

EXHIBIT 1

**WATER STUDY TASK FORCE
SUMMARY REPORT**

**Presented to Pekin City Manager
&
Pekin Mayor and City Council**

August 9, 1999

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July 15, 1999

City of Pekin
Mayor, Council Members and City Manager

About one year ago, you appointed us as an advisory committee to study the feasibility of Pekin pursuing a purchase of the local water facility from the Illinois American water company. As you know, this is a very touchy situation, and required a significant study of the facts and perceptions since this would be a hostile acquisition and result in a tough legal battle.

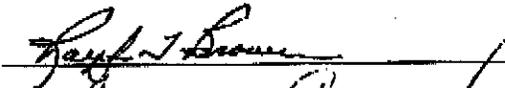
The attached report will present much detail on the information we gathered and how we went about the gathering. The committee sought the input, advice and expertise of other municipalities, Illinois American personnel, committee members from a previous study, local business leaders, citizens, city employees and a consultant (unpaid). The committee also prepared a pro forma operating statement that indicates an annual profit exceeding \$1.5 million for a city owned facility using current rates.

The committee believes the purchase of the Pekin facility is financially feasible if the purchase price is \$20 million or less; and the acquisition will provide long range benefits to the city. The committee unanimously recommends that the City of Pekin's elected officials pursue the purchase of the Pekin water facility from the Illinois American Water Company.

The recommendation is based on the following:

- a. City ownership will significantly reduce future rate increases.
- b. City ownership will provide additional means to help manage future city growth.
- c. City ownership will keep significant cash flow and profit dollars in the city.
- d. City ownership could provide additional jobs in Pekin.
- e. City ownership will allow the integrated planning of infrastructure (roads, sewer, water) maintenance.

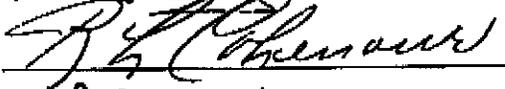
Ralph Brower, Chairman (Retired Caterpillar Manager)



George Carver, (Retired Treasurer, Rock Island Corp)



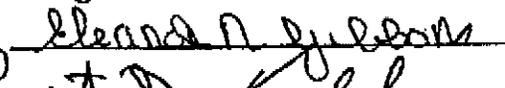
Dick Cohenour (Retired Caterpillar Manager)



John Fordham (Manager, Gallatin River Communications)



Eleanor Gibbons (Advertising Director Pekin Times)



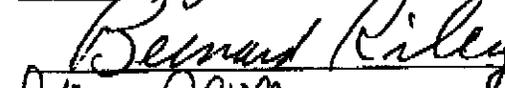
Curt Keller (United Methodist Church Minister)



Dave Parsons (VP Mfg. Excel Foundry and Machine)



Bernie Riley (Technical Consultant Ushman Comm.)



Gerry Wise (VP Life Marketing Pekin Insurance)



WATER STUDY COMMITTEE REPORT

Members of the Water Study Advisory Committee included:

Ralph Brower, chair - retired manager for Caterpillar.

Eleanor Gibbons - Director of Advertising for Pekin Daily Times, former owner of real estate operation and was a former member of a city council in which she was in charge of coordination of water and sewer operations.

George Carver - Retired Treasurer, Rock Island Corporation

Dick Cohenour - Retired Data Processing Manager -- Caterpillar

John Fordham - Engineering and Construction Manager -- Gallatin River Communications

Curt Keller - United Methodist Church Minister and Marriage and Family Therapist

Dave Parsons - Vice President of Manufacturing -- Excel Foundry and Machine

Bernie Riley - Technology Consultant -- Ushman Communications

Gerry Wise - Vice President -- Life Marketing -- Pekin Insurance

The individuals volunteered their time to serve on the committee after hearing a request from the City Manager for volunteers to do so or their names were given to the City Manager to contact to be part of the committee. These individuals represent a range of occupations and perspectives from the community. Not all of those on the committee live in the city limits.

The purpose of the committee was to review the feasibility of the purchase of the Pekin facility of Illinois America Water Company by the city of Pekin and report its recommendation to the City Council. The committee was to explore rationale for such a buyout and whether a buyout would be financially possible.

The committee was not formed with a goal of making any particular recommendation. The members began open minded as to whether to recommend pursuing the purchase or not pursuing a purchase. The decision of the committee was based upon their findings.

The purchase of any utility by a municipality should not be done lightly, for private enterprise has been the backbone of our society. The Water Study Committee has worked for almost a year at this issue noting the seriousness of any recommendation it would make. The committee believes that factors other than reducing rates should be considered if such a purchase should be pursued and only then whether or not it is financially feasible can be determined. This is outlined in the following. One concern for this committee is that of the future of the city of Pekin and that it is essential that cooperation between any utility and elected and appointed officials for the future development of the city. Another concern is that of the rates of the water company and whether or not the citizens of Pekin are receiving the best value for their money. The order in which concerns are listed does not necessarily reflect the priority of those issues.

The committee began with a look at control of city growth and infrastructure as related to Illinois America. It then looked at whether it would be financially feasible to purchase the water

company which included a projection of potential cost to the city and a pro forma operation budget.

The committee also looked into the service provided by Illinois America Water Company and sentiment among the community toward a city buyout of the utility as well as listening to concerns of area businesses. The committee looked at other communities that bought out a privately owned water company, e.g. Huber Heights, Ohio, and one community which was very satisfied with its cooperation with another American Waterworks Company – Davenport, IA.

Although issues apart from cost appear to be issues that could easily be worked out, mixed messages appear to have come from Illinois America concerning cooperation with the City of Pekin and developers. These mixed messages have only heightened the concern of local control for the water company.

The recommendation of the Water Study Committee is based upon the above work. The recommendation is presented in more than one part. The first is included in this four page report which gives an overview of the decision. The rest of the report will elaborate on the overview to give detail of many areas as may be helpful to the Council in making its decision.

It is the opinion of the Water Committee that we recommend to the City Council of Pekin, Illinois, that it pursue the purchase of the Pekin facility of the Illinois America Water Company. Following is our rationale for such a suggestion and then the conditions under which the purchase can be considered.

The first issue is that of control. Local officials are elected to help lead our city in its development. Water is important for any development and being able to work smoothly with the water company as well as having some control over such, can be important. Some situations have occurred in which development has been delayed or expenses added to the City because of IA disagreeing with the developer or company. This means that IA has control over the development of Pekin without being accountable to the citizens of Pekin. It also means that if IA's actions create extra expenses for the City, it is an expense that is actually paid by the citizens of Pekin.

The city should also be able to have a comprehensive plan on resurfacing roads without them being dug up within weeks of the completed resurfacing so that the water company can replace pipes. This hurts the infrastructure that the city is developing. This means that repairs to those streets and resurfacing will need to be done sooner than if the streets were not torn up so quickly after resurfacing. This diverting of future funds from the city hampers the efforts of the city to continue to provide the best possible maintenance of the infrastructure allowing for growth and a more pleasant community in which to live. Illinois America knows the age of the system in Pekin and should be able to work out a schedule of upgrading the system without digging up newly resurfaced streets.

Negotiations between the water company and the city on issues such as ownership of water lines in new subdivisions may not always be clear. An agreement on the local level (with appropriate

representative of the water company) can be vetoed by others in the company. This means that the city does not have the ability to discuss this directly with the decision making persons of the company. A recent incident illustrating this occurred between the city manager of Pekin, two developers and Illinois America. Dragging out negotiations which can delay projects can negatively impact the local developer financially. Negative financial impact on local business people not only hurts those particular people, but the community as a whole.

As Pekin sits on top of an aquifer, control of this wonderful resource can be in question, if a private company owns the water company and supplies water beyond the city. It is possible that Illinois America could sell this resource to other communities irregardless of the wishes of the residents of Pekin.

