REDACTED

DIRECT TESTIMONY

OF

ROCHELLE LANGFELDT

FINANCE DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

ILLINOIS-AMERICAN WATER COMPANY
CITIZENS UTILITIES COMPANY OF ILLINOIS

DOCKET NO. 00-0476

NOVEMBER 2000

Q. Please state your name and business address.

A. My name is Rochelle Langfeldt and my business address is 527 East Capitol Avenue, Springfield, Illinois 62701.

Q. By whom are you employed and in what capacity?

A. I am employed by the Illinois Commerce Commission ("Commission") as a Financial Analyst in the Finance Department of the Financial Analysis Division.

Q. Please state your educational background and work experience.

A. In May 1998, I received a Bachelor of Arts degree in Finance from Illinois College in Jacksonville, Illinois. In May 2000, I received a Master of Business Administration degree from the University of Illinois at Springfield. I have been employed by the Illinois Commerce Commission since June 2000.

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

A. The purpose of my testimony is to describe the issues concerning the measurement of merger premiums. I will examine both the purchase price itself and the allocation of the purchase price for the "Utility Assets", which refers to the assets of Citizens Utilities Company of Illinois used exclusively in providing water or wastewater service and the assets of Citizens Business Services Company that relate primarily to the business operations of Citizens Utilities Company of Illinois.[1] I will also

[1] Company's Amended Verified Application.

critique the analysis of Mr. Bharani Bobba, which purports to demonstrate the reasonableness of the purchase price for the Utility Assets.

I am not addressing the threshold issue of whether the merger premium should be reflected in Illinois-American Water Company’s rates in some manner. Staff witnesses Dave Borden and Thomas Q. Smith are addressing that aspect of the merger premium on behalf of Staff. However, should the Commission decide to reflect a merger premium in Illinois-American Water Company’s rates in some manner, I will offer an alternative method for allocating the purchase price of the Utility Assets without violating the standards set forth in the Public Utilities Act (“Act”).

Q. Please describe the proposed acquisition in this proceeding.

A. American Water Works Company, Inc. (“AWW” and “Parent”), and certain affiliates, are acquiring all of the water and wastewater assets of certain subsidiaries of Citizens Communications Company (“Project”), formerly Citizens Utilities Company (“CUC”). The Project involves the water and wastewater assets in six State jurisdictions. Two of the companies involved in the Project are Illinois-American Water Company (“IAWC” and “Company”) and Citizens Utilities Company of Illinois (“CUCI”), which are subsidiaries of AWW and CUC, respectively.

This proceeding concerns an acquisition transaction ("Acquisition") in which IAWC has entered into an asset purchase agreement ("Agreement") with AWW, CUC, CUCI and certain other affiliates of Citizens under which IAWC will purchase from CUCI both the water and wastewater assets of CUCI and certain business assets of Citizens Business Service Company ("CBSC"), (collectively referred to as "Utility Assets").[2]

Q. Please summarize your conclusions.

A. I have concluded that IAWC's measurement of the merger premium is incorrect. The merger premium should be calculated, in part, on the basis of pre-merger market value rather than book value, which is typically recognized for ratemaking purposes in Illinois. Pre-merger market value ("market value") equals the present value of the future cash flows that the underlying assets of CUCI are expected to produce as measured immediately preceding the announcement of the acquisition bid. My understanding is that IAWC must correctly measure the merger premium to satisfy the requirement of Section 7-204(b)(7) of the Public Utilities Act ("Act"), which states, "The proposed reorganization is not likely to result in any adverse rate impacts on retail customers."[3]

In addition, IAWC's measurement of the other determinant of the merger premium, purchase price, is based on a questionable allocation procedure.

[2] Company's Amended Verified Application.
[3] 220 ILCS 5/7-204(b)(7)

[redacted] My understanding is that the proposed allocation of the purchase price amongst State jurisdictions and between utility and non-utility assets must satisfy Section 7-204(b)(2) of the Act, which states, “The proposed reorganization will not result in the unjustified subsidization of non-utility activities by the utility or its customers.”[4] The Company has failed to demonstrate that its allocation of the purchase price meets this criterion of the Act.

