

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

<b>Illinois-American Water Company,</b>	)	
<b>American Water Works Company, Inc.,</b>	)	
<b>Thames Water Aqua US Holdings, Inc., and</b>	)	
<b>Thames Water Aqua Holdings GmbH</b>	)	
	)	
<b>Joint Application for Approval of Proposed</b>	)	<b>Docket No. 06-0336</b>
<b>Reorganization and Change in Control</b>	)	
<b>Of Illinois-American Water Company</b>	)	
<b>Pursuant to Section 7-204 of the</b>	)	
<b>Illinois Public Utilities Act</b>	)	

**VILLAGE OF HOMER GLEN'S  
PRE-TRIAL MEMORANDUM**

Pursuant to Paragraph 11 of the Scheduling Order entered 24 May 2006, the Village of Homer Glen submits this pre-trial memorandum.

The Village has not received or reviewed the testimony of the Illinois Commerce Commission Staff (ICC Staff) or the surrebuttal testimony of Applicants. A review of the testimony to be filed today along with the surrebuttal testimony of Applicants to be filed next week may affect the position of Homer Glen and the remaining contested issues. By way of example, the ICC Staff in its direct case recommended that the transaction not be approved. Homer Glen does not know if the ICC Staff has modified its position that the application should be denied.

Without waiving any of its rights and any issues that may be disclosed in other party's testimony and Applicant's surrebuttal, Homer Glen restates and incorporates herein its Initial Statement of Issues previously filed.

This case involves the sale of up to 100 per cent of the shares of the common stock of American Water in one or more public offerings and the merger of Thames

Water Aqua U.S. Holdings into American Water with American Water being the surviving company.

ICC Staff Witness Pierce, ICC Staff Ex. 4.0, recommended against approval because the Applicants have not proven their proposal meets the criteria set forth in Sec. 7-204(b)(7) of the Public Utilities Act.

The Public Utilities Act at 7-204(b) sets out seven specific findings that the Commission must affirmatively make. Those include:

- (1) The proposed reorganization will not diminish the utility's ability to provide adequate, reliable, efficient, safe and least cost-public utility service;  
\* \* \*
- (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;  
\* \* \*
- (7) The proposed reorganization is not likely to result in any adverse rate impacts on retail customers.

Homer Glen will rely on the pre-filed testimony of the Village's Mayor Pro Tem Mary Niemiec. Her testimony demonstrates that currently Illinois American Water is not providing adequate, reliable, efficient, safe and least cost public utility service. Her direct (HG Ex. 1.0) and rebuttal (HG Ex. 2.0) testimony cites specific examples where IAW has failed to provide adequate and reliable service. Her testimony demonstrates that IAW is not providing safe service in that IAW has violated this Commission's regulations concerning inspection of fire hydrants and critical valves, thereby endangering both the property and lives of residents of Homer Glen.

In addition, the Cities of Champaign and Urbana have filed direct testimony of Paul Berg and William Gray that also details the failings of IAW to provide adequate,

reliable and safe service in those cities. This testimony confirms the statements by Homer Glen's Ms. Niemiec. There is no indication that the merged company will perform any better than the existing company.

Ms. Niemiec testifies that the situation is so bad in Homer Glen and three other communities that the communities have retained consultants to conduct a valuation of the IAW system in each of their communities to determine if the systems should be purchased from IAW through condemnation.

Attorney General witness Scott Rubin raised questions concerning whether all of the proceeds from the IPO should go to RWE or whether some of the proceeds should be returned to American Water so that it can be adequately funded. Mr. Rubin also raised questions concerning the adequacy of IAW's pension fund and whether the surviving company will have to make up for inadequate funding in the past.

It is unclear from IAW's testimony on whether there will be actual savings as a result of the transaction, whether the savings will be passed onto consumers or whether IAW will seek a rate increase after the transaction is completed. These are areas that Homer Glen will explore during the hearing.

If the Commission approves the transaction, the approval should include the following provisions:

1. In a final order that the Commission require Illinois-American Water Company (IAW) to file a plan with the ICC and Village setting a schedule and milestones for IAW to reduce its water rates so that the rates are within the mid-range of water rates for privately owned water utilities, not the highest in the state.

2. In a final order that the Commission require IAW to conduct an independent third party audit of its billing practices and to refund with interest all overcharges uncovered as a result of the audit.
3. In a final order that the Commission require IAW to file a plan with the ICC and the Village setting a schedule and milestones for IAW to reduce the “unaccounted for” water component of its purchased water.
4. In a final order that the Commission require IAW to give the Village the option to purchase the portion of IAW’s system in the Village to the Village if IAW is unable to reduce water rates as set out in No. 1 above within the next two years and/or reduce “unaccounted for” water to less than 5 per cent within two years.
5. In a final order that the Commission require IAW to fully fund its underfunded pension liability as described in the testimony of Illinois Attorney General witness Scott Rubin.
6. In a final order that the Commission require IAW to retain a portion of the proceeds from any IPO or other sale of stock or other securities for the benefit of the IAW system and not be distributed to RWE.

Respectfully submitted,

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**CERTIFICATE OF SERVICE**

I, Richard C. Balough, do hereby certify that a true and correct copy of the foregoing was served upon the service list in Docket No. 06-0336 on this 21st day of February 2007.

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Richard C. Balough