

HB 1379

Q& A

Question:	<p>Why do we need this legislation?</p> <p>Communities all throughout Illinois are looking for options to deal with their aging, many times collapsing, water and wastewater systems. The US EPA projects that because Illinois has not kept up with its investment in water and wastewater infrastructure in the next 20 years it will have a deficit of over \$32.5 billion. This legislation, which is only voluntary, is one tool in the tool box to help Illinois begin to address this dramatic deficit.</p> <p>Add to that, currently there are no incentives for private utilities to acquire smaller troubled systems. Because they can only recover on <i>original cost minus depreciation</i> they along with the community effectively lose some level of "value" of the system on every deal.</p> <p>This legislation clarifies the process for the community, the private utility and the ratepayer.</p>
Question:	<p>Every time an investor owned water or wastewater utility acquires a utility, the rates increase immediately.</p> <p><u>That's not true!</u> Following are examples of system acquisitions in states that have acquisition laws where the rates decreased immediately after an acquisition:</p> <ul style="list-style-type: none">→ Marion Heights, Indiana→ Waveland, Indiana→ Township of Morris, Pennsylvania→ Clarion Township, Pennsylvania→ Pocono Mountains Industrial Park Authority, Pennsylvania→ Claysville-Donnegal, Pennsylvania

	<p>→ Wallaceton, Pennsylvania → Saxonburg, Pennsylvania</p> <p>In addition, every aspect of the transition, including rates, must be reviewed and approved by the ICC</p> <p>However, you must keep in mind that many of these small systems we are discussing have been underinvested for years and are in desperate need of capital improvements – that is why the municipality is looking for help. Often rates will need to increase to bring they system into compliance or proper working condition.</p>
Question:	<p>How can you decrease rates after an acquisition?</p> <p>Every situation is unique. Some reasons rates might decrease include:</p> <ul style="list-style-type: none"> → Efficiency → Economies of scale → Purchasing power → Leverage existing experts, causing less need to contract out work
Question:	<p>How are consumers/ rate payers protected if this Bill passes?</p> <p>Every step in this process and every detail of the acquisition must be approved by the Commerce Commission. Their oversight of this process protects the consumer/ ratepayer. In addition, this Bill only provides a tool for the municipality. There is no requirement for the municipality to sell their infrastructure, and the elected officials in that municipality still decide what is in the best interest of their constituents.</p>

Question:

Some opposition groups to this bill will say that the existing customers will see dramatically higher bills due to the acquisitions and the acquired customers becoming a part of the existing tariff rates.

This concern is addressed in part (d) pg. #8, which says *that any increase for existing customer rates could (not shall) only be 2.5%*. If there is more than one transaction between rates cases in a tariff group then the increases are capped at 5.0% cumulative.

Currently, per the Utilities Act, there are no water rate increases due to acquisitions at all. Without some allowance for the fact that newly acquired systems may result in a minor increase in rates to existing customers, private water utilities are effectively gambling that the ICC and other groups that participate in approving the acquisition will allow us to deviate from the existing law. Assuming that no deviation is granted, either a) the acquiring utility will have to "eat" the difference in the investment or b) the selling utility will have to accept less than fair value for their system or c) the system will not be sold - in effect, taking the option of selling the system off the table. This legislation defines how much increase in existing customer rates are allowed 1) to protect the existing customers and 2) to preserve the ability for small utilities to be sold at a fair price.

<p>Question:</p>	<p>What protections does this legislation have for the acquired system's customers?</p> <p>The customers are protected as follows:</p> <ul style="list-style-type: none"> → Through the clarity provided in this legislation, the customers will have knowledge of the post-acquisition rates and will be informed of those rates through the notice provisions → Limits on the amount of the rate increase based on affordability (if communities are especially challenged, the rates will be lower than in communities that are not as challenged); this is the 1.5% rule → All future rates have to go before the Illinois Commerce Commission and must go through the standard rate case proceedings. After a thorough review of the facts presented
<p>Question:</p>	<p>Why is it fair that my water rates go up in my community because my water provider, who happens to be a regulated investor owned water utility, acquires a neighboring community?</p> <p>While no one ever enjoys water rate increases, it is good public policy for the State of Illinois to allow the possibility (may not shall) of neighboring communities rates to go up to pay for the acquisition and upgrade of a neighboring community.</p> <p>First, it expands the size and resources of the whole tariff district. Today, I assist my neighboring community, tomorrow they assist me.</p> <p>This is no different then the SRF whereby all citizens, thru their taxes, sustain the Fund even though many community will never need it. By expanding the tariff</p>