A second consideration is that of cost to customers and the city. The committee has done considerable research into how purchase of the water company could affect the customers of that utility. In the committee's pro forma financial statement, a savings of \$ 1,596,096 annually was shown on an operation of \$ 4,703,000. The Illinois America Water Company was given the opportunity to question these figures and agreed with most of the pro forma costs. Their spokesperson told the committee on May 6, 1999 that the figures he would question were not that significant except for the purchase price of the company itself. This means that 34 % of the annual income could be used for purchase of the water company or reduce rates.

The City Council for the City of Pekin should keep in mind that Illinois America has moved toward a unified rate in Illinois. So far the City of Pekin has been excluded from that rate because of the less expensive methods needed to supply water to Pekin customers. Although Illinois America stated verbally to the study committee that Pekin is excluded from such a rate at the current time and in the future, they have been unwilling to give any such guarantee in writing up to this point. If a unified rate for all customers of Illinois America would go into place which would include Pekin, rates in Pekin would significantly increase.

Another financial benefit to the community of Pekin in purchasing the water company would be that money currently being used to pay for facilities and personnel in Belleville and New Jersey would be kept within the area, allowing for more money in our local economy and a few more jobs to some people in this area.

Another potential cost saving to the customers of the local water company, if the city purchased the system, would be that the city may be able to tap into funding programs to help upgrade the substandard water infrastructure in certain parts of the city. Illinois America would not be able to tap into these programs. The cost savings would be passed onto the customer. The upgrades will need to be made. Illinois America would pass the entire costs onto the customers since they would not be able to tap into such funding programs.

If Illinois America does not achieve adequate profits one year, they can petition to adjust rates to compensate for the poor year or years. However, if they have larger than projected profits, there is no incentive on passing a savings onto the consumer. They can simply report a good year and continue to set their rates based on making a 10.6% profit the following year. (This 10.6% is

what the ICC deems as a reasonable profit for the company.) In fairness to Illinois America, they were not trying to mislead or lie to the ICC when they had a rate of return in excess of 12 %. Growth in the city and higher water usage provided the company with higher than projected profits. If the water company were municipally owned, the added revenue would not be going to stock holders, but kept within the system holding down or reducing rates. One may wish to note that in December of 1997 Illinois America was granted a rate increase to cover what they were projecting would be an inadequate rate of return. A rate increase of over 10% was given. The company had a rate of return of over 12 % for the year in question. This illustrates how the company benefits from the ICC assuring an adequate return. Since a reduction of rates did not follow after the 12+% rate of return year, it also illustrates that the company does not benefit the customer when the rate of return is high.

The third area to consider concerning the purchase of the water company is that of service. Illinois America would lead us to believe that they have an excellent service record and the city could not match this. We think that overall the service record of Illinois America is a good one. However, as with most companies there are those times when service is not as good as one would hope. For instance, a water line was flooding Summit Street for over 24 hours this past Spring and when Broadmoor and Dirksen Schools were without water for about a week this past school year, notice was given to the school by taping a message to the door of the school, not allowing any of the school personnel to prepare the situation before students arrived. Service is good, but not perfect. If the water company were owned by the city, one may not be able to guarantee that service would be better, but those responsible for seeing that the service is maintained would be local and more accessible than those living in Belleville or New Jersey. The city would have the option of either running the system themselves or contracting out with a company which specializes in this type of work.

Some persons are quick to point out areas of dissatisfaction with city provided services and state that the city should not be in the water business as it would not provide better service. It is not fair to compare how quickly the city removes snow from your street to how quickly it may respond to a broken water line and if the city were to contract out the service, then it would remove such concern.

The quality of the water has been an issue raised by the water company. The Pekin system is a very simple system compared to other cities. It is very easy to treat and pump. The quality of the water has more to do with the quality of the aquifer under the feet of the city of Pekin than the treatment process.

Accountability is not only a part of the concept of providing service but yet another issue. At present the company is accountable to its stock holders who are interested in profits and to the ICC which will provide some oversight in setting rates. EPA standards would be the same whether the system were owned by the city or a private company. If the system were owned by the city it would be directly accountable to the residents of the city. The people of the city of Pekin have shown over the past several years that they are very capable in holding their elected officials responsible to their will, as they have demonstrated at the polls on several occasions.

With city ownership, accountability would be to the residents of Pekin, not to bureaucrats in Springfield or stockholders living in various states and countries.

Although the committee recommends that the City Council of the City of Pekin pursue the purchase of the Water Company and has weighed the arguments and facts presented to it in making its recommendation, the committee wants to be clear with the council that Illinois America is a quality company with generally satisfied customers.

CONSIDERATIONS

Some considerations the council may want to give toward the purchase of the water company may include the following:

The purchase price should be no more than \$ 20,000,000. The committee projects that the value of the company is around \$ 12,000,000. Although the committee stands behind its figure, it is hard to predict what a court may ascertain the value to be, but this would allow for a 70 % increase of the committee's projected price and still fall below what the upper limit should be. One could also argue that in comparing recent purchase values of water companies of similar size and base the price upon that, the committee may have estimated high.

To see the water company is run properly and efficiently the day to day operations of the company could be contracted out to a private company with adequate expertise in running a water company to see that the water company is run properly and efficiently.

The city could consider passing an ordinance that revenues from a city owned water company be used for maintaining the water company and not for other city expenses.

The pro forma financial statement for running the water company is attached, as is the projection of the value of the water company.

The City Council of the City of Pekin should also keep in mind that the general sentiment among persons within the City of Pekin is that the city should not purchase the water company. Even though a majority of the committee studying this issue felt the same at the beginning of the study and changed their minds in the course of the work, others within the community may not change their minds with more information concerning the Water Company. Although Illinois America has begun a campaign of trying to influence people in Pekin to oppose a buy out, we should not vilify the company for such publicity for that would be to diminish the citizens' intelligence in deciding for themselves. People of Pekin may think that the difference in projected monthly costs will not justify a buyout when they are satisfied with the quality of water and the service being provided at the present time. Although the report cited examples of less than perfect service by Illinois America Water Company, the report should also point out that poor service on the part of Illinois America is probably the exception rather than the rule as Illinois America appears to be serious in maintaining high customer satisfaction.

The City Council should also take into consideration the opposition to the buyout of large volume water users within the City of Pekin. In comparative rate studies, high volume users within Pekin tend to have lower rates than high volume users in other communities. Illinois America has a lower rate for the high volume user based upon the lower cost per unit to provide water to such customers. Although the committee may be of the opinion that rates and service can be maintained at current levels for these users, their concern should be noted by the council. Part of the concern for some of these water consumers is not just the convenience of good service from the water company, but their business depends upon that water to operate and even a minor decrease in service could have negative financial consequences for them.

PROFORMA OPERATING STATEMENT

In order to determine the financial impact of the City acquiring the water company, a pro forma operating statement was developed. The base figures used were the same figures used by American Water Company in filing with the ICC in regards to their rate increase justification. Explained below is the rationalization of using the IA data in developing the pro forma if the city owned the water works.

The summation is that the city would generate \$ 1,596,696 of revenue over expenses annually.

The pro forma statement was shared with officials of IA. Their comments were that the figures were essentially accurate except for the purchase price of \$ 12.0/12.7 which they claimed to be quite inadequate. The other comment was as to the rate used for servicing the bond debt.

The pro forma statement is shown on the following page and followed by the rationalization of the figures used to develop the operation results if the city owned the company.

The pro forma shows in column one and two the IA. figures and column three the expenses that would be avoided if the city owned the company and column four is the pro forma operating statement. The explanation following is referenced as to the REF. number at the far left of the page.

