annual internal audits to test compliance with Sections 7-204(b)(2) and (3).

Concerning Section 7-204(c) of the Act, Mr. Ostrander noted that the UI Operating Subsidiaries do not anticipate any cost savings in connection with the Transaction because the Transaction is a membership interest purchase transaction and will not affect the operations of the UI Operating Subsidiaries. Mr. Ostrander testified that, to the extent any future unexpected savings are realized, they should be passed on to ratepayers in later rate proceedings. Mr. Ostrander also testified that Applicants will not seek recovery of any transaction costs for ratemaking purposes.

With respect to the Applicants' accounting treatment for the acquisition, Mr. Ostrander testified that it will occur entirely above the holding company level, with no impact on UI or any UI Operating Subsidiaries. He further testified that the Applicants maintain that if any goodwill is created by the Transaction, it will have no impact on the rates of Illinois ratepayers.

In summary, Mr. Ostrander recommended that the Commission find that Applicants are in compliance with Sections 7-204(b)(2), and 7-204(b)(3) of the Act, subject to the requirements he identified.

Ms. Freetly presented evidence regarding the financial implications of the proposed Transaction. Ms. Freetly stated that as the owner of the capital stock of UI Operating Subsidiaries and the conduit through which they will access capital markets, UI must maintain a level of financial strength sufficient to raise capital on reasonable terms. Ms. Freetly expressed concerns that the financial risk of UI could increase due to its affiliation with Corix. According to Ms. Freetly, without structural barriers in place, there is a risk the parent will weaken the utility's financial profile to some degree, if its own financial condition were to decline. To be able to conclude that the proposed Transaction would not impair the UI Operating Subsidiaries' ability to raise necessary capital on reasonable terms, Ms. Freetly requested that the Applicants provide additional evidence in rebuttal testimony.

With respect to Section 6-103 of the Act, Ms. Freetly testified that the balance sheet and capitalization of the UI Operating Subsidiaries will not change as a result of the proposed Transaction. Consequently, Ms. Freetly concluded that the Commission

need not determine the amount of capitalization of the UI Operating Subsidiaries in this proceeding.

VI. REBUTTAL POSITIONS OF THE APPLICANTS AND STAFF

The Applicants submitted rebuttal testimony by Mr. Lubertozzi and Mr. Cumming to address the concerns raised in Staff's testimony and to respond to Staff's recommendations. In response to Mr. Ostrander's recommendations, Mr. Lubertozzi testified that UI and its subsidiaries currently provide Staff with full access to their books and records, but UI does not have an internal auditor. To comply with Mr. Ostrander's recommendation, Mr. Lubertozzi proposed that, in lieu of creating an internal auditor position, UI perform an annual review of all allocations that impact regulated UI Operating Subsidiaries and certify that the allocation methodologies were conducted and prepared in accordance with the current affiliate agreement most recently approved in Docket No. 08-0335 or any future agreement approved by the Commission. Mr. Lubertozzi also provided the update requested by Mr. Ostrander on the status of a project UI started to revise its cost allocation processing. Mr. Lubertozzi testified that the consultants hired for the project had completed their work; the revised methodology is fully functional and would be implemented in September 2012. In his rebuttal testimony, Mr. Ostrander acknowledged that UI's proposal to utilize internal employees instead of hiring an internal auditor would be a cost-effective means for compliance with his recommendation. He recommended that the Commission accept UI's proposal subject to certain conditions. First, Mr. Ostrander recommended that the annual report should include a description of the procedures, findings, conclusions and recommendations of the review. The report should be verified by a UI officer and submitted to the Manager of Accounting by March 31, each year beginning in 2014. Second, Mr. Ostrander recommended that the supporting work papers must be made available to Staff upon request. Finally, Mr. Ostrander recommended that if the Manager of Accounting identifies any deficiency, UI must remedy the deficiency or provide an explanation of why the deficiency cannot be remedied.