Moreover, the purchase price is a direct function of the proportion of merger related savings the utility expects to retain. Thus, reflecting a merger premium in rates could have the undesirable effect of increasing future merger premiums and reducing merger savings net of the merger premium. IAWC’s Savings Sharing Proposal (“SSP”) would essentially recover the merger premium through rates. Therefore, IAWC must demonstrate that the proposed reorganization will not result in any adverse rate impacts on retail customers.[5]

Next, Mr. Bobba’s analysis of the purchase price is insufficient for demonstrating whether the purchase price is reasonable. To reflect a merger premium in rates, the Parent must demonstrate that the assumptions in its analysis of the market value of

[4] 220 ILCS 5/7-204(b)(2)
[5] 220 ILCS 5/7-204(b)(7)

the Project are reasonable. Moreover, the Company must demonstrate that the allocated purchase price does not result in the unjustified subsidization of non-utility activities by the utility or its customers.[6]

I am not advocating the recovery of the merger premium through utility rates; however, should the Commission decide to recognize the merger premium in some manner, I will provide an alternative method for determining the purchase price and resulting premium which would reduce the possibility that the reorganization would adversely affect ratepayers.

Q. Please define "merger premium."

A. The Company defines merger premium as the difference between the purchase price and net original cost ("book value") of the acquired assets.[7] As Staff witness Thomas Q. Smith testifies, for ratemaking purposes, this difference is generally referred to as a plant acquisition adjustment.[8]

In contrast, from a financial standpoint, merger premiums are mathematically expressed as the difference between the price paid for a company and its market value immediately preceding the acquisition announcement. Merger premiums arise from merger and acquisition transactions ("M&A transactions") that involve the change in control of a company. Thus, merger premiums can also be described as

---

[6] 220 ILCS 5/7-204(b)(2)

[7] Company Exhibit 2.0, pages 7-8.

the additional price paid for a controlling interest in a company in comparison to the aggregate market value of that company to stockholders with non-controlling interests.

Q. How did the Company measure its "merger premium"?

A. The Company subtracted the June 30, 1999, book value of the Utility Assets of $153,280,282 from the $219,896,000 of the purchase price that has been allocated to the Utility Assets.[9] According to the Company, the result, $66.6 million, equals the merger premium.[10]

Q. Please explain why the Company's calculation of the "merger premium" is incorrect.

A. The Company's calculation of the merger premium is incorrect for two reasons. First, the Company's calculation improperly uses book value as the baseline that is subtracted from the purchase price, when, in fact, the market value of the Utility Assets immediately prior to the acquisition announcement should be the baseline in a merger premium calculation.

Second, the purchase price for the Utility Assets was established from a highly questionable allocation of total purchase price for the Project to the various companies included in the acquisition. Section 7-204(b)(2) of the Act requires that a

[8] Staff Exhibit 1.0

proposed reorganization not result in the unjustified subsidization of non-utility activities by the utility or its customers. It is my understanding that non-utility activities include the regulated activities outside of Illinois;[11] thus, AWW's allocation of the purchase price among the State jurisdictions, which fails to recognize the future cash flows of each CUC subsidiary to be acquired by AWW, including CUCI, fails to demonstrate that the proposed reorganization will not unjustly subsidize non-utility activities, including regulated activities in other State jurisdictions outside Illinois.

Q. Why should the baseline in the merger premium calculation be based on market value rather than book value?

A. The market value of a company equals the present value of future cash flows the underlying assets are expected to generate. This amount is the most that investors buying non-controlling interests ("minority shareholders") would pay for the company in aggregate. The market value immediately preceding the acquisition announcement should be used as the baseline since it reflects the present value of future cash flows that the company would be expected to generate assuming no change in the manner in which it operates. Whenever the pre-merger market value of a company exceeds its book value, a "merger premium," calculated using book value as the baseline would, by mathematical definition, include a "pre-merger market premium" in addition to the "post-merger market premium". That is, the

---

[9] Company response to data request RL 2.04, attached as ICC Staff Exhibit 3.0, Schedule 1.
[10] Company Exhibit 2.0, pages 7-8.

