



## MEMORANDUM

**To: Mayor Laurel Prussing and the Urbana City Council**

**From: Mike Monson, chief of staff**

**Date: Jan. 11, 2012**

**Re:** Resolution approving intergovernmental agreement and ordinance authorizing budget amendment for intervention in Illinois American Water Co. rate-increase case

**Introduction:** The proposed resolution and ordinance would enable the city of Urbana to join with the city of Champaign, as well as Savoy, St. Joseph, Sidney and Philo, in intervening in a case before the Illinois Commerce Commission in which Illinois American Water Co. is seeking a 15 percent statewide average water rate increase. A budget amendment of \$8,000 has been prepared to cover Urbana's anticipated share of the legal costs.

Champaign and Urbana have worked together several times in recent years to intervene on proposed utility rate increases.

**Background:** On Oct. 27, Illinois American Water filed tariffs with the Illinois Commerce Commission seeking additional revenues of \$38 million. The proposed increases in rates would affect 308,000 customers. Illinois American Water is asking for a rate hike that would average 18 percent for the average residential customer in Urbana-Champaign and 21 to 26 percent for small local commercial customers.

The city of Champaign, which will act as lead agency in the intervention, will contract with Chicago attorney Richard Balough to represent the cities in the case, at a fee of \$250 per hour for Balough and \$175 per hour for Cheryl Dancey Balough. Fees will be capped at \$25,000 total, with billing by the hour until the cap is reached. Expenses such as mileage and motel lodging for Springfield hearings would be billed separately.

In a preliminary analysis of the case, Richard Balough said that Illinois American Water listed three main drivers for the increase:

Operations and maintenance expense:	\$0.9 million
Rate base investment:	\$26.4 million
Decline in usage:	\$10.5 million

The rate base investment includes replacing the computer system for Illinois American Water, estimated to cost \$27.5 million. The company is calling replacement of its legacy computer system its “business transformation program.” Nationwide, American Water, the parent company of Illinois American Water, plans on spending \$286 million on the computer replacement program.

The \$10.5 million for decline in usage is the company’s estimate of lost revenue due to customers reducing water usage, which the company states is a long-term trend.

For a residential customer in Urbana-Champaign using 600 cubic feet of water per month, their monthly bill would increase from \$41.14 to \$48.58 if the rate increase is approved. For small commercial customers, monthly bills would increase between 21 and 26 percent, according to Balough.

The increases include a proposed 24 percent increase in the monthly standard meter charge for residential customers, from the current \$14.50 per month to \$18. For small commercial and industrial customers, the meter charge increase would average 24 percent as well, from \$31.50 per month to \$39.10.

Issues that might be raised by the cities in the case include the requested rate of return, the cost of the new nationwide computer system and its benefit to Illinois American Water Co. customers and the determination that water consumption is declining and will continue to decline requiring an adjustment in revenues, according to Balough.

**Options:** A ‘yes’ vote would allow the intervention to go forward and would increase the likelihood that the proposed increase would be scaled back by the ICC. The Illinois Attorney General’s office is also expected to intervene in the rate case. Illinois American Water customers have seen their water rates roughly double in the past several years.

A ‘no’ vote would save the city \$8,000 in legal expenses.

**Fiscal impact:** Legal fees will be divided among the cities and villages on a per capita basis. If more area cities and villages participate in the intervention effort, the city’s cost will be reduced. Currently, the city’s cost is estimated to be in the \$8,000 range. The money will come from the city’s general fund.

**Recommendation:** Approve the resolution authorizing the intergovernmental agreement and the ordinance approving the budget amendment.

RESOLUTION NO. 2012-01-004R

A RESOLUTION APPROVING AN INTERGOVERNMENTAL AGREEMENT REGARDING INTERVENTION IN A PROPOSED ILLINOIS-AMERICAN WATER COMPANY WATER AND SEWER RATE INCREASE

(Docket No. 11-0767)

NOW, THEREFORE, BE IT RESOLVED by the City Council of the City of Urbana, Champaign County, Illinois, as follows:

Section 1.

An Intergovernmental Agreement for intervention in Docket No. 11-0767, currently pending before the Illinois Commerce Commission, regarding a proposed Illinois-American Water Company water and sewer rate increase, between the City of Urbana, Illinois, and the City of Champaign, Illinois, in substantially the form of the copy of said Agreement attached hereto and hereby incorporated by reference, be and the same is hereby authorized and approved.

Section 2.

The Mayor of the City of Urbana, Illinois, be and the same is hereby authorized to execute and deliver and the City Clerk of the City of Urbana, Illinois, be and the same is hereby authorized to attest to said execution of said Agreement as so authorized and approved for and on behalf of the City of Urbana, Illinois.

Motion was made by Alderman \_\_\_\_\_, seconded by Alderman \_\_\_\_\_ that the Resolution be adopted.

PASSED BY THE CITY COUNCIL this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Phyllis D. Clark, City Clerk

APPROVED BY THE MAYOR this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_.

\_\_\_\_\_  
Laurel Lunt Prussing, Mayor

**INTERGOVERNMENTAL AGREEMENT FOR INTERVENTION IN RATE CASE  
(ICC Case No. 11-0767)**

WHEREAS, reliable and low cost utility service is essential for the economic health of the local and regional community; and

WHEREAS, (Illinois-American Water Company) has proposed a general increase in rates of nearly 18% as reflected in Illinois Commerce Commission Docket No. 11-0767; and

WHEREAS, the parties and their individual, commercial, and industrial residents purchase substantial utility services from the above-named businesses; and

WHEREAS, the parties desire to agree to share the costs of intervening in those cases; and

WHEREAS, Section 10 of Article VII of the 1970 Illinois Constitution and “The Intergovernmental Cooperation Act” (5 ILCS 220/, et seq.) provides for intergovernmental cooperation.

