



Citizens Utility Board

309 W. Washington St., Suite 800, Chicago, IL 60606 **Phone** (312) 263-4282 **Toll Free** 800-669-5556 **Fax** (312) 263-4329

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CONTACT: Jim Chilsen
(o) 312-263-4282, (c) 312-513-1784

CUB: EXPERT TESTIMONY SHOWS WATER RATE-HIKE REQUEST SHOULD BE SLASHED

Illinois American Water's \$43.2 million rate-hike request is an attempt to gain excessive profits and should be slashed by more than 60 percent, the Citizens Utility Board (CUB) said Monday, citing expert testimony in the case.

Illinois American can justify no more than a \$16.5 million rate hike, which is about 62 percent less than its current request, according to an analysis by Michael Gorman, an expert from Brubaker & Associates, Inc., a Missouri-based consulting firm that specializes in utility regulation. The testimony was filed jointly on May 19 by CUB, Illinois Industrial Water Companies (IIWC) and the Federal Executive Agencies (FEA).

"The expert testimony clearly shows that Illinois American's rate-hike proposal is bloated," CUB Executive Director David Kolata said. "Among other things, the analysis reveals that the company is asking for an excessive profit rate, and it unfairly expects customers to cover executive bonuses that should be paid for by shareholders. Customers deserve better, and that's why we're pushing to cut this rate hike as much as possible."

Illinois American's parent company, American Water, is the nation's largest publicly traded water company. It made \$476 million in profits in 2015. In January, the company asked the Illinois Commerce Commission (ICC) for permission to raise its water and wastewater rates. A decision in the case is expected in December.

Illinois American serves a wide range of communities across Illinois, from the Chicago region to Champaign and Peoria to Alton and Cairo. The company says its increase would impact "medium" water customers, using 4,500 gallons a month, by a range of about \$1.15 to \$10 more a month, and about \$8 to \$23 extra a month for wastewater customers. The hike could be even steeper for bigger users—an increase of up to \$19 a month for water service, and up to \$33 per month for wastewater service.

Among the findings of Gorman's testimony:

*Illinois American's requested Return on Equity (ROE), or profit rate for shareholders, should be reduced from 10.75 percent to 9 percent. (That adjustment alone accounts for 40 percent of the reduction supported by CUB.)

*In projecting revenue, the company exaggerated losses due to water conservation efforts by its customers. Gorman's testimony, instead, relied on historical data, reducing the rate hike by \$8.8 million.

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*Illinois American unfairly hoisted “incentive compensation” costs, such as certain executive bonuses, on the shoulders of its customers. CUB argues that such expenses are more appropriately covered by shareholders. The adjustment reduced the proposed increase by another \$1.1 million.

CUB is Illinois’ leading nonprofit utility watchdog. Created by the Illinois Legislature, CUB opened its doors in 1984 to represent the interests of residential and small-business utility customers. Since then, it has saved consumers more than \$20 billion by helping to block rate hikes and secure refunds. For more information, call CUB’s Consumer Hotline, 1-800-669-5556, or visit its award-winning website, www.CitizensUtilityBoard.org.

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