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DOCUMENT NUMBER-DATE

04405 MAY-78

FPSC-COMMISSION CLERK

Report of Independent Auditors

To the Shareholder of Utilities, Inc.:

In our opinion, the accompanying consolidated balance sheets and consolidated statements of capitalization and the related consolidated statements of income, shareholder's equity and cash flows present fairly, in all material respects, the financial position of Utilities, Inc. and its subsidiaries (the Company) at December 31, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

PricewaterhouseCoopers LLP

May 20, 2008

DOCUMENT NUMBER-DATE

04405 MAY-78

FPSC-COMMISSION CLERK

UTILITIES, INC.

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2007 AND 2006

CONFIDENTIAL

UTILITIES, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2007 AND 2006

UTILITY OPERATIONS

2007

2006

UTILITIES, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2007 AND DECEMBER 31, 2006

| <u>ASSETS</u> | <u>December 31, 2007</u> | <u>December 31, 2006</u> |
|---------------|------------------------------|------------------------------|
|---------------|------------------------------|------------------------------|

UTILITIES, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED BALANCE SHEETS AS OF DECEMBER 31, 2007 AND DECEMBER 31, 2006

| <u>CAPITALIZATION AND LIABILITIES</u> | <u>December 31, 2007</u> | <u>December 31, 2006</u> |
|---------------------------------------|------------------------------|------------------------------|
|---------------------------------------|------------------------------|------------------------------|

UTILITIES, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF COMMON SHAREHOLDER'S EQUITY

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2007 AND 2006

| <u>Common Shares</u> | | <u>Paid-In Capital</u> | <u>Retained Earnings</u> | <u>Notes Receivable From Parent</u> | <u>Accumulated Other Comprehensive Income</u> | <u>Total</u> | <u>Total Comprehensive Income</u> |
|----------------------|---------------|----------------------------|------------------------------|---|---|--------------|---|
| <u>Shares</u> | <u>Amount</u> | | | | | | |

UTILITIES, INC. AND SUBSIDIARY COMPANIES
CONSOLIDATED STATEMENTS OF CAPITALIZATION
AT DECEMBER 31, 2007 AND DECEMBER 31, 2006

December 31,
2007

December 31,
2006

UTILITIES, INC. AND SUBSIDIARY COMPANIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE TWELVE MONTHS ENDED DECEMBER 31, 2007 AND 2006

2007

2006

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - Summary of Significant Accounting Policies

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Note 2 - Acquisition of Utilities, Inc.

NOTE 3 - Capital Contribution from Parent and Dividend Payment to Parent

NOTE 4 - Deferred Charges and Regulatory Assets

NOTE 5 - Current Maturities of Long-term Debt & Other Credit Arrangements

NOTE 6 - Fair Value of Financial Instruments

NOTE 7 - Employee Benefit Plans

NOTE 8 - Contingencies and Legal Proceedings

... acquisitions potential payments to

NOTE 9 - Acquisitions and Dispositions

Note 10 - Asset Retirement Obligation

NOTE 11 - Income Taxes

(See Note 1)

Note 12 - Value Creation Share Plan



MEMORANDUM OF CLOSING DOCUMENTS

UTILITIES, INC.

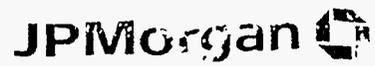
PARTIES

Company
Utilities, Inc.

Purchasers

Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Note Agreement or the Series 2006-A Notes. Unless otherwise specified, all documents shall be dated as of the Closing and distribution shall be made to the Company, Winston & Strawn LLP, counsel for the Company, the Purchasers, Foley & Lardner LLP, special counsel to the Purchasers, and the Agent.

 CONFIDENTIAL



July 19, 2006

Utilities, Inc.
2335 Sanders Road
Northbrook, Illinois 60062

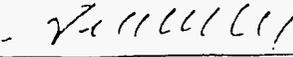
Winston & Strawn, LLP
35 West Wacker Drive
Chicago, Illinois 60601

Foley & Lardner LLP
321 North Clark Street, Suite 2800
Chicago, Illinois 60610-4764

To Whom it May Concern:

Very truly yours,

J.P. MORGAN SECURITIES INC.

By: 

Name: Gerald J. Kokal

Title: Vice President



J.P. Morgan Securities Inc.
131 South Dearborn, Chicago, Illinois 60670-0701
Telephone 312-732-3851 Facsimile: 312-732-2655

JPMorgan Securities Inc. is a member of NYSE/SIPC, and is a wholly-owned subsidiary of JPMorgan Chase & Co.

UTILITIES, INC.

MASTER NOTE PURCHASE AGREEMENT

Dated as of July 19, 2006

Issuable in Series

PPN: 91803* AP 3

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UTILITIES, INC.
2335 Sanders Road
Northbrook, Illinois 60062
(847) 498-6440
Fax: (847) 498-6216

Dated as of July 19, 2006

TO EACH OF THE PURCHASERS LISTED IN
THE ATTACHED SCHEDULE A:

Ladies and Gentlemen:

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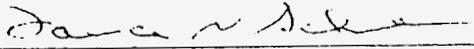
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If you are in agreement with the foregoing, please sign the form of agreement on the accompanying counterpart of this Agreement and return it to the Company, whereupon the foregoing shall become a binding agreement between you and the Company.

Very truly yours,

UTILITIES, INC.

By: 
Name: Lawrence N. Schumacher
Title: President

[] CONFIDENTIAL

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SCHEDULE A

INFORMATION RELATING TO PURCHASERS

Schedule A

 **CONFIDENTIAL**

INFORMATION RELATING TO PURCHASERS

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Schedule A

CONFIDENTIAL

Schedule A

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INFORMATION RELATING TO PURCHASERS

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INFORMATION RELATING TO PURCHASERS

Name and Address of Purchaser

Principal Amount of
Notes to be Purchased

[!] CONFIDENTIAL

 CONFIDENTIAL

Schedule A

INFORMATION RELATING TO PURCHASERS

Name and Address of Purchaser

Principal Amount of
Notes to be Purchased

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Schedule A

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