

BEFORE THE ILLINOIS POLLUTION CONTROL BOARD

IN THE MATTER OF:)
)
PROPOSED EXTENSION OF ADJUSTED STANDARD) AS 2007-2
APPLICABLE TO ILLINOIS-AMERICAN) (Adjusted Standard)
WATER COMPANY'S ALTON PUBLIC WATER)
SUPPLY FACILITY DISCHARGE)
TO THE MISSISSIPPI RIVER)
UNDER 35 ILL. ADM. CODE 304.124 AND 304.106)

TESTIMONY OF TERRY L. GLORIOD

WITNESS IDENTIFICATION AND BACKGROUND

Q. Please state your name and business address.

A. My name is Terry L. Gloriod, and my business address is American Water-Central Region, 727 Craig Road, St. Louis, Missouri 63141.

Q. Mr. Gloriod, by whom are you employed?

A. I am employed by American Water Works Service Company, Inc., a subsidiary of American Water Works Company, Inc. ("American Water"), as President of American Water's Central Region, which includes utility companies in Illinois, Indiana, Missouri, Iowa, Michigan and Ohio.

Q. As President, what are your responsibilities?

A. As President, I am responsible for maintaining the region's financial health; enhancing the operating reliability and efficiency of the utility companies; and for assuring that all functions (e.g., planning, engineering, construction, production, distribution, customer service, accounting, and human resources) are carried out in compliance with all local, state, and federal laws and regulations and all standards of good business practice. I am also ultimately responsible for assuring that we meet the needs of our customers.

1 **Q. Please discuss your educational and business background.**

2 A. I first joined American Water and was named President of Illinois-American Water
3 Company ("Illinois-American Water") on April 1, 1999. In 2003, I was named Regional
4 President for American Water—Central Region. Prior to joining American Water, I was
5 Vice President of Operations for the Continental Water Company and Chairman of the
6 Board for Continental's subsidiary utilities in Missouri, Illinois, Indiana, and New York.
7 I had worked for Continental Water or its subsidiaries since June, 1969. I hold a
8 Bachelor of Science degree from Washington University, St. Louis. I am a registered
9 Professional Engineer in Missouri and a Diplomat in the American Academy of
10 Environmental Engineers, holding specialty certification in water and wastewater. I am a
11 past Member of the Board of Trustees of the American Water Works Association
12 Research Foundation, and former chair of its Research Advisory Council. Also, I am
13 past chair of the Regulatory Committee of American Water Works Association's Water
14 Utility Council, and the government Relations Committee of the National Association of
15 Water Companies.

16 **PURPOSE OF TESTIMONY**

17 **Q. What is the purpose of your testimony in this proceeding?**

18 A. The purpose of my testimony is to: (1) verify portions of Illinois-American Water's
19 answers to Hearing Officer Webb's questions in her Order dated August 6, 2007 and, in
20 particular, those answers to which I contributed; (2) describe Illinois-American Water's
21 understanding of the Board's Order in AS 99-6 and explain the commitment we made as
22 a result of that Order; (3) address the Agency's contention that USEPA's Water Quality
23 Trading Policy prohibits the use of an offset trading program such as ours as a means of

1 compliance with 35 Ill. Adm. Code 304.124; (4) explain that we have candidly disclosed
2 to the Illinois Commerce Commission (“ICC”) the Company’s contributions to the Great
3 Rivers Land Trust (“GRLT”) and, to our knowledge, the ICC has acted upon that
4 information in setting the Company’s rate structure; (5) explain that Illinois-American
5 Water’s Alton Plant does not compete with water treatment facilities elsewhere in the
6 state; and (6) advise the Board that Illinois-American Water is committed to negotiate a
7 new contract with the GRLT (or another suitable entity) to provide financial contributions
8 sufficient to maintain a 2:1 offset and soil savings above 6,600 tons.

9 **VERIFYING CERTAIN ANSWERS OF ILLINOIS-AMERICAN WATER TO**
10 **QUESTIONS POSED BY HEARING OFFICER WEBB IN HER ORDER OF AUGUST 6,**
11 **2007**

12 **Q. Did you participate in the preparation of Illinois-American Water’s answers to the**
13 **questions presented in Hearing Officer Webb’s Order dated August 6, 2007?**

14 A. Yes.

15 **Q. What was your role in the preparation of the Company’s answers?**

16 A. I read the questions in Hearing Officer Webb’s Order and participated in a meeting with
17 Company representatives and counsel to discuss those questions and answers. I helped
18 formulate the Company’s answers to questions 1c, 2b, 2c, 3c, 3d, all posed to the
19 Company.