In response to Ms. Freetly's concerns regarding UI's ability to raise capital on reasonable terms, the Applicants provided the rebuttal testimony of Mr. Cumming and Mr. Lubertozzi. Mr. Lubertozzi described UI's current credit facilities and any financial restrictions and negative covenants contained in such facilities. He explained that the credit facilities include restrictive covenants that, among other things, limit UI's total debt to total capitalization; restrict interest expense; and limit dividend payments, loans and guarantees to UI's parent group. Mr. Lubertozzi further testified that Corix intends to leave the existing Credit Agreement in place, subject to obtaining the consent of the current lender or to securing a new agreement with similar restrictions on distributions/dividends to, loans/advances to, and guarantees of the obligations of UI's parent group. Mr. Cumming's rebuttal testimony explained how Corix would continue to be able to raise capital on reasonable terms following consummation of the Transaction. He provided evidence that Corix's lenders have extended credit under terms that establish that Corix is viewed by such lenders as an investment grade utility and that Corix is able to raise capital on reasonable terms. Mr. Cumming also testified that

Corix's lenders treat Corix's convertible debentures as equity for purposes of calculating Corix's capitalization ratio under its credit facility. Ms. Freetly agreed in her rebuttal testimony that the convertible debentures could be treated as preferred stock and re-calculated Corix's financial ratios accordingly. Based upon such re-calculation, Ms. Freetly agreed that Corix's 3-year average financial ratios are consistent with an investment grade water utility. She further agreed that the interest terms of Corix's credit facility are in line with terms offered to other investment grade utilities. She concluded that the reorganization is not likely to significantly impair the UI Operating Subsidiaries' access to capital on reasonable terms, subject to the condition that Corix not take further action that would limit UI's ability to issue debt under its credit facility. Mr. Cumming testified at the evidentiary hearing that he agrees with Ms. Freetly's recommended condition.

VII. STIPULATION

As noted in Section I above, the Applicants, Staff and the AG entered into a Stipulation by which the parties have fully resolved any and all outstanding issues in this proceeding. Pursuant to the Stipulation, Staff and the AG do not oppose the proposed reorganization subject to Staff's conditions as modified in Staff's rebuttal testimony and accepted by the Applicants and subject to the terms of the Stipulation. As part of those conditions, the Applicants agree with the AG and Staff that consolidation of the 23 UI Operating Subsidiaries could provide cost savings from reduced rate case expense that is currently being recovered from customers of certain utilities that recently had general rate increase orders. Accordingly, the parties agree to recommend that the order approving the Transaction include a condition requiring that the 23 UI Operating Subsidiaries propose a business plan for consolidating the separate companies into a single corporate entity for purposes of reducing the costs that are included in such companies' revenue requirements, including costs associated with the regulatory process in the State of Illinois. The plan shall include all of the UI Operating Subsidiaries, address future capital budgeting (including local investment options and the bill impact related to major capital investments), operation and maintenance budgeting, rate continuity, timing options, and the treatment of recent and pending rate proceedings for the UI Operating Subsidiaries. The plan shall be served on the parties on the Service List in this docket and those who are participating in the consolidation workshops by electronic mail within four months after the closing of the Transaction. The Stipulation further provides that the Applicants will continue to cooperate with the parties in the consolidation workshops ordered by the Commission in consolidated Docket Nos. 11-0561 through 11-0566.

The parties also agree in the Stipulation to recommend that the order approving the proposed reorganization also include the following condition:

Within thirty (30) days of closing of the transaction approved herein, each qualifying Illinois utility shall file a tariff sheet that provides each customer of a qualifying utility a uniform fixed monthly bill credit to be applied against each customer's bill for a twenty-four (24) month period. The total

aggregate amount of the bill credits for the twenty-four (24) month period shall be \$200,000 to be divided equally among the qualifying Illinois utilities. To be a qualifying Illinois utility, the utility must meet the following criteria: (1) been subject to an order approving a general rate increase entered after January 1, 2011 but before the entry of the Final Order in this docket; (2) the rates approved in said order included recovery of costs for rate case expense; (3) the utility serves fewer than 1,000 customers; and (4) the monthly bill for a customer using 5,000 gallons of water or sewer service exceeds \$50.00. The following companies meet these criteria: Camelot Utilities, Inc., Charmar Water Company, Cherry Hill Water Company, Clarendon Water Company, Ferson Creek Utilities Company, Great Northern Utilities, Inc., and Northern Hills Water and Sewer Company.

Pursuant to the Stipulation, the UI Operating Subsidiaries will not seek to recover from consumers in rates or in any other form any of the monthly bill credits described above.

The Commission concludes that the Stipulation and conditions specified therein are reasonable and should be approved.