	<p>district it will ease the pressure, in the future, of higher rates for my own community. If my community needs a new water tank, it's less expensive for me if those costs get spread out to a larger pool. Because we are regulated, the ICC assures this.</p> <p>Second, by giving the private sector an incentive to acquire smaller troubled water systems the State opens the door for outside capital (over \$190 billion in capital markets) to be invested in Illinois. This creates job and it expands the tax base (investor owned utilities pay taxes...municipal systems do not). In addition, it eases the pressure on the current SRF making available more resources to other troubled system. The problem in Illinois is so great it will require both a public and private solution.</p> <p>Finally, the rate increases that may (not shall) affect the neighboring communities are minimal and capped at 2.5% per acquisition or 5% if there are more than one acquisition in between rate cases. If a customer's average water bill is \$50.00 per month that's an additional \$1.25 per month or \$15.00 annually.</p>
<p>Question:</p>	<p>Why would the acquired systems be placed on an existing rate tariff?</p> <p>The practical reason is that the Illinois Commerce Commission is already approving tariffs that move the large investor owned water and wastewater utilities in Illinois toward common tariffs statewide. There is often no reason to set up a new tariff specific to an acquisition unless the rates would, through typical rate making procedures, be significantly above or below the rates of the existing tariff group. .</p>

<p>Question:</p>	<p>How are customer rates affected by new investments under common tariff rates (also know as single tariff pricing or “STP”)?</p> <p>By setting all customers on the same set of tariff rates, the rate changes from increased costs -- such as costs to fund new investments -- are smoothed out and shared by all customers in that rate group. Following is a quick example:</p> <ul style="list-style-type: none"> → Area A has a new pipeline installed. The new costs would have caused the customer rates in Area A to increase by 20%. Because Area A is on the same tariff rates as Area B, the increase in tariff rates caused by the new investment are paid by customers in both Area A and Area B, thus lowering the customer rate increase to 10%. → Later, Area B has a new pipeline installed. Again, a shared tariff causes a lower per customer rate increase since the costs of the new pipeline are shared with customers in Area A.
<p>Question:</p>	<p>How does the practice of common tariff rates apply to this bill?</p> <p>By putting the customers of the acquired systems on the same tariff rates as the existing customers, the rate changes related to new investments for both sets of customers are smoothed out. Following is a quick example:</p> <ul style="list-style-type: none"> → New investment is made to acquire and improve the system serving the acquired customers. Because the acquired customers are on the same tariff rates as the existing customers, if there is an increase in rates caused by this new investment, then the increase is paid by both the acquired and existing customers, thus lowering the rate

	<p>increase per customer.</p> <p>→ Later, the existing customers have a new pipeline installed. Again, a shared tariff causes a lower per customer rate increase since the costs of the new pipeline are shared with the acquired customers.</p>
Question	<p>What size communities will this legislation affect?</p> <p>This legislation applies to only those communities with 7,500 customer connections or less.</p>
Question	<p>Is this the same legislation that came up last year about Illinois American Water?</p> <p>NO. That Bill dealt with the issue of eminent domain. This Bill deals with voluntary acquisitions whereby both parties willingly enter into an agreement.</p>
Question:	<p>How many privately owned water and wastewater utilities are there in Illinois?</p> <p>Per the Illinois Commerce Commission staff, they regulate less than 50 water and wastewater utilities. This is less than 2% of the 2,700 water and wastewater systems in Illinois per the EPA's databases.</p>
Question:	<p>Why use an appraisal?</p> <p>There are several reasons:</p> <ul style="list-style-type: none"> → An appraised value is, by definition, the fair value of a system → The citizens of the community selling its system deserve comfort that they are selling the system for a fair price → The book value - as kept by a system that has

	<p>never been regulated -- is generally not equivalent to the concept of "net original cost less depreciation" applied to regulated utilities. By combining the disinterested engineer's list of assets prepared on a cost basis with the disinterested appraiser's informed judgment, a closer approximation of the true "net original cost less depreciation" will be reached through an appraisal.</p>
<p>Question:</p>	<p>How can a system be fully depreciated and still be operating?</p> <p>In the same way that a 10 year old car or 100 year old home is still operating. Depreciation is an accounting estimate. A system that is still operating but fully or mostly depreciated suggests that the standard estimate of depreciation which was used does not necessarily reflect the longevity of some assets. Depreciation also often does not take into account repairs or rehabilitation. Also, it is common for systems that are not regulated utilities to book items as expenses that should have been booked as assets.</p>
<p>Question:</p>	<p>Opponents say that both the utility and the community have incentives to get the highest possible appraised value. What safeguards exist to insure that the appraisal process is not abused?</p> <p>The following safeguards exist:</p> <ul style="list-style-type: none"> → Only appraisers that are licensed at the highest level in the state of Illinois can be used → Appraisers are disinterested → Engineers provide asset level data prepared on a cost basis to the appraisers as part of the process