PROJECTED INCOME - EXPENSE

REF	DESCRIPTION	Illinois - American 1996 Rate Case	Adjustments Not CITY Expense	CITY Run Water
1	REVENUE	\$4,703,000	\$0	\$4,703,000
2	Labor (per Kevin Cavney)			
	Blue Collar (11 laborers + 4 Meter Readers)	\$804,000		
	Clerical (3)	\$74,000		
	Administrative (4 Supervisors)	\$195,000		
	Allocation * (9.12 equivalent people per KC)	\$147,734		
		→ \$1,020,734	\$0	\$1,020,734
	Fuel and Power	\$172,379	\$0	\$172,379
	Chemicals	\$12,458	\$0	\$12,458
3	Management Fees (NJ Allocation)	\$51,956	(\$51,956)	\$0
4	Group Insurance (Workmen's Compensation, Health, Dental and Life)	\$316,161	\$0	\$316,161
	Pensions	\$50,225	\$0	\$50,225
5	Regulatory Expense	\$29,312	(\$29,312)	\$0
6	Insurance - Other (Liability, Property and Casualty)	\$90,389	\$0	\$90,389
7	Customer Accounting			
	Office Supplies - Local Office	\$24,800		
	Office Supplies - Allocation *	\$133,047		
		→ \$157,847	\$0	\$157,847
	Rents	\$5,384	\$0	\$5,384
8	General Office Exp			
	Peikin	\$45,964		
	Allocation *	\$55,578		
		→ \$101,542	\$0	\$101,542
	Maintenance	\$229,368	\$0	\$229,368
9	Miscellaneous (leg/PR/tab)			
	Transportation, Gas, Repairs & Tires	\$44,300		
	Donations	\$5,515		
	Peikin Laboratory Supplies	\$650		
	Allocation *	\$189,389		
		→ \$239,854	\$0	\$239,854
10	Depreciation	\$623,523	\$0	\$623,523
11	General Taxes			
	Investment Capital Tax	\$125,000	(\$125,000)	
	Property Tax	\$55,000	(\$55,000)	
	Social Security (7.65% * Blue Collar + Clerical + Admin)	\$66,785		
	Unemployment Tax (\$87,040 - SS)	\$20,255		
		→ \$267,040		\$87,040
12	Income Taxes (Federal and Illinois)	\$421,668	(\$421,668)	\$0
	EXPENSES	\$3,789,840	(\$682,936)	\$3,106,904
	OPERATING INCOME (EXPENSE)	\$913,160	\$682,936	\$1,596,096

NOTES:

* Allocations = 9.08% of State Costs

CPI: Dec, 1996 = 163.9; Dec, 1998 = 163.0 Inflation = 3.9%

DEBT SERVICE

AS OF JULY 2, 1999

AMOUNT AVAILABLE	YEARS	BOND PROCEEDS	AVERAGE COUPON	AVERAGE ANNUAL DEBT SERVICE
\$12,000,000	20	\$12,170,000	5.241822%	\$994,556.80
\$12,000,000	25	\$12,180,000	5.377254%	\$888,732.73
\$14,000,000	20	\$14,200,000	5.241695%	\$1,160,312.62
\$14,000,000	25	\$14,210,000	5.377269%	\$1,036,843.26
\$16,000,000	20	\$16,230,000	5.241819%	\$1,325,372.39
\$16,000,000	25	\$16,235,000	5.377462%	\$1,184,861.15
\$18,000,000	20	\$18,255,000	5.241572%	\$1,491,660.43
\$18,000,000	25	\$18,265,000	5.377158%	\$1,332,609.49
\$20,000,000	20	\$20,285,000	5.241663%	\$1,657,636.81
\$20,000,000	25	\$20,295,000	5.377214%	\$1,480,702.34
\$22,000,000	20	\$22,315,000	5.241589%	\$1,823,445.60
\$22,000,000	25	\$22,325,000	5.377153%	\$1,628,759.02

REF 1 Revenues:

No change in revenues is shown. IA stated that the revenues have been very close to what had been predicted at the time of the rate filing.

REF 2 Labor:

The committee surmised that the city would be able to operate the system with the same amount of labor as being used presently by IA. The allocation of \$ 147,734 under labor was extensively discussed and the committee felt the city would not incur these costs, but due to being conservative, they were retained in the city's figures.

REF 2 Fuel and Power:

No change

REF 2 Chemicals:

No change. IA expressed that the city's costs would be higher because of the inability to make volume purchases that are made available to IA.

REF 4 Group Insurance:

IA figures were deemed to be excessive. The claim by IA was that this figure included retiree pensions. Since a breakdown of the category was not available, the city pro forma retained the entire amount. However, one committee member with a business background involving group insurance, provided information that IA figures exceeded those that would be incurred by the city.

REF 5 Regulatory Expense:

The city pro forma deducted this \$ 29,312 item, for the city would not be required to file regulatory matters.

REF 6 Insurance:

No change.

REF 7 Customer Accounting:

No change. The city manager foresees a savings due to utilizing city personnel who are at present engaged in the billing and accounting of the waste water system.

REF 8 General Office:

No change. Possible savings were pointed out, however, the city pro forma includes the full amount as those stated by IA.

REF 9 Misc.:

IA allocation of \$ 189,389 to legal/public relations/laboratory expenses would not be incurred by the city. However, there would probably be outside laboratory testing expenses for the city whereas there are none for IA.

REF 10 Depreciation:

No change. This would cover capital equipment replacement and/or improvements.

REF 11 General Taxes:

The investment capital tax of \$ 125,000 and property tax of \$ 55,000 was deducted for they would not apply if the city owned the water company. The full amount for social security and unemployment tax (\$ 87,000) was retained in the city ownership figures.

REF 12 Fed/State Income Tax:

Deducted the full \$ 421,668, for the city would be immune to these taxes.

SUMMARY:

1. There is \$ 577,704 in allocations in the IA rate case. All except \$ 51956 (see REF 3) were carried over to the pro forma operating statement. The rational was the remainder \$ 525,748 could well be off-set if the city were to engage a private concern to operate the water system.
2. The purchase price of \$ 12.0/12.7 million was determined by a combination of ratios from the figures made public by a consulting firm hired by Peoria. The purchase of the water works in Huber Heights, Ohio, was rationalized. Various ratios were used such as revenues, volume, etc.
3. The city treasurer calculated the cost of debt service using a purchase price of \$ 12.0 million and a bond interest rate of 4.833%. The treasurer states that using the referenced pro forma statement the break-even point is at approximately a \$ 20 million purchase price.
4. An unknown fact is "what is the physical condition of the facility (pumping stations -- distribution mains). The only insight the committee had was the number of reported leaks per year. According to IA the number of leaks has not varied significantly over a number of years.
5. The figures used in the pro forma statement are considered conservative. Pekin's water works system is quite simple. (Pumping water from the aquifer and treating with flouride and chlorine) as contrasted with Peoria where 40% of the water comes from the Illinois river and has to be extensively processed prior to distribution.
6. After a 12.0 million purchase and a 4.833% debt service the city would garner \$ 646,960/year.

REPORT FROM HUBER HEIGHTS by Curt Keller

I talked with Scott Shrader of Huber Heights on July 10, 1998. He shared the following with me.

In Huber Heights, Ohio America did not willingly sell the water company, the city went through the courts to do this. Prior to Ohio America (OA) the water company was owned by Ohio Suburban which decided to sell off some assets. Huber Heights tried to buy the company, but they sold it to OA. The city manger (Scott) thought that one reason that the city was not able to purchase it from Ohio Suburban was that they entered into trying to purchase it late. After OA purchased the water company, the city tried a friendly purchase from them, but OA refused.

As with Pekin a local citizens committee was established at looking into the purchase of the water company. Their primary concern was that they would not have local control of the water company which would include how it would expand, but that control of the water company in Huber Heights would be by a company with headquarters in New Jersey. The city was concerned that with plans that OA had in expanding services to neighboring areas, that the citizens of Huber Heights would be offsetting the costs of such expansion.

A referendum was passed by 75% to 25 % in favor of the city purchasing the water company from OA. Some promises were made to the people of Huber Heights. First, there was a promise to roll back the latest rate increase by 75 %. Second that the rates would be kept steady for 5 years. Third there was a promise to hire the current workers if they wanted to work there and there was a promise to hire a professional management company to run the water works.

The city has kept their promises so far after having ownership of the water comppany for 3 1/2 years now. Scott stated that the city viewed ownership of the company as very positive for them.