VIII. FINDINGS AND ORDERING PARAGRAPHS

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

- (1) each of the UI Operating Subsidiaries is an Illinois corporation engaged in the business of providing public utility water and/or sewer service to the public in Illinois and, as such, is a public utility as defined by the Act;
- (2) the Commission has jurisdiction over the parties and the subject matter of this proceeding;
- (3) the findings of fact and conclusions herein are fully supported by the record and are hereby adopted as findings of fact;
- (4) an Appendix ("Appendix A") should be attached to this Order and fully incorporated into this Order; it should contain the Required Conditions of Approval established by this Commission in this Order, which are indispensable conditions for approval of the Transaction;
- (5) subject to the Required Conditions of Approval in Appendix A, the Transaction satisfies the provisions in Sections 7-204(b)(1)-(7) of the Act as follows:
 - (a) the Transaction will not diminish the UI Operating Subsidiaries' ability to provide adequate, reliable, efficient, safe and

- least-cost public utility service;
- (b) the Transaction will not result in the unjustified subsidization of non-utility activities by the UI Operating Subsidiaries or their customers;
 - (c) costs and facilities are fairly and reasonably allocated between utility and non-utility activities in such a manner that the Commission may identify those costs and facilities which are properly included by the UI Operating Subsidiaries for ratemaking purposes;
 - (d) the Transaction will not significantly impair the UI Operating Subsidiaries' ability to raise necessary capital on reasonable terms or to maintain a reasonable capital structure;
 - (e) the UI Operating Subsidiaries will remain subject to all applicable laws, regulations, rules, decisions and policies governing the regulation of Illinois public utilities;
 - (f) the Transaction is not likely to have a significant adverse effect on competition in those markets over which the Commission has jurisdiction; and
 - (g) the Transaction is not likely to result in any adverse rate impacts on retail customers.
- (6) the terms of the Transaction are reasonable and Corix should be authorized to acquire all of the outstanding membership interests of HS, UI's indirect parent; as a result of the Transaction, the separate corporate existence of UI, shall continue, UI shall remain a wholly-owned subsidiary of HSHC and HS will be a wholly-owned subsidiary of Corix, unless CII causes Corix to merge with and into HS, thereby eliminating one of the intermediate holding companies through which Corix will hold its interest in UI;
 - (7) although the Applicants anticipate no savings from the Transaction, to the extent that any savings are occasioned by the Transaction, they will be wholly reflected in the UI Operating Subsidiaries' future revenue requirements in a manner that passes such savings on to customers;
 - (8) the UI Operating Subsidiaries shall not pass on to or recover from customers any of the Transaction costs (e.g., financial, legal, change in control agreement payments and investment services), nor shall any of the administrative costs of this Transaction incurred by Corix or by UI be allocated to the UI Operating Subsidiaries, either directly or indirectly from other subsidiaries or affiliates;
 - (9) there are no anticipated cost savings from the Transaction; therefore, no

savings should be allocated;

- (10) if any goodwill is created by the Transaction, the goodwill will have no impact on the rates of Illinois ratepayers; and
- (11) the Transaction should be approved and authorized, subject to the conditions set forth in Appendix A attached hereto.

IT IS THEREFORE ORDERED that, subject to the Required Conditions of Approval set forth in Appendix A, consent and approval are granted to Corix Utilities (Illinois) LLC, Hydro Star, LLC, Utilities, Inc., and each of the 23 Illinois Operating Subsidiaries of Utilities, Inc. to carry out all actions reasonably necessary to effectuate the transaction described in this Order, including the Purchase and Sale Agreement between the owners of Hydro Star, LLC and Corix Utilities (Illinois) LLC.

IT IS FURTHER ORDERED that any savings occasioned by the transaction described in this Order shall be reflected in the revenue requirement in any future rate filing of any Illinois Operating Subsidiary of Utilities, Inc.

IT IS FURTHER ORDERED that the rates, rules, regulations and conditions of service applicable to the service areas of the Illinois Operating Subsidiaries of Utilities, Inc. shall remain the same as those currently on file with the Illinois Commerce Commission, until such time as any changes thereto are approved by the Illinois Commerce Commission, except that the monthly credits described in the Stipulation among Corix Utilities (Illinois) LLC, Hydro Star, LLC, Utilities, Inc., each of the 23 Illinois Operating Subsidiaries of Utilities, Inc., Commission Staff, and the Illinois Attorney General shall be implemented by tariff filing as described below.

IT IS FURTHER ORDERED that the Illinois Operating Subsidiaries of Utilities, Inc. shall not pass on to or recover from their customers any of the transaction costs (e.g., financial, legal, change in control agreement payments and investment services), nor shall any of the administrative costs of the transaction described in this Order incurred by Corix Utilities (Illinois) LLC or by Utilities, Inc. be allocated to the Illinois Operating Subsidiaries of Utilities, Inc., either directly or indirectly from other subsidiaries or affiliates.