NOW, THEREFORE, agree as follows:

**Section 1. Original and Additional Parties.** The CITY OF CHAMPAIGN, ILLINOIS ("Champaign") shall be designated the "original party". Other governmental agencies may become parties to this Agreement by requesting to do so and agreeing to the terms herein. Such additional party shall contribute financially to these undertakings in a proportionate amount according to the population of all of the governmental units that have signed this Agreement. The contribution shall be based on total costs including those costs incurred before the approval of this Agreement by an additional party. Champaign shall notify all parties of the addition of any party to the Agreement, and together with such notification shall provide the current pro rata breakdown of costs, based on the population of all parties.

**Section 2. Lead Agency.** Champaign shall be the lead agency on behalf of the parties. The Lead Agency shall be authorized to intervene into the cases in Illinois Commerce Commission Docket Nos. 11-0767 on behalf of all and any of the parties to this Agreement, including additional parties. The Lead Agency on behalf of the parties shall contract for services desirable or necessary, to facilitate the intervention including without limitation, financial, legal, and engineering consultants. Such contracts shall be entered into as expeditiously as possible in order to maintain the case schedule designated by the ICC Administrative Law Judge. Any contractual limitations in use of the work product of service providers in these cases shall be applicable to additional parties in the same manner as apply to Champaign. The Lead Agency shall cause reports to be sent periodically to the parties and make available copies of work produced by services purchased under this Agreement.

**Section 3. Executive Committee.** Upon request of any party, an Executive Committee will be formed that will guide decision-making. Each party's contact person, designated upon signing of this Agreement, shall be such party's representative to the Executive Committee.

**Section 4. Cost Sharing.** All parties to this Agreement agree to share all costs of contractual services, including attorneys and experts pursuant to Section 2. The costs are to be divided among the parties on the basis of population. If an additional party is added to this Agreement, the total costs shall be shared with the original party and all additional parties on the basis of population, including costs incurred for the case before the entry of the party. Provided, however, if a city or village with a population of less than 20,000 persons or a county desires to pay an upfront cost in lieu of a proportionate share, such party shall pay \$2,000 as its total cost responsibility under this Agreement. Parties shall be billed at the conclusion of the case, with costs required to be paid to consultants prior to that time being borne by the original party.

Total cost of the intervention action and research shall not exceed \$25,000 for intervention into Case No. 11-0767. No party to this Agreement will seek reimbursement for its own staff time or in house resources provided to support this project.

**Section 6. Payment.** Payment for attorney and expert services rendered under this Agreement shall be due to the Lead Agency within forty-five (45) days following receipt by each of the participants of an itemized statement of the services performed. Such statement shall describe the services rendered.

**Section 7. Completion and Termination.**

(a) This Agreement will continue in full force until the decision of the Illinois Commerce Commission in the rate cases cited above. If the rate cases are appealed to the courts after the final decision of the Illinois Commerce Commission, no party shall be required to continue with the case or to contribute to such costs unless a supplemental amendment to this Agreement is approved by the party.

(b) Any signatory to this Agreement may terminate this Agreement by giving no less than forty-five (45) days' written notice of the intent to terminate this Agreement. Notice shall be considered given when deposited in the United States mail, postage prepaid, and addressed as provided:

City Manager  
City of Champaign  
102 North Neil Street  
Champaign, IL 61820

City Attorney  
City of Champaign  
102 North Neil Street  
Champaign, IL 61820

(c) In the event of termination of this Agreement by any participant prior to completion and final payment by that participant, the participant will pay the Lead Agency its proportionate share of costs for all services performed up to that party's total proportionate share of the project

costs which costs were actually rendered up to date of termination. Champaign shall notify all other parties of the termination and recalculation of shares of remaining costs.

(d) In the event any of the provisions of this Agreement are violated by any signatory, the aggrieved party may serve written notice upon the other the intention to terminate such Agreement, such notice to contain the reasons for the termination. Unless within five (5) calendar days after the serving of such notice, the violation shall cease, and satisfactory agreements for correction be made, the contract shall expire five (5) calendar days after such service. In addition to any other remedies available at law, the defaulting party shall be liable to the other parties for any damages sustained by them based on the default. The terminating party shall pay the Lead Agency its proportionate share of the project costs up to the point of termination.

**Section 8 Designated Contact Persons.** Each party shall designate a representative who shall be the contact person concerning the Intergovernmental Agreement and the ICC cases referenced above. Champaign shall inform all parties of the designated contact persons for each jurisdiction. Such designated contact person shall have authority to make decisions concerning direction in the case for such party and shall be added to the service list to receive all filings in the case, if he/she so requests.

(Reserved)

**CITY OF CHAMPAIGN, ILLINOIS**

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By: \_\_\_\_\_  
City Manager

By: \_\_\_\_\_

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City Clerk

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City Clerk

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City Attorney

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City Attorney

DATE: \_\_\_\_\_

DATE: \_\_\_\_\_

Designated Contact Person

Designated Contact Person:

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Phone: \_\_\_\_\_

Phone: \_\_\_\_\_

E-Mail: \_\_\_\_\_

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Designated Contact Person

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Designated Contact Person

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