20 **Q. Will you now verify that the answers attributed to you for questions 1c, 2b, 2c, 3c**
21 **and 3d, all posed to the Company, are true and correct to the best of your**
22 **knowledge, information and belief.**

23 A. Yes, I verify that they are.

1 **Q. Did you provide input on behalf of Illinois-American Water to any other answers in**
2 **the Company's response to Hearing Officer Webb's questions?**

3 A. Yes. I authorized our legal counsel to provide the Company's response to question 4,
4 posed to the Company, the "Rulemaking Update," and I endorse that response now.

5 **ILLINOIS-AMERICAN WATER'S UNDERSTANDING OF THE BOARD'S ORDER IN**

6 **AS 99-6**

7 **Q. Were you involved in the original adjusted standard proceeding, Case AS 99-6?**

8 A. Yes. I was involved in the decision to seek an adjusted standard for our new facility in
9 Alton.

10 **Q. Describe Illinois-American Water's interaction with the Agency in connection with**
11 **the adjusted standard case in 1999.**

12 A. Our Alton plant at the time had been direct discharging for about 100 years. The NPDES
13 program came into effect in the 1970s, which prompted us to obtain a site-specific
14 standard to continue to direct discharge to the Mississippi. We felt like the new plant
15 would be the same in all respects. It would still draw source water from the Mississippi
16 and discharge to the Mississippi in the same location. All we were doing, really, was
17 building a new plant at a higher elevation, serving the same customer base too. So, we
18 sought the Agency's position and their input on continuing with direct discharge.
19 Agency representatives requested river studies. We did that, using an outside engineering
20 firm, and those studies were exhaustive. The Agency asked for even more studies, so we
21 did those too. At the conclusion of all those studies, the Agency chose not to support
22 direct discharge, instead favoring solids limits.

1 **Q. Did that change?**

2 A. Yes, the Agency eventually changed its mind when the possibility of an offset project
3 was raised. GRLT became aware that to comply with the generally-applicable effluent
4 limits, we would need to construct a solids handling facility in Alton and truck the solids
5 to a landfill via the scenic Great River Road. GRLT representatives approached us, and
6 eventually approached Illinois EPA, proposing an alternative to lagoon storage, solids
7 handling facilities, and trucks.

8 **Q. What was your understanding of the discharge options?**

9 A. After eliminating the options that were infeasible and could not realistically be
10 implemented by the facility, we were left with only two options: (1) purchase
11 conventional equipment and construct facilities to handle solids and truck them to
12 landfills, or (2) enter into an agreement to partner with GRLT and support the Piasa
13 Creek Watershed Project ("PWCP").

14 **Q. In terms of "permanence," what was your understanding of the Board's Order in**
15 **As 99-6?**

16 A. The Order created an adjusted standard for a ten-year period, with a five-year Agency
17 assessment to determine success and a seven-year sunset in case the project was a failure.
18 Based on the discussions I had with Illinois EPA during those proceedings and the
19 circumstances leading up to the Board's decision, I believed that if we could demonstrate
20 success, the adjusted standard would become permanent. The clear language of the
21 Order support this.

22 **Q. Did you believe that after seven years, Illinois-American Water would have to**
23 **construct solids handling facilities?**

1 A. Not as long as the project proved successful. We were confident that it would be
2 successful, but we knew there was some degree of risk of failure since we had no
3 experience with this kind of a project. I believed the risk was low and was able to
4 convince my Board to authorize our arrangement with GRLT. I would never have been
5 able to convince my Board to spend an "extra" \$4 million on the PCWP merely to
6 postpone the construction of solids handling facilities, some seven years later.