IT IS FURTHER ORDERED that if any goodwill is created by the transaction described in this Order, the goodwill will have no impact on the rates of Illinois ratepayers.

IT IS FURTHER ORDERED that the seven (7) qualifying Illinois utilities are directed to file revised tariffs to implement the fixed monthly bill credits described in the Stipulation among Corix Utilities (Illinois) LLC, Hydro Star, LLC, Utilities, Inc., each of the 23 Illinois Operating Subsidiaries of Utilities, Inc., Commission Staff, and the Illinois Attorney General and discussed above within thirty (30) days of the closing of the transaction described in this Order, with an effective date of not less than five (5)

working days after the date of filing, for service rendered on and after their effective date, and with individual tariff sheets to be corrected within that time period, if necessary.

IT IS FURTHER ORDERED that all motions, petitions, objections, or other matters in this proceeding that remain undisposed of should be disposed of consistent with the conclusions herein.

IT IS FURTHER ORDERED that, subject to the provisions of Section 10-113 of the Illinois Public Utilities 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 this 28th day of November, 2012.

(SIGNED) DOUGLAS P. SCOTT

Chairman

REQUIRED CONDITIONS OF APPROVAL

Each of the conditions enumerated below has been approved in the Order in this docket to which this Appendix A is attached. Implementation of each condition shall be consistent with the stated rationale for such condition, as explained in the Order. Where any specific details of implementation are set forth in the Order, implementation shall include such details.

1. The 23 UI Operating Subsidiaries shall perform an annual review of all allocations that impact regulated UI Operating Subsidiaries and certify that the allocation methodologies were conducted and prepared in accordance with the current affiliate agreement most recently approved in Docket No. 08-0335 or any future agreement approved by the Commission. The report shall be submitted to the Manager of Accounting by March 31, each year beginning in 2014 and shall be verified by a UI officer. The annual report shall include a description of the procedures, findings, conclusions and recommendations of the review. Supporting work papers shall be available to Staff upon request. If the Manager of Accounting identifies any deficiency, UI must remedy the deficiency or provide an explanation of why the deficiency cannot be remedied.
2. UI and the 23 UI Operating Subsidiaries shall grant Staff access to all of their books, accounts, records and personnel, as well as to independent auditor's working papers, to the extent permitted by the rules and policies of the independent auditor.
3. CII shall not take further action that would limit UI's ability to issue debt under the Master Note Purchase Agreement.
4. The 23 UI Operating Subsidiaries shall propose a business plan for consolidating the separate companies into a single corporate entity for purposes of reducing the costs that are included in the companies' revenue requirements, including costs associated with the regulatory process in the State of Illinois. The plan shall include all companies, address future capital budgeting (including local investment options and the bill impact related to major capital investments), operation and maintenance budgeting, rate continuity, timing options, and the treatment of recent and pending rate proceedings for the companies. The plan shall be served on the parties on the Service List in this docket and those who are participating in the consolidation workshops by electronic mail within four (4) months after the closing of the proposed reorganization described

in the Order. The companies will continue to cooperate with the parties in the consolidation workshops ordered by the Commission in consolidated Docket Nos. 11-0561 through 11-0566.

5. Within thirty (30) days of closing of the transaction approved in the Order, each qualifying Illinois utility shall file a tariff sheet that provides each customer of a qualifying utility a uniform fixed monthly bill credit to be applied against each customer's bill for a twenty-four (24) month period. The total aggregate amount of the bill credits for the twenty-four (24) month period shall be \$200,000 to be divided equally among the qualifying Illinois utilities. To be a qualifying Illinois utility, the utility must meet the following criteria: (1) been subject to an order approving a general rate increase entered after January 1, 2011 but before the entry of the Final Order in this docket; (2) the rates approved in said order included recovery of costs for rate case expense; (3) the utility serves fewer than 1,000 customers; and (4) the monthly bill for a customer using 5,000 gallons of water or sewer service exceeds \$50.00. The following companies meet these criteria: Camelot Utilities, Inc., Charmar Water Company, Cherry Hill Water Company, Clarendon Water Company, Ferson Creek Utilities Company, Great Northern Utilities, Inc., and Northern Hills Water and Sewer Company.
6. The UI Operating Subsidiaries will not seek to recover from consumers in rates or in any other form any of the monthly bill credits described above.

END OF REQUIRED CONDITIONS OF APPROVAL