Company's definition of merger premium might include a premium that has no connection to the merger. If the book value were used as the baseline in a merger premium calculation, and that book value was less than the pre-merger market value, the company would be overcompensated with additional cash flows.

Q. Why would a company be overcompensated with additional cash flow if a merger premium is calculated using a book value that is less than the pre-merger market value of those same assets?

A. The pre-merger market value equals the cash flows the assets are expected to generate, assuming no merger-induced change in operations, discounted to their present values. This is the price a minority shareholder would be willing to pay for the assets since he or she would not have the power necessary to change operations in ways that would change the pre-merger cash flows. If a "merger premium" is calculated using book value, and this premium is recognized in rates, the company would realize cash flows above and beyond the level that was already supporting the pre-merger market value of the assets without rate recognition of a merger premium. The additional cash flow realized through recognizing the pre-merger portion of a merger premium in rates would further increase the market value of the assets, without affecting their book value. That is, minority shareholders would be willing to pay a greater price for the underlying assets since the assets would generate even greater cash flows. This problem becomes circular as the

[11] 220 ILCS 5/3-105

increased market value of the assets would lead to a higher "merger premium," which, in turn, would increase cash flows, while the book value remains unchanged. In summary, recovery of the premium increases rates, which increases the amount of cash flows the assets will generate, which further increases the market value of the assets, which further increases the premium, causing the cycle to continue.

Q. Why would a buyer of a controlling interest be willing to pay more than the current market value for a company?

A. A buyer of a controlling interest may be willing to pay more than current market value for a company for several reasons. For example, a buyer would pay a price which exceeds the current market value for a company if the buyer expects the acquisition will result in cost savings due to greater economies of scale and increased operating efficiencies for the combined company. A buyer would also be willing to pay a price above current market value for a company if the buyer expects the acquisition to result in strategic advantages, such as increased geographic diversity or increased growth potential for the combined company compared to the acquiring company on a stand-alone basis.[12]

Q. How did IAWC determine the market value of the Utility Assets?

[12] Company Exhibit 5.0, pages 8-10.

A. IAWC did not determine the market value of the Utility Assets. Rather, AWW estimated the market value of the assets to be acquired from CUC (including Utility Assets) on behalf of its subsidiaries.[13]

AWW evaluated the market value of the Project using discounted cash flow analysis ("DCF analysis"). DCF analysis requires an estimation of future cash flows for a company, which are then discounted to determine their present value. Upon determining the market value of the Project, AWW assessed this value using various factors, including acquisition multiples similar to those used in Mr. Bobba's analysis of the IAWC purchase price.[14] Acquisition multiples are valuation benchmarks, which state the purchase price in terms of multiples of earnings, cash flow, book value, and so forth. Acquisition multiples represent an index of recent market prices paid by other acquirers and accepted by other sellers.[15]

Q. Please describe, in detail, the DCF analysis the Parent used to value the Project.

A.

[redacted]

[13] Company response to data request RL 2.15, attached as ICC Staff Exhibit 3.0, Schedule 2.
[14] Company response to data request RL 2.15, attached as ICC Staff Exhibit 3.0, Schedule 2.
[15] Case, Shah, and DePass. Financial Strategy and Policy, page 15.

[redacted][16] [redacted][17] [redacted][18]

Q. Please explain the relevance of the Parent's DCF analyses.

A. [redacted] They reflect the cash flows that the CUC subsidiaries would be expected to realize if no changes were made to operations. Regardless of the regulatory treatment of any merger premium and merger savings, the Project should continue to generate cash flows at least at these "pre-merger" levels.

[redacted][19] The difference between these two valuation scenarios represents the estimated present value of merger savings.