7 **Q. So you expected an indefinite extension of the adjusted standard if the project was**
8 **successful?**

9 A. Absolutely.

10 **Q. If you had been told in 2000, during the case AS 99-6, that the project would exceed**
11 **the 2 to 1 goal in year six, but the adjusted standard would not be extended beyond**
12 **2007, would you have still pursued an adjusted standard using offset credits?**

13 A. No. As I said before, my Board would not have approved it. In 2000, we did what we
14 thought would be good for the environment and good for our customers. There was some
15 risk involved, because no one could say for sure whether the soil savings projects would
16 work. We decided that the benefits of the project justified taking that risk, so we went
17 forward. We knew that if the Project was successful, the adjusted standard would be
18 extended beyond its sunset date. But if someone had told me in 2000 that the adjusted
19 standard would terminate in 2007, irrespective of demonstrated success, we would not
20 have gone forward. We made a permanent commitment in exchange for a permanent
21 solution.

1 **USEPA'S WATER QUALITY TRADING POLICY**

2 **Q. As you know, Mr. Gloriod, the Agency has contended in its Recommendation that**
3 **USEPA's Water Quality Trading Policy should be taken into account. Specifically,**
4 **the Agency contends that the Water Quality Trading Policy prohibits the use of**
5 **offset credits in order to comply with a technology-based effluent limit. Do you**
6 **agree with the Agency's interpretation of USEPA's policy?**

7 A. No.

8 **Q. Why not?**

9 A. The federal trading policy's prohibition applies to federal technology-based effluent
10 limits. USEPA does not have technology-based effluent limits for water treatment plants.
11 USEPA has many categorical effluent limits applying to many industries. But there are
12 no federal technology-based effluent limits for water treatment plants. Therefore, the
13 federal trading policy is not triggered.

14 **Q. The Agency has taken the position that USEPA's policy should prohibit trading to**
15 **comply with Illinois' standard for TSS, which is found at 35 Ill. Adm. Code 304.124,**
16 **because that standard is a technology-based effluent limit. Do you agree?**

17 A. No. The state standard is not a categorical standard for the drinking water industry. It is
18 a state standard of general applicability and not a categorical standard under the Clean
19 Water Act. So, the trading policy is not applicable and is not a reason to terminate an
20 adjusted standard.

21 **Q. The Agency has also taken the position that USEPA's policy should prohibit trading**
22 **to comply with Illinois' standard for TSS for the sake of consistency. Do you agree?**

1 A. No. We would not necessarily achieve consistency by putting Illinois' TSS effluent limit
2 into the federal scheme. In fact, that would result in inconsistent application of the
3 federal trading policy, I believe. We have a perfect illustration on the Mississippi River
4 in Alton. On the Illinois side of the river, there is an effluent limit for TSS. That limit is
5 set forth in 35 Ill. Adm. Code 304.124. But on the other side of the river, in Missouri,
6 there is no generally-applicable effluent limit on the Mississippi for TSS that applies to
7 water plants. So, a water plant built across the river, approximately one mile from our
8 existing plant, would not be subject to any generally-applicable effluent limit for TSS.
9 That plant would draw its source water from the Mississippi River, just like we do at the
10 Alton plant. If that plant in Missouri used the same filtering technologies we do, and our
11 technology is pretty common in the water treatment industry, their solids loading would
12 be very similar to ours, if not identical. So, while the concept of "consistent application"
13 sounds reasonable, it is not realistic as proven by our situation just across the river from
14 Missouri. That's why I believe the Federal Water Quality Trading Policy speaks to
15 federal technology-based effluent limits when it comes to the policy of "consistent
16 application." And there are no federal TBELs for water treatment plants.

17 **Q. The Agency also contends that the federal permitting scheme requires it to use best**
18 **professional judgment, or "BPJ," and that the standard of general applicability was**
19 **based upon BPJ. Does that change your views?**

20 A. Not at all. I understand that the standard of general applicability was probably based
21 upon BPJ when it was originally proposed by the Agency and adopted by the Board years
22 ago. Using BPJ, the Agency and the Board were supposed to consider factors such as the
23 Best Practicable Control Technology, the appropriate technology for the point source

1 category, and any unique factors relating to the facility. But then a BPJ analysis was
2 conducted for this facility by the Board in 2000, and “no treatment” together with
3 completion of the Piasa Creek Watershed Project was identified as the site-specific
4 effluent limitation for the facility. The Project is a “substantially and significantly
5 different factor” than those the Board relied on in adopting the limits at 35 Ill. Adm. Code
6 304.124, so this is a perfect example of the “unique factors” that federal regulations
7 require the permitting authority to consider.

