

TO: Mayor Satterthwaite and Urbana City Council

FROM: Steve Holz, City Attorney

DATE: September 3, 2004

SUBJECT: VISIT BY REPRESENTATIVES OF WATER COMPANY

A. Introduction: This Report will introduce the City Council to the Illinois-American Water Company (“IAWC”) representatives who will make a short presentation to the City Council and then respond to Council questions at the Urbana City Council meeting of Tuesday, September 7, 2004.

The IAWC representatives are Mr. Terry Gloriod and Mr. Fred Ruckman. Mr. Gloriod is Managing Director for the Central Region of American Water Company. Mr. Fred Ruckman was formerly the Chief Financial Officer for Northern Illinois Water Corporation when it was based in Champaign, and has recently been named to take over the duties of Managing Director for Illinois for the RWE/American Water Company operations

B. Background:

1. Negotiations. Negotiations with the water company began in June 2003 for a new Right-of-Way Usage Agreement (typically called a Franchise Agreement) to replace the 15-year Agreement that was scheduled to expire in April 2004. There have been two extensions approved by the Council, the last until December 31, 2004. The Cities of Champaign and Urbana have been negotiating steadily with representatives of the water company through present time. Current points where there is no agreement are as follows:

- a. Relocation of all water mains at Company’s costs during City projects.
- b. Provision for information on water infrastructure in a form acceptable to the City and for GIS purposes.
- c. Audit of the system by an outside entity and implementation of the audit findings by company.

d. Requirements that change of ownership be approved by the Council (similar to the CATV Franchise Agreement).

e. Company providing the Cities an option to purchase.

f. The term of the Agreement.

g. Additionally, there are several sections that have not yet been agreed to, as to which I expect that we will ultimately reach agreement (economic development, aquifer study, sewer collections, fire hydrant information).

2. Water Company Reorganization and Regionalization:

a. Reorganization. Since the inception of the negotiations, Illinois-American Water Company and its parent, the American Water Company, have undergone a reorganization engineered because of the impact of the RWE buyout of American.

b. Impact on Negotiating Team. All members of the Company's negotiating original negotiation team have "transitioned." As a consequence of the reorganization, there is no longer a local manager of the operations. David Baker, who had been the local manager, is no longer locally based and is in another position with the Company. Barry Suits, who was the local operations manager, has left the Company. Some of the responsibilities have been passed onto another engineer; however, several other engineers have recently left the local operations. Additionally, the General Counsel for Illinois-American Water Company has left the Company recently and has indicated she will be continuing the negotiations from a private practice.

c. Regionalization. It appears as though the operations of Illinois-American Water Company and other state-based operations of Illinois-American Water Company have been regionalized. Mr. Gloriod is still the President of the legal entity called Illinois-American Water Company; however, he is based in Missouri and oversees the "central district of the Americas", a new regional designation from the parent companies. His company-supplied biography is attached.

The Cities have seen this type of regionalization, employee cutbacks, and removal of decision making from local communities after the Dynegy buyout of Illinois Power. Essentially, the same scenario took place, i.e., the local managers were removed, local responsibility was eroded over time, and decisions instead had to wait for some regional approval. This was done, in the case of Dynegy, in order to "streamline" operations.

The same can be said of service. Shortly after Northern American Water Company was bought out by the American Water Company, local service calls were routed to the American Water National Call Center located in Alton, Illinois. This is essentially the same scenario that was followed in the case of Illinois Power.

After the last of the personnel changes on Illinois-American's negotiation team, the Cities expressed concern with the continued viability of negotiations. This is the backdrop for Mr. Gloriod's visit to the Cities.

3. Terry Gloriod Presentation:

Mr. Gloriod indicated that he would be willing to come to speak to the City Councils of Champaign and Urbana to "reassure" the Cities concerning the reorganization of the local water company's operations. It will also provide an opportunity to ask questions of Mr. Gloriod. Mr. Ruckman will accompany Mr. Gloriod. The Company has not indicated what Mr. Ruckman's responsibilities would be vis-à-vis the operation in Champaign and Urbana.

There are several areas where the City Council might wish to question Mr. Gloriod and Mr. Ruckman as follows:

1. Local Operations;
2. Rate Structure;
3. System Condition;
4. Identity of Owners and Ownership Interests;
5. Future Plans

E. Conclusion. If you have any questions concerning the status of franchise negotiations or the Company, please feel free to call me.

Terry L. Gloriod

Mr. Gloriod is Managing Director for the Central Region of American Water Company. As such, Gloriod is responsible for the American Subsidiary Companies in Missouri, Illinois, Iowa, Indiana, Ohio and Michigan, which collectively serve over 1 million water and wastewater customers through a staff of over 1700 employees.

Between 1999 and 2004, Mr. Gloriod managed Illinois American Water and Iowa American Water. Prior to 1999, Mr. Gloriod was Vice President of Operations for the Continental Water Company with operations in Missouri, Illinois, Indiana and New York. Mr. Gloriod has over thirty-five years of professional experience in the water industry. He has been an active member in water organizations including the American Water Works Association and the related Research Foundation, and the National Association of Water Companies.

Mr. Gloriod is a licensed Professional Engineer. He is a Diplomate in the American Academy of Environmental Engineers. He holds a B. S. degree in Civil Engineering from Washington University in St. Louis, MO.

Terry and his wife, Jean, live in St. Louis, Missouri. They have four grown children who also reside in the St. Louis region and who frequently call on Mom and Dad to baby-sit their grandchildren.