---

[16] According to Company response to data request RL 5.02, attached as ICC Staff Exhibit 3.0, Schedule 3, enterprise value is defined as, "The sum of market value of the common equity, preferred equity and short and long-term debt, less cash and cash equivalents."
[17] Company response to data request RL 4.01, attached as ICC Staff Exhibit 3.0, Schedule 4.
[18] Attachment 4(c)-12, included in Company response to data request Staff 1.02, attached as ICC Staff Exhibit 3.0, Schedule 5.
[19] Company response to data request RL 2.07, attached as ICC Staff Exhibit 3.0, Schedule 10.

Q. Please explain how the Parent allocated the purchase price among State jurisdictions.

A. [20] [21] Further, no single allocation method was used in determining the allocation of the purchase price for the transactions occurring in the Illinois jurisdiction.[22]

Q. What are the problems with the Parent's allocation method?

A. The Parent's allocation method does not incorporate the present value of the cash flows of each CUC company it will acquire.

This allocation method does not reflect the value of the future cash flows each CUC subsidiary is expected to generate.

Q. Is there a preferable method to determine and allocate the purchase price for the Utility Assets?

[20] Company response to data request RL 2.06, attached as ICC Staff Exhibit 3.0, Schedule 7.
[21] Company response to data request Staff 1.05, attached as ICC Staff Exhibit 3.0, Schedule 8.
[22] Company response to data request RL 2.04, attached as ICC Staff Exhibit 3.0, Schedule 1.

A. Yes. A preferable approach would be to perform a DCF analysis on each CUC company that AWW seeks to acquire. Employing separate company DCF analyses would more accurately reflect the value of the assets of each CUC company. It would also be necessary to conduct separate DCF analyses for the regulated and non-utility acquisitions in Illinois to avoid adversely affecting ratepayers through charging excessive rates and subsidization of non-utility activities.

To allocate purchase price of the Utility Assets, it would be necessary to calculate the ratio of the Project's purchase price to its post-acquisition market value. A fair purchase price of the Utility Assets compared to the Utility Assets' post-acquisition market value would be proportionate to the purchase price of the Project compared to the Project's post-acquisition market value. In other words, the post-acquisition market value of the Utility Assets would be multiplied by the ratio of the Project purchase price to the Project post-acquisition market value.

Q. Please describe Mr. Bharani Bobba's acquisition multiple analysis.

A. Mr. Bobba's analysis includes market data for six merger and acquisition transactions ("M&A transactions") occurring in the water industry during 1999. Mr. Bobba adjusted the M&A transaction values to reflect an asset purchase, similar to the transaction between IAWC and CUCI.[23] Based on the acquisition multiples

[23] Company response to data request RL 3.07, attached as ICC Staff Exhibit 3.0, Schedule 9.

presented in Company Exhibit 6.3, Mr. Bobba concludes that the purchase price for the Utility Assets is reasonable.[24]

Company Exhibit 6.3 shows the ratio of asset valuations for the transactions to the following parameters: (1) Revenues; (2) Earnings before Interest, Taxes, Depreciation and Amortization (EBITDA); (3) Earnings before Interest and Taxes (EBIT); (4) Net Plant, Property, and Equipment; and, (5) Customers. For each parameter, there is a high, low and average ratio. Company Exhibit 6.3 also shows the ratios for the five parameters for the Acquisition. The asset valuation for the Acquisition is below the average ratio for four of the five acquisition multiples. On this basis, IAWC asserts that the purchase price for the Utility Assets compares favorably to the data from other industry transactions.[25]

Q. Does Mr. Bobba's analysis establish that the purchase price of the Utility Assets is reasonable in light of recent market data?

A. No. The acquisition multiples that Mr. Bobba presents are not sufficient for determining whether the purchase price is reasonable because each M&A transaction is a function of unique factors that contribute to the acquirer's perception of the value. Such factors include corporate and strategic goals, the prospect for savings and other synergies, regulatory environment, and the underlying assumptions regarding future cash flow expectations of the target.

[24] Company Exhibit 6.0, page 3.
[25] Company Exhibit 6.0, page 3-4.