8 **Q. Are there other reasons you oppose the Agency’s use of USEPA’s Water Quality**
9 **Trading Policy to deny an extension?**

10 A. Yes. USEPA’s Water Quality Trading Policy is just that, a policy. It is not a statute, like
11 the Clean Water Act. And it is not a regulation, like a federal categorical-based effluent
12 limit. So, even if the federal policy was applicable here, which it isn’t, I believe the
13 Agency is trying to elevate that policy to the status of law, which is wrong.

14 **Q. Are there any other reasons?**

15 A. Yes. The federal trading policy in place today has not changed in eleven years.
16 USEPA’s first statement on the subject, to my knowledge, was in 1996. I have reviewed
17 portions of the 1996 policy and the current policy on this issue of using offset trading
18 when TBELs are in place. Both policy statements are the same. If anything, the 1996
19 policy statement had more to say on the subject. Like I said before, the federal policy
20 applies to federal TBELs, in my view. But if USEPA’s position really is that offset
21 trading cannot be used to meet a state’s TBEL, I would have expected USEPA to file
22 public comments opposing our NPDES Permit. Our NPDES Permit was issued in 2000,
23 and it clearly referred to offset trading through the Piasa Creek Watershed Project as a

1 means of compliance. But USEPA did not oppose that permit. Obviously, Illinois EPA
2 did not oppose the permit either, because they issued it. If there is an inconsistency
3 today, that same inconsistency existed in 1999, when the Agency supported and the
4 Board agreed to an adjusted standard. The Agency has changed its position, but it is not
5 accurate to say that USEPA has too.

6 **Q. Are there any other reasons you have not addressed?**

7 A. I can think of one more, and it is significant. For many years now, USEPA has enforced
8 an anti-backsliding policy. I believe backsliding would be inevitable if we stop the
9 Project. It is puzzling to me that the Agency would not consider anti-backsliding in
10 connection with our offset trading accomplishments. I am also troubled by the prospect
11 that the Agency might have in mind the scenario of lagoon treatment and maintenance of
12 the soil savings projects in order to comply with the anti-backsliding prohibition.

13 **Q. Has the Agency ever informed you, or to your knowledge anyone else at Illinois-**
14 **American Water that USEPA's Water Quality Trading Policy should be applied in**
15 **a way that would deny an extension of the Adjusted Standard?**

16 A. Not until the Agency filed its Recommendation. That was the first time we heard that the
17 Agency would be taking this position.

18 **DISCLOSURE OF PCWP CONTRIBUTIONS TO THE ILLINOIS COMMERCE**

19 **COMMISSION**

20 **Q. How does the rate setting process work before the Illinois Commerce Commission**
21 **("ICC")?**

22 A. Illinois-American Water presents evidence to the ICC regarding operating costs and
23 investments. The ICC's staff and any interveners audit that evidence through a structured

1 legal process. At the end of that process, which usually takes eleven months, we are
2 granted revenues that recover dollar-for-dollar our “prudently” incurred costs that are of
3 an ongoing nature. There is no mark up or profit on these costs. We are also granted
4 additional revenues that represent a return on our investment in water utility plant,
5 sometimes referred to as a “rate base return”.

6 **Q. Did the PCWP offset trading project produce a “windfall” for the Company?**

7 A. No. Once the adjusted standard was granted in AS 99-6, we presented the new cost data
8 to the ICC, which was then incorporated into the revenue determination. Any economic
9 benefit went to customers. In fact, the offset project actually represented a loss for our
10 shareholders because there was no investment in solids handling facilities and, as
11 described earlier, it is only through investment that we have an opportunity to earn a
12 profit, in the form of a reasonable return on our investment.

13 **THE ADJUSTED STANDARD DOES NOT GIVE ILLINOIS-AMERICAN WATER A**
14 **COMPETITIVE ADVANTAGE**

15 **Q. If Illinois-American Water’s rates are set utilizing expenditures for offset trading**
16 **instead of lagoon treatment, is the Company getting a competitive advantage?**

17 A. No. Our Alton plant does not compete against other water treatment plants. We are a
18 regulated monopoly utility. Our rates are set by the ICC, which has already taken our
19 PCWP commitment into account in setting our rates.