Scott shared that OA put up a hard fight. He said that poster were placed around town by OA of the city manager at the time. These posters had a grainy looking picture of the man with the question as to whether or not you could trust the person. He said that this was one example of how the company fought to keep from selling. He also said that OA stated that the buying price would be an extremely high price, but that they were able to purchase it far below that, but above what they were hoping. He could not give me the exat figures on the purchase price but estimated at around 20 million. He said that the treasurer would be able to give us the amount, but he was on vacation. Huber Heights has a population of 42,000 and was incorporated in 1981.

At the August 18 meeting of the committee, Keller reported that Huber Heights paid about \$ 1,000,000 for financial experts, public relations campaign, evaluation and legal expenses in the purchase of the water company. They borrowed \$ 12.5 million to purchase the system and \$ 6.9 million to purchase the sewer system. They paid \$ 9.4 million for the water system and \$ 15.2 million for everything. The information about the purchase price and expenses surrounding the purchase of the company came from Kathy Armaseda of Huber Heights.

INDUSTRIAL CONCERNS

The Water Study Advisory Committee met with industrial representatives (major water users) on December 15, 1998.

Bob Moore represented Progressive Health Systems

Brian Cahill represented Midwest Grain

Jim Eckman represented Williams Pekin Energy

Ron Schenk represented Pekin Paperboard

Steve Bonk Represented Tour Ice

The groups main concerns were:

Rates for high volume users

Water quality

Maintenance of the system

Service

Service outside the city limits

It was noted that several of the large water users have the capability of producing their own water from wells which they own.

There was not a great deal of enthusiasm for the city purchasing Illinois American Water Company. Several people mentioned that they were not always happy with city services but they were quite happy with the service and quality of water provided by IL American.

The purpose of this meeting was to gather information and listen to the concerns of industrial water users. The committee did not offer an opinion prior to, or after listening to the group, or attempt in any way to influence the discussion.

Although a great deal of work will be needed to convince the water consumer/taxpayer of the benefits of a city owned water company, the evidence is now available to support such a decision.

Water Study Advisory Committee Informal Public Survey

Each member of the committee was asked to survey a cross section of friends and acquaintances in order to gauge how the community felt about the possible purchase of the water company. This was not a scientific or statistic format survey therefore the answers are not necessarily representative of the overall households.

The following are the questions asked and the answers received and comments. Citizens from within and outside of the corporate limits were surveyed.

Questions Asked:

Do you think the City of Pekin should acquire the water company?

Yes - 26 No - 33 Don't know - 15

Why or why not?

If the City could guarantee no rate increases for a period of five years, would you be in favor of a city purchase?

Yes - 39 No - 17 Maybe -11

If the city could save you money, would you be in favor of a purchase of the water company?

Yes - 39 No - 21 Maybe - 9

If you were presented with facts contrary to your position, would you change your mind?

Yes - 36 No - 13 Maybe - 7

What questions do you need to have answered in regard to the issue of the City purchasing the water company?

Questions people wanted to have answered in regards to the issue of a city purchase are:

How much would it cost?

How would we finance it?

Who would manage the system?

What are the benefits?

Can the city maintain the standards?

Is it worth it in the long run?

Why does the city want it?

What happens to excess revenue?

What guarantee is there that taxes and/or rates won't go up?

How will city pay for major repairs?

Will it affect the cost of waste water?

Who will operate the system?

Will quality stay the same or improve?

How many employees are needed?

How can the city be more cost effective?

Will jobs be cut?

Will there be any city government personnel changes?

What are the benefits to the customers?

Reasons for wanting the City to buy:

Keep rates from increasing

Improve service

Lower costs

Would allow city to expand

Would allow City to sell water to surrounding communities

Would stop Pekin residents from paying for other communities water service

Reasons for wanting the system to stay private:

Utility should be private

Water company does a good job

Opposed to government control vs private enterprise

Cost to acquire would be too great

City already has enough responsibility

Think taxes would go up

Concern if there is major failure

City could charge more

City would not do a good job

Politicians don't keep promises

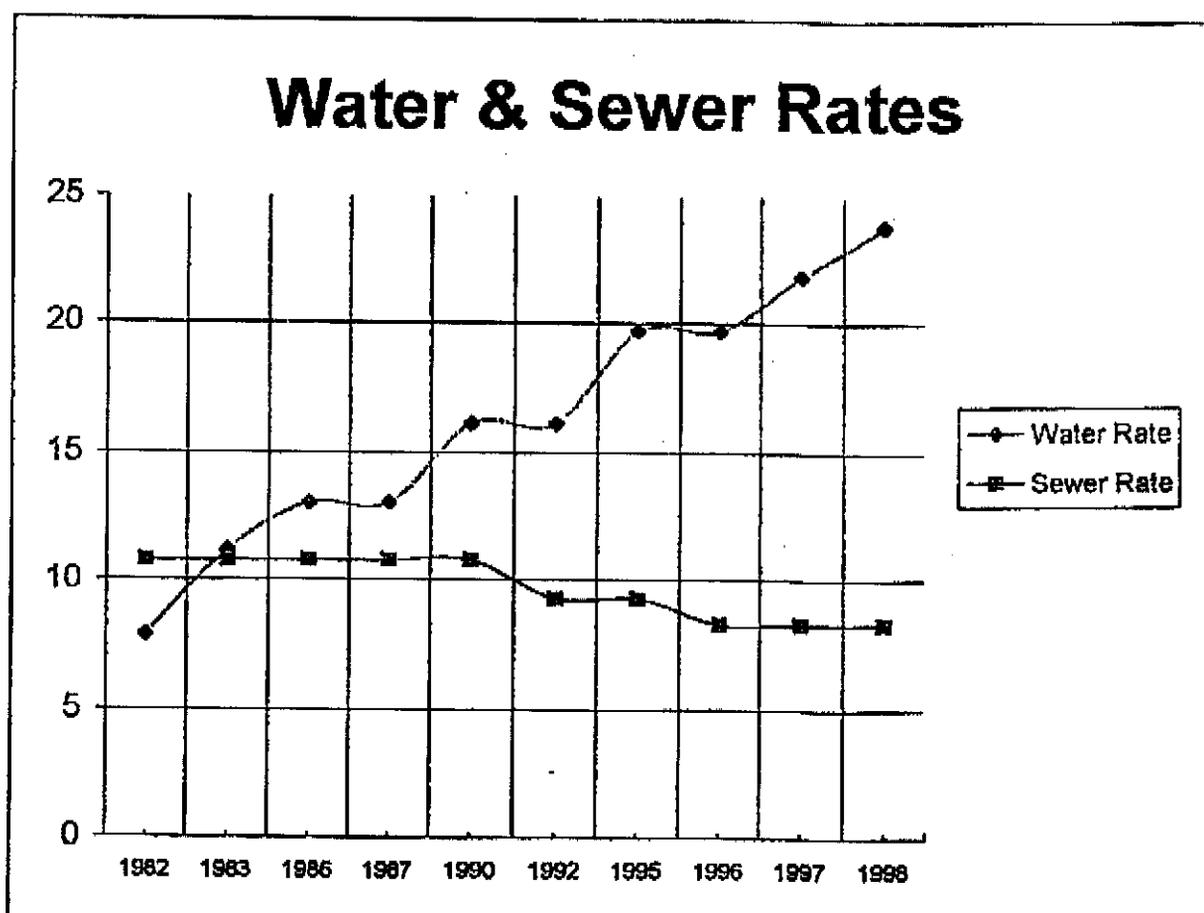
Safety and quality

All committee members felt that education could change people's minds either way.

