

October 6, 2005

The Honorable Russ Petrizzo, Mayor
Village of Homer Glen
14331 S. Golden Oak Drive
Homer Glen, IL 60491

Dear Mayor Petrizzo:

Thank you for taking the time to meet with us on October 4 to discuss the issues surrounding water and wastewater pricing and service in Homer Glen. As the Company stated during our meeting, Homer Glen is important to us both in the view of our customers and in the view of you and others who graciously serve the residents. Customer service is the cornerstone of our business and we continuously are working to improve it. Affordability is also important to us. We have some unique issues around the pricing of Lake Michigan water that create challenges in the Chicago Metro area. Illinois American has agreed to look at some of the factors that might be changed to address those challenges. We want to be responsive to your needs. I'd like to think that the attention given to your issues before yesterday by Fred Ruckman and others as well as our meeting yesterday demonstrate that responsiveness.

At our meeting yesterday, we agreed to do the following:

1. We will place a customer service representative from Illinois American in the Village of Homer Glen office on an initial one day per week basis to serve as a local representative to handle customer calls and/or face-to-face visits by customers. This effort is designed to answer questions about water bills and take other appropriate actions to assist customers. The details of the first on-site day will be as you and Mr. Ruckman agree and the continuation for future weeks, again, will be you and Fred agree and see a need. Hopefully, this action will relieve the burden on your staff of dealing with water questions as well as speed up the response to Homer Glen customers with issues.

American Water

HOMER GLEN EXHIBIT 1.05

2. We will extend the shut-off notice period from its current thirty days to sixty days for Homer Glen customers, and we will not turn over bills to a collection service until after sixty days have elapsed.
3. We have ceased the practice of back billing in the case of meter change-out and will revisit this issue with you at a future date. (You will note, however, that this change had already been put in place prior to our meeting yesterday.)
4. We will approach the Illinois Commerce Commission (ICC) in order to request changes in the calculation of wastewater charges. We will request a conversion from the present flat rate to one based on consumption. This will benefit the small volume user, but the benefit will be offset by increased costs to large volume users.
5. We will approach the ICC to request changes in the way we charge developers for construction water, converting from a flat fee to one based on metered usage. This change is designed to result in a lower volume of "unaccounted for water" and to cause the developer to pay the full cost of "construction" water.
6. We will approach the ICC to request changes on revenue refunds for developer water mains, in effect stopping the practice. This would keep contributed property as contributed property and excluded from rates. This may be resisted by developers, since the practice of revenue refunds is common and expected. An education period will be required.
7. We will approach the ICC and request flexibility in the frequency of supply charge true-up by requesting the ability to do such a true-up whenever significant changes occur such as when the unaccounted for water factor drops. We would request an immediate true-up after verifying that such would benefit Homer Glen.
8. We will request approval from the ICC of a senior residential discount on the total bill. It should be noted, however, that, if successful, this discount would shift cost to other residential customers.
9. We will request approval of changes in water supply pricing structure if our outside consultant is successful in discovering changes that can be made in the current approved tariff that would benefit customers and still protect the investment in the system.

10. On matters 4-9, listed above, we will present our proposed petition to you for your concurrence before going forward. We would appreciate a letter of support drafted by the Village of Homer Glen to be included with the petition and, at our request, such other participation in the approval proceeding as may be needed.

11. We will discuss terms that could be contained in a Franchise Agreement and commit to begin those talks as soon as possible, suggesting that the details be left up to Kevin Hillen and Dwight Johnson.

12. We offered to attend your forthcoming Town Hall meeting, but you have declined this offer. We will defer to your wishes regarding that decision, but I would like to offer an observation on the Task Force Report. The observation is prompted by a comment from Mary Niemiec that many of the reported examples of high bills are anomalies and that her bill reflects a "normal" Homer Glen resident: using 10,000 gallons a month and paying \$130. Ms. Niemiec commented that she may be able to move to a neighboring community and pay less for water, but her taxes might be higher. You both expressed concern that residents or potential residents might choose a community other than Homer Glen based solely on water rate comparisons. The graphical data presented in the Task Force Report would seem to encourage the very action or decision by a resident that you are trying to avoid. Have you considered a comparison of the total household cost among one or more of your neighboring communities? For example, what would Mary's bill look like for 10,000 gallons in a neighboring community where water price may be less, but wastewater is based on a volumetric charge and taxes might be higher? And if it is a community where most residents need a water softener, what is that impact on household cost? It would seem to me that you would want to depict a more normal situation to reduce the likelihood of residents leaving or newcomers choosing an alternate community.

You invited us to offer comments generally on the Task Force Report and, therefore, we will prepare that analysis and transmit it to you under separate cover.

Finally, I must express my surprise in learning of your letter to the Illinois Attorney General only after the conclusion of a two-hour meeting that was both cordial and productive. The fact that you sent this correspondence on the day before our scheduled meeting, which was held pursuant to Illinois American's request, is truly disappointing. While the letter itself does not change Illinois American's intent to proceed in the manner described above, I sincerely hope this action will not halt our progress.

I trust that you will keep your promise to notify the Attorney General of the steps we are taking to resolve many of the issues you raised in your correspondence. I am also confident that you will feel comfortable withdrawing your request in its entirety to accommodate our joint effort to address the issues going forward.

If there is anything herein that you believe I have overlooked or items that require clarification, please let me know.

Very truly yours,



Terry L. Gloriod
President

Cc: Christine Radogno
Renée Kosel
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Fred Ruckman
Kevin Hillen
Ross Amundson