20 **Q. What about the water treatment plants mentioned by the Agency in its**
21 **recommendation? None of them have an Adjusted Standard. Aren’t you gaining a**
22 **competitive advantage over those water treatment plants?**

1 A. No. Those plants serve different customers. We don't compete against the water
2 company in Springfield, Illinois, for example. There is no point of intersection between
3 their customer base and our customer base. The same is true for the other water
4 companies mentioned in the Agency's recommendation. It is not uncommon for costs to
5 vary widely by location for a variety of expense items like power, chemical, labor and the
6 cost of waste handling, so minor differences in the cost of any one component wouldn't
7 constitute a competitive advantage in any event.

8 **COMMITMENT TO MAINTENANCE**

9 **Q: What is Illinois-American Water proposing to do after the current contract with**
10 **GRLT ends?**

11 A: If the adjusted standard is extended, Illinois-American Water will enter a new contract
12 with GRLT. Under this new contract, Illinois-American Water will pay GRLT a set
13 amount each year for ten years, which Illinois-American Water and GRLT believe will
14 allow GRLT to maintain the soil savings of the Piasa Creek Watershed Project above the
15 required 2 to 1 offset (and, at a minimum 6,600 tons per year).

16 **Q: What is that annual amount?**

17
18 A: GRLT has estimated a yearly contribution of \$136,800 by Illinois-American Water will
19 allow GRLT to maintain the soil savings of the Project above 2 to 1 and 6,600 tons.
20 However, GRLT and Illinois-American Water are still negotiating this amount, so it may
21 increase or decrease. Also, this amount only includes the estimated costs for
22 maintenance activities, so it may also change as GRLT and Illinois-American Water
23 begin negotiating the contract. There could be additional obligations under the contract,
24 such as maintaining insurance. As the proposed order attached to the Amended Petition

1 requires, Illinois-American Water will enter into a contract for maintenance no later than
2 sixty days after the Board's adoption of the adjusted standard, and will provide a copy of
3 the agreement to the Agency within 10 days after entering the contract.

4 **Q: How will contributing \$136,800 each year allow GRLT to maintain the soil savings**
5 **of the Project above 2 to 1 and 6,600 tons?**

6 A: GRLT will use the money to complete stewardship activities for the existing sediment
7 reduction projects. I understand that these activities will include maintenance of ground
8 cover, tree plantings, grade control structures, basins, stream bank stabilization, mowing,
9 invasive species control, controlled burns, seed collection, tile and drain structure
10 maintenance, and any other activities necessary to support the intended purpose of the
11 individual projects.

12 **Q: What happens after the end of the 10 year maintenance period?**

13 A: GRLT's proposal for maintenance includes a \$25,000 "set aside" each year, which will be
14 put into an endowment fund. GRLT's hope is that this endowment fund will be large
15 enough, after the end of the 10 year maintenance contract, to allow GRLT to sustain the
16 projects without additional contributions by Illinois-American Water. But it's hard to
17 predict what the soil savings will be in 10 years. A lot can change over that period of
18 time. For instance, if Illinois experiences flooding like it did in the early 1990s, some of
19 the existing soil sediment savings projects may wash out and need to be replaced. Also, if
20 the concentration of sediments in the River increases, the concentration of sediments in
21 the facility's influent will also increase and GRLT may need to complete new sediment
22 reductions projects to achieve the 2 to 1 offset. If continued projects and maintenance are
23 necessary beyond the 10-year maintenance period, then the Company will take action to

1 ensure that the 2:1 offset (with a savings of at least 6,600 tons per year) is maintained.

2 That may mean entering another contract for maintenance with GRLT, and the cost of

3 on-going maintenance under any such additional maintenance contracts will be based on

4 a new estimate by GRLT at that time.

5 **Q: Why shouldn't the Board just require Illinois-American Water to contribute a fixed**
6 **amount of the Board's choosing each year, even beyond the end of the proposed ten**
7 **year maintenance contract?**

8 A: Selecting an arbitrary amount for an annual contribution doesn't make sense because it
9 might be too high or too low. If the amount is too high, then Illinois-American Water
10 will be held to a higher standard simply because GRLT has been able to use its money
11 efficiently and effectively to achieve the stated goal. If the amount is too low, GRLT
12 won't be able to maintain a soil savings of 2 to 1 or 6,600 tons. Illinois-American Water
13 is committed to funding the 2 to 1 offset (with a minimum savings of 6,600 tons per year)
14 for as long as the adjusted standard is in place, regardless of the cost. The results GRLT
15 achieves with Illinois-American Water's annual contribution should be what is important,
16 not the amount Illinois-American Water has to pay in order for it to achieve those results.
17 And as mentioned earlier, prudent costs are reflected in rates so if there are reduced costs
18 in the future, our customers will benefit.