AVERAGE MONTHLY WATER SEWER RATES - PEKIN

(6,000 Gallon Per Month User)

Year	Water Rate	Rate Change	Sewer Rate	Rate Change
1982	7.84		10.78	
1983	11.18	+42.6%	10.78	
1986	13.05	+16.82%	10.78	
1987	13.05		10.78	
1990	16.10	+23.21%	10.78	
1992	16.10		9.25	-14.19%
1995	19.68	+22.21%	9.25	
1996	19.68		8.25	-10.8%
1997	21.86	+11.08%	8.25	
1998	23.84	+9.06%	8.25	
16 Yr Change	+16.00	+204.08%	<-2.53>	<-23.47%>



1997
Billings at 16,000 gallon/Quarter
Comparable Sized Cities

City	Sewer	Water	Notes
DeKalb	\$36.30	\$30.52	
Galesburg	\$25.20	\$37.57	
Kankakee	\$40.96	\$56.29	Private
Normal	\$21.43	\$36.00	
Quincy	\$17.64	\$33.52	
Urbana	\$16.64	\$49.33	Private
Average	\$26.36	\$40.54	
Public Average	\$26.36	\$34.40	
Pekin	\$22.75	\$67.94	

COMPARISONS OF PEKIN AND GALESBURG WATER SYSTEMS

To further our research, we were interested in comparing the costs in Pekin with that of a comparable municipally owned water system. Galesburg was chosen for the comparison as the water usage was about the same.

In 1996, Galesburg had 12,375 direct customers

In 1997, Pekin had 13,500 direct customers

In 1996, Galesburg pumped 1,965,931,000 gallons of water

In 1996, Pekin pumped 2,083,682,000 gallons of water

In 1996, Galesburg had \$2,619,481 of revenue

In 1996, Pekin had \$4,703,000 of revenue and in 1997, Pekin requested a rate hike to \$4,788,126

In 1996, Galesburg had \$2,441,082 in operating expenses*

In 1996, Pekin had \$3,789,840 in operating expenses

*Galesburg had expenses of \$53,843 for water and sewer and \$48,374 for chemicals which would not be applicable to Pekin or a total of \$102,217 leaving Galesburg comparable expense of \$2,338,865.

As can be seen from these figures, the number of customers and the gallons pumped for the two cities are almost identical. In addition, Galesburg has to pump their water from a considerable distance and must treat the water for iron removal. Therefore, the costs of the basic product should be expected to be higher than Pekin. Pekin is sitting on a huge aquifer and therefore does not have these added expenses. Despite this disparity, the costs used by Illinois American were 155% higher than that incurred by Galesburg.

Also, IA billed their customers almost 180% more than Galesburg did, which is certainly a great difference. If this investigation goes any further, this should be brought to the attention of the citizens of Pekin.

If Galesburg can do it, why can't Pekin?

Whether we decide to purchase the company or not, before the next rate increase is allowed, I recommend that we hire an accountant to investigate why there is such a wide disparity.

We did not include this comparison in the formal part of our report as I believe we should use audited figures before releasing this information to outside sources. They do prove, however, that substantial savings could be made in the management of the water system.

Raftelis Information

The Water Study Advisory Committee interviewed George Raftelis by means of a speaker phone. Raftelis is a consultant with extensive experience in water utility acquisitions. The committee asked several questions. The following information was gathered in the interview.

Mr. Raftelis has performed fifteen valuation studies for communities. Of those fifteen cities, ten proceeded to acquire the water system. Only two of the ten cities went to court to complete the purchase.

The private utility generally made an initial request of between 2.5 and 3 times rate base for the system. The initial offer from the city was in the range of 1.1 to 1.2 times rate base. The amount finally paid was generally in the range of 1.5 times rate base. Acquisition usually took between six and eighteen months after notification to the company. He is not aware of any city that has purchased a system and then resold it.

The systems which were purchased met their rate objectives. Some cities kept water rates at their pre-acquisition level for several years. Some reduced rates.

The three recognized approaches to valuing a utility are the cost method (original cost less depreciation or replacement costs less depreciation); the income method; and the comparable sales method. The cost method involves an inventory through fixed asset records and/or a physical inventory of the assets.

The key reasons that acquisitions did not get completed were 1) unwillingness to risk litigation; 2) utility employee opposition; and 3) public opinion in general.

Costs for studying a system are in the range of \$50-60,000 for financial consulting and \$10-15,000 for engineering.

The primary costs for a private operation that do not exist with city ownership include income taxes, property taxes and return on investment. Usually, the employees are retained by the city or the contractor who takes over the system. It is important that employees know that they will not be without jobs.

Primary problems experienced by cities in the acquisition process are regulatory compliance, capital needs issues (which are the same for the private company), and the transition of billing and accounting.

Note: Mr. Raftelis was hired by the City of Peoria and has presented various findings for their study of acquisition.

Davenport City Administrator Session

The October 6, 1998 session of the Water Study Advisory Committee was spent having Jim Pierce (Davenport, Iowa City Administrator) review his experience with the acquisition of the Huber Heights, Ohio water system from Ohio American Water Company. Jim was City Manager of Huber Heights during the process of that acquisition.

Avitar Utilities, through its subsidiary (Ohio Suburban Water) owned and operated the water system in Huber Heights for many years. The Huber Heights system was the only system in Ohio owned by Avitar. Avitar was very cooperative with the city and required new customers to annex into the city before receiving their service. Additionally, their rates were very reasonable.

Avitar made a decision to sell sixteen of their water systems throughout the country to raise capital. They further decided to sell all of the systems as a package. Huber Heights wanted to control its own destiny and to control the water system as a part of that overall strategy. They, therefore, went through the process of determining a value for the system and submitting a bid to purchase it. However, the Avistar decision to sell all of its systems as a package eliminated Huber-Heights from the bidding process.

American Water bought the Avistar systems. American proceeded to make the Huber Heights system part of its Ohio American subsidiary. This presented several problems to the community. Huber Heights system was basic and inexpensive compared to Ohio American's other Ohio systems. The company's strategy to have uniform rates for all systems within its Ohio subsidiary would cause very steep rate increases for the customers (more than doubling rates). Additionally, Ohio American had a goal of being a regional supplier of water. That regional goal led the company to not be cooperative with the city in regard to annexation being a condition for water service.

The City hired consultants in the area of valuation, engineering, finance and public relations in undertaking its acquisition activities. The public relations consultant was hired by a private group. This group was organized to promote the issue. They raised about \$50,000 to finance their efforts. Jim estimated that the City spent about \$200,000 on all of its consultants.

The City made no complaints about Ohio American's abilities to operate the system. The City pledged that the system would be operated by a private contractor if the City purchased it. The City stated that there were two reasons to purchase the system. The primary reason was the control of the community's future through control of sewer and water service. The second issue was cost to the customer. They pledged to make a uniform reduction in rates immediately upon taking possession. They further pledged to maintain those same rates for a period of years after acquisition. These pledges have been kept.

The company based its campaign on its expertise and resources.

The public relations consultant predicted every step of the election process correctly and predicted the outcome of the election within two percentage points. The campaign lasted about six months. All former mayors of the city went on record in favor of the purchase. It was not an issue of any consequence in Council elections. Voters approved acquisition a special election by a margin of 77% in favor.

He was asked how Huber Heights established a price that they were willing to pay. They started with the rate base that had been established by the Ohio Public Utilities Commission for the Ohio Suburban system. They hired two consultants to determine the value of the system although the second was not

used since they did not go to court. They also hired consultants to determine the quality of the system. The relatively recent sale of the system along with the PUC rate base records made them comfortable that they would be able to purchase the system for an amount close to their estimated value.

A trial was scheduled but never had to be held since a voluntary sale was agreed to. The total price was about \$20,000,000 for the system serving a community of 40,000.

The City issued debt to finance the purchase of the system and all related costs including bond issuance, consulting, refinancing of assumed debt from the private company, etc. The rates charged pay all of those expenses along with all operating costs.

QUESTIONS AND ANSWERS

The task force committee submitted 42 questions to IA. They responded in writing and presented them to the committee and orally answered other questions.

Those questions and answers are covered on the following pages.

WATER STUDY ADVISORY COMMITTEE
October 20, 1998
MINUTES

Members present: Carver, Brower, Gibbons, Cohenour, Keller and Parsons

The first November meeting was scheduled for Wednesday, November 4th due to conflicts on Tuesday. At that meeting, we will have a presentation by Illinois American and the answering of questions presented by our group.

Doug Mitchem, new Vice President of Operations for Illinois American, was introduced to the group by Kevin Caveny.

Brower asked if members of the committee would be willing to informally survey seven persons each on the issue of purchase of the Water Company. Members expressed a willingness to do so. Brower will meet with Hierstein to formulate questions to be asked.