	<ul style="list-style-type: none"> → Appraisers that act unethically or illegally (by promoting inaccurate appraised values) face sanctions and prosecution under existing Illinois law → The appraisal is subject to prudence review through the Illinois Commerce Commission → This legislation has a sunset
Question:	<p>Opponents to this legislation have mentioned that appraisals are costly.</p> <p>In our experience using this process in Indiana, appraisals cost between \$3,000 and \$5,000 apiece. Support can be provided for this range of appraisal cost. In addition, this legislation caps appraiser fees to \$15,000 or 1.5% can be included in the transaction costs.</p>
Question:	<p>My residents live in Homer Glen and/or Bolingbrook, Illinois American Water is always raising their water rates. Won't they do the same to these newly acquired systems?</p> <p>NO! To serve both Bolingbrook & Homer Glen Illinois American Water purchases water from the City of Chicago. When Chicago raises their water rates, Illinois American Water by regulation passes through those costs to our customers. From 2012 to 2016 Chicago has announced plans to raise water rates 70%, the private water utility only passes those increases though to our customers.</p>

Question:

Are there any incentives for investor owned utilities in this legislation?

If removal of disincentives can be counted as an incentive, then yes. Currently, the utility often cannot recover the full costs of investments it makes in newly acquired systems since the assets will depreciate from the time they are placed in service until the time they are included in rates. Also, the utility will incur costs such as interest expense and income taxes that it will not have the opportunity to recover through rates. The current structure means that the utility loses money for making investments to provide improvements in systems it just acquired. No one would willingly make an investment that is an automatic money loser, even though it is possible that the newly acquired systems are in desperate need of improvements immediately. By removing the existing disincentive to invest in improvements to newly acquired systems, this legislation allows the utility to postpone depreciation of the assets and not incur otherwise unrecoverable costs on the assets before the next rate case. The technical terms for these changes are deferred depreciation and post in service AFUDC (or allowance for funds used during construction). This appears in part (i) of the legislation.

Question:

Isn't true that private water utilities have a poor track record with water quality and customer service?

ABSOLUTELY NOT.

Water Quality: The private water industry surpasses municipal systems in both water quality and customer service. Investor owned water utilities have a far superior track record regarding water quality. Compared to municipal systems they have dramatically fewer (if any) Notice of Violations (NOVs). Private water

<p>Question:</p>	<p>utilities annually receive many awards from the US EPA recognizing their water quality.</p> <p>Customer Service: Of all the utilities, the water utilities have the least amount of complaints filed with the ICC. Both in overall number of complaints and in number of complaints/ 1000 customers, water utilities have dramatically the least amount of complaints. Last year, there were almost 800 drinking water NOV's issued in Illinois and almost 300 drinking water systems in Illinois received at least one NOV; none of IL American Water Company's 40 systems received a drinking water NOV last year.</p> <p>I have received emails from members of Food & Water Watch, who are also constituents from my district opposing this Bill. They say private water utilities only raise water rates to increase their profits.</p> <p>First, I question the validity of the emails. We are starting to see some disturbing trends of progressive groups using peoples name and addresses without their authorization to advocate certain positions and to give the "appearance of grass root support".</p> <p>Secondly, you know who Food & Water Watch is? According to the National Association of Water Companies (NAWC): <i>"Food & Water Watch is a D.C.-based lobbying and PR organization. It was created in 2005 by Ralph Nader. As a marketing organization, the group has no technical water system management experience and has never had the responsibility of providing water and wastewater services to a community. Food & Water Watch is ideologically opposed to the involvement of the private sector. To advance their beliefs, they produce "reports"</i></p>
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which are factually incorrect and misleading. As they lack technical expertise, they're unable to work with communities in providing solutions. By comparison, our private water utilities help provide water and wastewater services to nearly 73 million Americans every day. More than 2,000 water and wastewater facilities are operated in PPP arrangements. We believe the contrast between those who deliver solutions and those who lack expertise but criticize via reports is telling."

Finally, as for profits, yes private water utilities seek profits when they acquire smaller water systems. Please remember their profits are regulated, like their rates, by the ICC. Just like municipal bond holders, investor owned water utilities derive their profits from the investments in water and wastewater infrastructure. The percentage of profit they can make is regulated and monitored by the ICC, and more quantity of profit usually results in more money invest in Illinois and related construction jobs. They have access to capital from all over the US that can be brought into Illinois. We should all want our State to be a state where organizations want to invest in. This is no different from municipal systems that go to the bond market for financing. Municipal water systems have bond holders and investor owned utilities have share holders – both are lenders to utility owners and deserve a return on their investment.