1 **OTHER ATTRIBUTES OF TRADING**

2 **Q. Aside from the obvious environmental benefit—a greater than 2:1 offset—and the**
3 **economic benefit to customers, are there other benefits to the PCWP?**

4 A. Yes. There are local benefits in the Alton area to residents who live near the plant
5 property and to all who use the Great River Road. Without lagoons, drying facilities, and
6 the truck hauling that comes with it, we avoid noise, exhausting greenhouse gases, and
7 the potential spills that can occur on highways. In addition, the project has brought
8 accolades to the state of Illinois and Illinois-American Water in national forums. I have
9 participated in some conferences in which USEPA representatives not only mentioned
10 the PCWP, but praised it as an effective watershed based offset trading program.

11 **Q. Some of the questions posed this month by the Board focus on discounts and project**
12 **retirement. Do you have concerns about those issues?**

13 A. I think we all understand a lot more about solids trading, and that is good. I compliment
14 the Board for their inquiry. I believe we have demonstrated in our responses to the
15 Board's questions that our soil savings are adequately discounted. I would not want the
16 adjusted standard, which is stated as 2:1, but not less than 6,600 tons, to become a
17 "moving target." If that happens, we will never have certainty as to the most effective
18 solution.

19 **Q. Looking back on the circumstances of 1999 and 2000, when the Agency supported**
20 **the Project and the adjusted standard, and considering the success of the Project,**
21 **and further considering the Agency's opposition today, please tell the Board how**
22 **you feel about this seven-year journey.**

1 A. I am disappointed with the Agency's position, and believe my Company has been double-
2 crossed. We worked hard for about three years to do a river study at the Agency's
3 request, satisfying every question about environmental impact. But that failed to satisfy
4 the Agency in the end. Then we devoted time and resources to the offset alternative
5 finally gaining the full support of the Agency. There was an important condition, but
6 only one—that the offset project needed to succeed. Actually, the offset project needed
7 to make "progress" toward the 2:1 goal by year five, which it did. We achieved and even
8 exceeded 2:1 in year six. I don't know what more we could have done. Along the way,
9 we did not receive any negative comments from the Agency.

10 The projects we now have in place have a life beyond ten years. Some of them, the more
11 expensive ones, will prevent soil from entering the Mississippi for nearly 100 years. So,
12 the expenditures of Illinois-American Water will have long-lasting effects even if funding
13 stops now. The Agency has been monitoring the Project, so they know this.

14 Now that we have done our job, satisfied the only condition required of us, exceeded
15 expectations, and put soil savings projects into place that will last for many years, the
16 Agency has chosen to oppose the offset project, and require us to now construct holding
17 lagoons, drying facilities and truck solids to a landfill. Our customers will pay twice.

18 There is no basis for the Agency's changed position. If our relationship was one of
19 business in the private sector, we would be requesting the return of our \$4 million dollars
20 paid to GRLT.. If the adjusted standard is not extended, it will send a message to the
21 regulated community here that innovative environmental solutions are not welcome and
22 Agency agreements are only temporary.

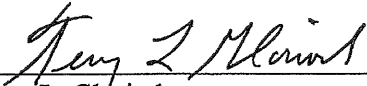
1 Q. Does this conclude your testimony?

2 A. Yes.

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4

5



Terry L. Gloriod

STATE OF MISSOURI)
)
COUNTY OF ST. LOUIS)

AFFIDAVIT

I, Terry L. Gloriod, after being duly sworn on oath, state that the foregoing Testimony is true and correct to the best of my knowledge and belief.

FURTHER AFFIANT SAYETH NOT.

Terry L. Gloriod
Terry L. Gloriod

SUBSCRIBED AND SWORN to
before me this 24 day
of August, 2007

Dawnesha Tomlin
NOTARY PUBLIC

DAWNESHA TOMLIN
Notary Public - State of Missouri
St. Louis County
My Commission Expires: Nov. 21, 2008
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