Questions for Illinois American were then discussed. They are as follows:

1. What method does the company use for establishing rate requests and deciding when they are needed?
2. What are the bases for determining how rates vary according to volume of water used?
3. Is the company making the same percentage of profit on large users as on small users?
4. What information is used to establish Pekin rates compared to other Illinois systems?
5. Do they have independently audited information regarding the Pekin system each year?
6. What assurance do we have that we will not have our rates equalized with other Illinois systems?
7. What was the profit from the Pekin system each of the past five years?
8. What portion of the earnings of the Pekin system are retained in the system?
9. What has been the return to stockholders by Illinois American each of the past five years?
10. How does the company allocate overhead from other offices to the Pekin system?
11. How much overhead from each of those other offices (Peoria, Belleville, Decatur, Voorhees, etc) was allocated to Pekin each of the last five years - by office?
12. What cost is charged to Pekin for sample testing and where is it done?
13. What cost is charged to Pekin for billing and where is it done?
14. What cost is charged to Pekin for accounting and where is it done?
15. What cost is charged to Pekin for engineering and where is it done?
16. What percentage of engineering work is done by Pekin employees, by other Illinois American staff, by American Water staff and by consulting engineers? How much cost is there for each?
17. What cost is charged to Pekin for customer relations and where is it done?
18. What cost is charged to Pekin for human resources and where is it done?
19. Do Pekin customers get credit for the income from the City for meter reading purchase?
20. What knowledge of the Pekin area and the Pekin water system do the customer service representatives in Belleville possess?
21. What is the total cost of billing operations for the Pekin system?
22. What was the price per customer paid for the Illinois systems just purchased by American Water?
23. What process(es) does the company use for establishing a value for systems being bought or sold?
24. What does the company estimate to be the current value of the Pekin system on those bases?
25. What does the company estimate to be the value of the Pekin system five years from now?

26. What investments have been made in the Pekin system since it was purchased? Please list by project and year including cost paid to each contractor and supplier.
27. What depreciation schedules are used for the various capital elements of the system?
28. What is the capital plan for the next five years in the Pekin system?
29. What plans does the company have that will enhance our ISO rating?
30. When the company does system studies to determine improvement needs, who do they distribute copies to? Who do they confer with in the local community before making capital decisions? When and how does that input get sought?
31. How often are capital plans updated?
32. What is the loss in the system (water pumped vs. water billed)?
33. Have you identified areas where leakage is a major problem?
34. What major problems are facing the Pekin system in the next five to ten years?
35. What expertise is needed in running a water utility?
36. What are the state and federal requirements for operating this system?
37. What is American Water Company's strategic plan and how does it relate to Pekin?
38. How does the company coordinate its plans with the City's growth objectives?
39. What does the company do to assure good relationships with the cities where they operate?
40. What litigation is currently pending against the Pekin system?
41. How does the company insure liability exposures and to what extent?
42. Please explain in detail the group insurance and management fees line items in your 1997 rate filing.

Meeting adjourned.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-1 What method does the company use for establishing rate requests and deciding when they are needed?

RESPONSE The rates charged by Illinois-American are regulated by the Illinois Commerce Commission (ICC), as state regulatory body. Illinois-American files general rate requests in conformance with the filing requirements established by the ICC.

The Company monitors current and projected earnings. Earnings projections include all relevant known information such as changes in customer levels, cost savings achieved through the Company's ongoing efforts to create operating efficiencies, and changes in plant investments. A rate case is filed with the ICC when projected earnings are insufficient to provide an adequate return on invested capital.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-2

What are the bases for determining how rates vary according to volume of water used?

RESPONSE

Illinois-American is required to file a cost of service study with each general rate filing with the Illinois Commerce Commission (ICC). During the process, the ICC Staff reviews the Company's cost of service study. The Staff also typically files its own cost of service study for Commission review. The actual mechanics of performing a cost study are rather technical. Each classification of cost in the cost of service is allocated to cost function and then to customer classifications through the use of appropriate allocation factors. Typical allocation factors used are the maximum daily demand, average daily demand, and the maximum hourly demand ratio.

The cost of service study which the ICC approves determines how Illinois-American will apportion the cost of providing water service among the various classes of customers. The goal is to match charges for water service to the cost of providing that service by customer class. Rates are then designed by varying meter charges by size and commodity charges by rate blocks to recover the cost of service.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-3 Is the company making the same percentage of profit on large users as on small users?

RESPONSE Yes. Water rates are designed so that all customers--whether large or small users--pay their cost of service. Generally speaking, the cost of service includes a return on investment, operations and maintenance expenses, depreciation, and taxes. The pricing of water service is substantially different than retail sales which is implied in the question.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-4

What information is used to establish Pekin rates compared to other Illinois systems?

RESPONSE

The rates for the Pekin District are developed from a cost study which considers Pekin as separate from the other operating districts. See the responses to No. 2 and No. 6 which explains cost study information and reasons that Pekin rates are lower than other Illinois-American service areas.

**ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE**

Q-5 Do they have independently audited information regarding the Pekin system each year?

RESPONSE No. Illinois-American engages Price Waterhouse to perform an annual audit of the company as a whole.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-6 What assurance do we have that we will not have our rates equalized with other Illinois systems?

RESPONSE The Pekin District is supplied exclusively with water produced from wells. Well water is currently less expensive to treat than the surface water which is the primary source of supply for Illinois-American's other operating districts. In addition to the lower treatment cost, the distribution system from a well source is typically less expensive due to the multiple well sources being closer to the water consumer than is typical with surface water production facilities.

For the reasons listed above, Illinois-American's last rate application before the Illinois Commerce Commission kept the Pekin District rates separate from all other operating districts. The Company plans to continue to request tariffs in the Pekin District which reflect its lower cost of service.

**ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE**

Q-7 What was the profit from the Pekin system each of the past five years?

RESPONSE A return on invested capital in the Pekin system is not separately calculated. A return on invested capital for Illinois-American is provided in response to question 9.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-8 What portion of the earnings of the Pekin system are retained in the system?

RESPONSE As discussed in the response to Question 7, earnings by district are not calculated. Any calculation would be expected to vary by year. On an overall basis, 25% of earnings on capital invested in the system are retained each year and reinvested in system assets. In addition, depreciation dollars are retained each year and reinvested in system assets.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-9 What has been the return to stockholders by Illinois-American each of the past five years?

RESPONSE The return on capital invested by stockholders in the Illinois-American system as a whole, for the past five years, is listed below.

1997	13.02%
1996	13.16%
1995	10.85%
1994	11.89%
1993	09.76%

Northern Division common costs. The calculations were as follows:

Company Wide customers:

Southern	85,587	57.99%
Pekin	13,403	09.08%
Peoria	<u>48,593</u>	<u>32.93%</u>
Total	147,583	100.00%

Northern Division customers:

Pekin	13,403	21.62%
Peoria	<u>48,593</u>	<u>78.38%</u>
Total	61,996	100.00%

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-11 How much overhead from each of those other offices (Peoria, Belleville, Decatur, Voorhees, etc) was allocated to Pekin each of the last five years - by office?

RESPONSE As discussed in the answer to Question 10, allocations come into play during a rate case. Listed below are the allocations of operations and maintenance expenses allowed in Illinois-American's last two rate cases. These allocations include not only costs generated at a common cost center, but also include expenses recorded at a common cost center and attributable to employees or operations at the district, such group insurance, pensions, and insurance other than group. The Belleville office category includes costs for Voorhees, the customer service center, water quality lab testing, billing, accounting, payroll, human resources, customer relations, insurance, etc. The Peoria office includes some accounting, public relations, risk management, lab services, etc. Illinois-American does not have any operations in Decatur, so no costs were allocated to Pekin from Decatur in any rate cases. Recently, Illinois-American began using the lockbox services of a bank located in Decatur.

Last Rate Case

Belleville office	\$1,111,185
Peoria office	147,630

Second Prior Rate Case

Belleville office	\$1,035,659
Peoria office	138,234

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-16

What percentage of engineering work is done by Pekin employees, by other Illinois-American staff, by American Water staff and by consulting engineers? How much cost is there for each?