Regarding the M&A transactions highlighted in his analysis, Mr. Bobba considers neither the value for control of the company nor the level of savings the acquirer expects to realize. His analysis considers neither the underlying assumptions of the acquirer regarding retention of the savings nor regulatory commission recognition of a merger premium. Therefore, Mr. Bobba's analysis is insufficient for determining the reasonableness of the purchase price IAWC would pay for the Utility Assets of CUCI.

Q. Please describe the significance of the acquirers' assumptions regarding the level of savings expected to result from the M&A transactions.

A. The assumptions regarding the expected level of savings is critical whenever a company relies on those savings to justify the purchase price. The greater the assumed savings an acquirer expects to retain, the greater the value of the acquisition; and thus, the greater the purchase price that can be justified. Mr. Bobba does not have knowledge of the level of savings the acquiring companies expected to retain from the M&A transactions shown in Company Exhibit 6.3.[26] Thus, Mr. Bobba's purchase price analysis excludes essential information.

Q. What assumptions did the Parent make regarding savings to result from the Acquisition?

[26] Company response to data request RL 3.08, attached as ICC Staff Exhibit 3.0, Schedule 6.

A. [redacted][27] [redacted][28]

Q. Please explain the importance of policies concerning merger premium and savings sharing of the respective regulatory Commissions' in each M&A transaction included in Mr. Bobba's analysis.

A. Knowledge of the policies of regulatory bodies other than the Commission regarding merger premium recovery and retention of merger savings would shed light as to the degree of similarity of those expectations of the companies involved in this Acquisition and those involved in the M&A transactions that Mr. Bobba studied. Mr. Bobba did not rely on the any regulatory Orders in performing his analysis.[29] Mr. Bobba's analysis does not include adequate information regarding the degree of similarity in the expectations involved in the M&A transactions highlighted in his analysis and the Acquisition in this proceeding.

---

[27] Company response to data request RL 2.07, attached as ICC Staff Exhibit 3.0, Schedule 10.
[28] Company response to data request RL 4.01, attached as ICC Staff Exhibit 3.0, Schedule 4.
[29] Company response to data request RL 3.09, attached as Staff Exhibit 3.0, Schedule 11.

Q. What are the implications of allowing IAWC to recover the purchase price of Utility Assets through the Company's SSP or the Company's Alternative Proposal.

A. Both the Company's SSP and the Company's Alternative Proposal would recover the merger premium for Company shareholders by charging higher rates for utility service. By allowing the Company's shareholders to recover 100% of the merger premium through ratepayers, both proposals would, in effect, decrease incentives to minimize merger premiums in future acquisitions. The Company's Alternative Proposal goes further in the wrong direction since it improperly places the risk of merger savings realization on ratepayers.

Q. What recommendations do you have, should the Commission allow recovery of a merger premium?

A. Foremost, the Commission should direct the Parent to conduct a reliable and accurate DCF analysis of CUCI, both including and excluding the merger savings. In addition, the regulated and non-regulated activities must be analyzed separately to avoid any adverse rate impacts to ratepayers. Although subjective factors may still be reflected in the purchase price for the Utility Assets, a jurisdictional valuation would provide an estimate of the future cash flows to be generated by the Utility Assets, which, in turn, would serve as the basis for determining the amount of any merger premium if the Commission should choose not to adopt Staff's position.

Although DCF analysis is the most appropriate method for measuring merger premiums, DCF analysis is only as reliable and accurate as the inputs used. An accurate and reliable DCF analysis requires realistic forecasts and assumptions. Therefore, the Commission should also require the Company to clearly set forth its forecast assumptions and provide evidence of their reasonableness. Subsequently, the DCF analysis, including the forecast assumptions, would be subject to the review of the Commission as to their reasonableness.

From those estimates of the value of the Acquisition, the purchase price, for the purpose of measuring the merger premium, would be determined as follows: (1) calculate the ratio of the Project's purchase price compared to the present value of the Project including savings and (2) multiply this proportion by the present value of the Acquisition including savings. This will result in the most accurate measure of the purchase price for the purpose of measuring a merger premium.