RESPONSE

Listed below is a general estimate of the relative percentage of engineering work done with various staff and consultants. Engineering time will vary due to the number and nature of projects undertaken during a particular period.

Pekin Staff	5%
Other Illinois-American Staff	35%
American Water Staff	25%
Consulting Engineers	35%

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-17 What cost is charged to Pekin for customer relations and where is it done?

RESPONSE Customer relations is performed at all levels of the Company. Most customer relations costs, as described below, are common costs allocated on the basis of the number of customers, as discussed further in response to question 11. For example, customer inquiry costs and bill inserts providing information to customers are performed at the Belleville office and newspaper/radio communication is primarily performed at the Peoria office. The Company does not itemize the cost of each function provided within offices.

**ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE**

Q-18 What cost is charged to Pekin for human resources and where is it done?

RESPONSE See the response to question 11.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-19

Do Pekin customers get credit for the income from the City for meter reading purchase?

RESPONSE

If the question is referring to information purchased by the City for sewer billing, one half of the margin (revenues less variable costs) earned by providing Pekin District sewer billing information is used to reduce Pekin District water rates.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-20

What knowledge of the Pekin area and the Pekin water system do the customer service representatives in Belleville possess?

RESPONSE

Every day approximately 40 customer service representatives in Belleville each take between 50 and 100 calls from all over Illinois-American's service territory. Each representative goes through extensive training to learn all of the Company's procedures and guidelines for each district. A training handbook is given to each representative outlining each service area's water system, billing rates and procedures, payment centers, working hours, etc. Part of the training includes spending time in the Pekin District for familiarization with the community. There is daily communication between the Pekin District and the customer service representatives through bulletin boards, e-mail, cell-phones, etc. Representatives are trained to give quality service, the first time, every time.

**ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE**

Q-21 What is the total cost of billing operations for the Pekin system?

RESPONSE See the response to Question 11.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-22 What was the price per customer paid for the Illinois systems just purchased by American Water?

RESPONSE If the question is referring to news announcements regarding the combination of American Water with National Enterprises, Inc. (NEI), the transaction is being accounted for as a pooling of interests, with American Water being the surviving company. As such, the signed letter of intent to combine certain water and communications operations of NEI with American is more in the nature of a merger, rather than an acquisition. The transaction has not been completed. This proposed transaction, which involves two willing parties, will be accomplished by issuing shares of American Water stock for NEI stock.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-23

What process(es) does the company use for establishing a value for systems being bought or sold?

RESPONSE

In evaluating the potential acquisition of an existing water or sewer property, the Company must first determine that such an acquisition is in the Company's overall strategic interest. For example, a small system far removed from the Company's existing service territory may not be deemed to be in the Company's strategic interest since it would not allow for operational efficiencies.

Further review is performed if the potential property is judged to be in the Company's strategic interest. A physical inspection, examination of property records, and a review of water quality reports are performed to determine the property's age, overall condition, adequacy of plant facilities, and need for system improvements. If improvements are needed, the cost and timing of those improvements are estimated. Various financial tests are also performed to determine the investment that could be supported through the income and cash flow generation.

Illinois-American is not interested in selling any of its existing service territory. Any such property sales would not be in the Company's strategic interest since operational inefficiencies would result. Accordingly, the Company has no reason to establish a process to determine the theoretical values for portions of its existing service territory.

**ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE**

Q-24

What does the company estimate to be the current value of the Pekin system on those bases?

RESPONSE

Since the Pekin water system is not for sale, the current value would be established through municipal condemnation.

**ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE**

Q-25 What does the company estimate to be the value of the Pekin system five years from now?

RESPONSE See the response to question 24.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-26

What investments have been made in the Pekin system since it was purchased? Please list by project and year including cost paid to each contractor and supplier.

RESPONSE

Illinois-American does not maintain property records in the format requested. The Company maintains property records by account number which detail the units of property, vintage, number of units, and unitized cost of property additions. An individual work order for a property addition will typically contain multiple units of property. Due to voluminous nature of these investments, we cannot list each one individually. From 1981 through 1997, the Company invested \$11,049,193 in the Pekin system.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-27

What depreciation schedules are used for the various capital elements of the system?

RESPONSE

Attached is a current depreciation rate schedule used by Illinois-American for the various capital elements of the system. The Illinois Commerce Commission prescribed for these rates for Illinois-American plant in Docket No. 92-0116.

B-U # 27

Description	Account Number	Percent
Organization	301.00	0.000000
Franchise & Consents	302.00	0.000000
Misc Intangible Plant - Studies	303.99	0.200000
Other S S Land	310.30	0.000000
S S Struct & Improvements	311.00	0.050100
Collecting & Impounding Reservoirs	312.00	0.022400
Lake, River, & Other Intakes	313.00	0.017500
Intakes - Leased	313.60	0.000000
Wells & Springs	314.00	0.014100
Supply Mains	316.00	0.012100
Other Water Source Plant	317.00	0.000000
Pumping Land & Land Rights	320.00	0.000000
Pumping Struct & Improvements	321.00	0.025600
Other Power Production Equipment	323.20	0.027700
Elec Pumping Equipment	325.00	0.027700
Diesel Pumping Equipment	326.00	0.041600
Gas Engine Pumping Equipment	328.20	0.132600
WT Land & Land Rights	330.00	0.000000
WT Struct & Improvements	331.00	0.028200
WT Equipment	332.00	0.039100
T & D Land & Rights of Way	340.10	0.000000
T & D Land	340.11	0.000000
T & D Rights of Way	340.12	0.000000
Dist Reservoir & Standpipe Land	340.20	0.000000
Dist Reservoirs & Standpipes	342.00	0.014700
T & D Mains	343.00	0.019500
Services	345.00	0.038400
Meters, Brass	346.10	0.036800
Meters, Plastic	346.20	0.132500
Meter Installations	347.00	0.050700
Hydrants	348.00	0.050400
Office Land	389.10	0.000000
Stores, Shops, & Garage Land	389.20	0.000000
Office Structures	390.10	0.042800
Stores, Shops, & Garage Structures	390.20	0.052900
Miscellaneous Structures	390.30	0.047900
Office Furniture	391.10	0.046900
Mainframe Computers & Peripheral Eqpt	391.20	0.126900
Personal Computers & Peripheral Eqpt	391.21	0.126900
Office Machines & Eqpt	391.22	0.085300
Other Computer Equipment	391.23	0.126900
Mainframe Computer Software	391.25	0.148600
Personal Computer Software	391.26	0.148600
Other Software	391.28	0.148600
Other Office Equipment	391.30	0.085300
Transportation Equip-Light Trucks	392.11	0.181500
Transportation Equip-Heavy Trucks	392.12	0.164000
Transportation Equip-Cars	392.20	0.349400
Transportation Equip-Other	392.30	0.104300
Stores Equipment	393.00	0.032700
Tools, Shop, Garage Equipment	394.00	0.090000
Laboratory Equipment	395.00	0.047000
Power Operated Equipment	396.00	0.027800
Communication Equipment		

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-28 What is the capital plan for the next five years in the Pekin system?

RESPONSE Listed below is the planned spending for the Pekin District for the next five years for major projects. In addition to major projects, the Company will have numerous recurring small projects each year. These projects should total approximately \$550,000 to \$600,000 annually.

Source of Supply Improvement Completion: \$1,500,000
Sunset Hills Elev. Tank & Booster: \$2,400,000
Parkway Drive Main - 4,800' - 12": \$400,000

The five year total is approximately \$7,200,000

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-29 What plans does the company have that will enhance our ISO rating?

RESPONSE The ISO rating for the City of Pekin is currently a 4 on a rating of 1 to 10 with 1 being the highest or best rating and 10 being the least favorable. Ratings are based on 3 areas:

1. Receiving and handling of fire alarms
2. Fire Department
3. Water Supply

The City's credit for receiving and handling of fire alarms rated 6.52 out of 10 (65.2%); The fire department received a credit of 29.46 out of 50.00+ (58.9%); and the Water Company received a credit of 24.95 out of 40.00 (62.4%).

The area that has the largest effect on the Water Company rating is the supply works, main capacity and hydrant distribution. In this area the Water Company received a 21.00 out of 35.00 rating. In the period since October 1993 (when the system was surveyed), Illinois-American has installed over 12,750 feet of 12 and 16 inch water mains, replaced 4,000 feet of smaller diameter mains, replaced 70 older hydrants, and installed 67 new hydrants. These improvements should increase the Water Company rating. IAWC will continue to set aside funds to replace smaller diameter mains and older hydrants and install new hydrants.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-30

When the company does system studies to determine improvement needs, who do they distribute copies to? Who do they confer with in the local community before making capital decisions? When and how does that input get sought?

RESPONSE

Copies of the Comprehensive Planning Study are distributed externally to various organizations such as the Illinois Commerce Commission and the Illinois Environmental Protection Agency. A copy has also been provided to the City of Pekin. The Company does contact regional planning organizations and monitor the city's growth and future plans.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-31 How often are capital plans updated?

RESPONSE A comprehensive planning study is conducted every five years. The study thoroughly reviews the existing production and distribution system. The study addresses all aspects of water system planning, including system growth, source of supply, regionalization, production, and an analysis of distribution system storage and hydraulics. It includes recommendations for system improvements over a fifteen year planning horizon. The resulting capital investment program is updated on a yearly basis through review and modifications to reflect actual system growth and changes to account for completed construction projects.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-32 What is the loss in the system (water pumped vs. water billed)?

RESPONSE System loss (water pumped vs. water billed) as recorded by the Pekin District for the last five calendar years is listed below. Non-revenue usage includes water used for fire fighting, flushing mains on an annual basis, street cleaning, etc. The amount shown for 1995 unaccounted for water is low due, in part, to the conversion to monthly billing that year. The American Water Works Association (AWWA) standard is 15% loss. The American Water System goal is 10%. Pekin surpasses both standards.

	Unaccounted For	Non-Revenue Usage	Water Pumped
1997	7.1%	0.8%	92.1%
1996	6.7%	0.9%	92.4%
1995	1.1%	1.4%	97.5%
1994	5.9%	1.6%	92.5%
1993	7.5%	1.5%	91.0%

**ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE**

Q-33

Have you identified areas where leakage is a major problem?

RESPONSE

The Company keeps records on each main, hydrant and service leak in the system. These records are reviewed to determine areas in which replacement of mains is warranted. Generally the smaller diameter galvanized mains have the most leaks. In Pekin these areas tend to be in the older portions of town. Pekin currently has over 132,000 feet of galvanized mains located in various portions of town.

Service leaks generally occur in older galvanized services. Leaking services are replaced with copper when found. Pekin has more than 1500 galvanized services over 75 years old.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-34 What major problems are facing the Pekin system in the next five to ten years?

RESPONSE Replacement of aging infrastructure will continue to be a major problem facing the Pekin system as it will across the country. The US EPA has estimated that over \$138 billion will be needed to replace aging infrastructure over the next 20 years across the United States. As the aforementioned mains and services continue to age, it will be necessary to make the improvements necessary to maintain reliability.

Another problem facing the system is the groundwater contamination in the vicinity of wells 1, 2, & 3 located near the downtown office. Traces of PCE, a solvent, have been found in these wells and the concentration has been increasing to the extent that action must be taken soon. Studies are now completed and plans are being made to address this problem. This will require the installation of treatment facilities for wells 1 & 3, which will also protect well 2.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-35 What expertise is needed in running a water utility?

RESPONSE Knowledge and experience needed to run a water utility include the following:

- Management/Administration
- Production
- Water Quality
- Distribution
- Meter Reading
- Maintenance
- Engineering
- Rate Design
- Accounting
- Payroll
- Customer Service
- Risk Management Control
- Legal
- Human Resources
- Customer Relations
- Community Relations

**ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE**

Q-36 What are the state and federal requirements for operating this system?

RESPONSE The USEPA and IEPA both set standards by which public water supplies must operate. These standards include water quality testing, pressure requirements, reporting, construction guidelines, certification, to name but a few areas. OSHA also sets standards for chemical storage, safety, competent person training, ladder design, shoring, etc. Other government agencies include the Illinois Department of Health, IDOT, Army Corps of Engineers, Coast Guard, Secretary of State and others.

Illinois-American has professionals who are trained to deal with each of these regulatory bodies. Illinois-American is also involved in the setting of the standards.

Attached is a representative listing of such requirements.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-37. What is American Water Company's strategic plan and how does it relate to Pekin?

RESPONSE Listed below is the Company's Mission Statement which applies to Pekin as well as all other Illinois-American business units.

To provide the highest quality water, and reliable, customer friendly service at the lowest price possible; While enhancing shareholder value; and developing employees in a desirable work environment

- Anticipate water needs of growing communities served by our companies and prepare to meet those needs through environmentally responsible planning.
- Expand into new areas by acquiring additional water companies and adding new customers when possible to do so on reasonable terms.
- Strive continually for cost reduction and greater operating efficiency
- Initiate, promote and keep abreast of advances in water system technology and seek cost effective applications within the company
- Recruit, train and motivate personnel capable of carrying out these policies

This Mission Statement enumerates responsibilities shared throughout the company. It serves as the foundation upon which our management plan has been developed and is the ultimate basis by which the company performance, and that of each employee, is evaluated.

**ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE**

Q-38

How does the company coordinate its plans with the City's growth objectives?

RESPONSE

Illinois-American has used information from the City's comprehensive plans when developing the Company's comprehensive plan. Growth projections for both location and population were used to determine future needs for supply and storage. Information from the Peoria Area Economic Development Council which serves the Tri-County region, is also used to develop plans. The Company's plans have been shared with the City and any suggestions or comments from the City would be included in the plans.

Coordination meetings have also been held between the City and the utilities to share plans. These meetings allow all utilities and the City to compare notes and work out problems.

The Company has offered to enter into a Franchise Agreement that would provide up to 1% of revenues collected from Pekin customers to be used as funding for growth.

**ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE**

Q-39

What does the company do to assure good relationships with the cities where they operate?

RESPONSE

Communications is the key to all good relationships. Illinois-American believes in developing lines of communications with city and other government officials. This communication enables both the Company and the City to share plans and concerns with each other.

Illinois-American associates belong and participate in many civic and charitable organizations in the cities we serve. This improves the quality of life of the communities in which we live and serve.

The primary responsibility for maintaining good relationships rests with District personnel (i.e. Kevin Caveny).

**ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE**

DR-40 What litigation is currently pending against the Pekin system?

RESPONSE There is currently no litigation involving Pekin.

ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE

Q-41 How does the company insure liability exposures and to what extent?

RESPONSE Illinois-American Water Company purchases liability insurance coverage for the following:

LIMIT:

- \$ 1,000,000 Each Occurrence
- \$ 1,000,000 Products/completed Operations
- \$ 1,000,000 Personal and Advertising Liability
- \$ 1,000,000 Fire Damage Liability, any one fire
- \$ 5,000 Medical Expenses, any one person
- \$ 12,000,000 General Aggregate
- \$100,000,000 Property insurance (includes Flood)
- \$ 10,000,000 Travel Accident

Worker's Compensation

- \$1,000,000 each accident
- \$1,000,000 disease-policy limit
- \$1,000,000 disease each employee

Automobile Liability \$1,000,000 combined single limit

**ILLINOIS-AMERICAN WATER COMPANY
RESPONSE TO WATER STUDY ADVISORY COMMITTEE**

Q-42

Please explain in detail the group insurance and management fees line items in your 1997 rate filing.

RESPONSE

All group insurance and management fees are common costs, as discussed in response to question 11. Group insurance includes costs for current life, health, and disability insurance for employees. It also includes certain accrued costs for Other Post Employment Benefits. Management fees include charges from other American Water Works subsidiaries which perform various billing support, programming, engineering, water quality, and corporate services for Illinois-American.