Q. Did you estimate the merger premium using DCF analysis?

A. No. [redacted], I cannot estimate the effect of my recommendations on the purchase price and the merger premium. However, if the Commission rejects the Company's proposal to reflect the merger premium in rates, determining an appropriate purchase price for the Utility Assets would be unnecessary.

Q. Does this conclude your direct testimony?

A. Yes, it does.

ILLINOIS-AMERICAN WATER COMPANY

RESPONSE TO ILLINOIS COMMERCE COMMISSION

DATA REQUEST NUMBER RL 2.04

Person Responsible:	Fred L. Ruckman
Title:	Vice President
Phone No.:	618-239-2224
Date Received:	September 7, 2000
Docket No.:	00-0476

RL 2.04 Referring to Schedule 2.6 of the Agreement, please explain how the amount of the Purchase Price allocated to Illinois was further allocated amongst (1) Citizens Utilities Company of Illinois ("CUCI") and other Citizens Business Services Company ("CBSC") assets purchased by IAWC, (2) Citizens Resources Company ("CRC") real property and fixtures and CBSC Equipment purchased by Parent, and (3) Citizens Lake Water Company ("CLW") stock purchased by Parent. Why did the Company choose this allocation method? What other alternatives were considered and why were they rejected?

RESPONSE See attached. As may be seen from the attached schedule, a single allocation method was not used, due to the varying nature of the assets (including stock) to be acquired. The pipeline company's value was recognized to be increasing as a result of the ongoing installation of mains. The assets of Citizens Resources Company (i.e., the land and building) are subject to a long-term lease, so that their value is best measured from the lease value. This allocation approach was deemed to provide the best indication of the relative value of the assets acquired. As an alternative, IAWC considered an allocation which disregarded the cost which would be incurred to complete the pipeline. The alternative approach was rejected due to IAWC's belief that it would understate the pipeline's value.

ALLOCATION OF CITIZENS ILLINOIS CLOSING PRICE

	Total Cost	CUCI	CLW	CRC
Estimate of Assets at Closing				
(Trued-up for Completed Pipeline):				
Assets @ 6/30/99	163,999,975	153,280,282	5,683,693	5,036,000
Costs to Complete Pipeline	48,216,307		48,216,307	
Assets at Closing	212,216,282	153,280,282	53,900,000	5,036,000
Estimate of Purchase Price at Closing				
(Trued-up for Completed Pipeline):				
Contract Price	253,160,000			
Costs to Complete Pipeline	48,216,307			
Purchase Price at Closing	301,376,307			
Ratio of Purchase Price to Assets at Closing	1.420138			
Allocated Purchase Price at Closing	301,376,307	217,679,081	76,545,413	7,151,813
Allocation of Aggregate Purchase Price (Mil's):				
Allocated Purchase Price at Closing	301.376	217.679	76.545	7.152
Less Costs to Complete Pipeline	(48.216)		(48.216)	
Adjust Woodridge Office to Book Value		2.116		(2.116)
Allocated Aggregate Purchase Price	253.160	219.795	28.329	**5.036**
Per Agreement	**253.160**	**219.896**	**28.228**	**5.036**

Note: The allocation of aggregate purchase price to the Office was based on the book value of the Office, due to Utility's fixed lease obligation for the Office, which was based on book value.

ILLINOIS-AMERICAN WATER COMPANY

RESPONSE TO ILLINOIS COMMERCE COMMISSION

DATA REQUEST NUMBER RL 2.15

Persons Responsible:	Bharani Bobba, Merrill Lynch; Joseph F. Hartnett, Jr., AWW VP & Treasurer
Phone No.:	856-346-8310
Date Received:	September 7, 2000
Docket No.:	00-0476

RL 2.15 Were the valuation methods identified and demonstrated by Mr. Bobba (Exhibit 6.0) identical to the valuation techniques employed by Parent in determining purchase price for CUC? If not, please explain. Were the valuation methods identified and demonstrated by Mr. Bobba identical to the valuation techniques employed by IAWC in determining the purchase price for the Utility Assets (Utility Assets as defined in Company response to data request TQS 1.9)? If not, please explain.

RESPONSE The purchase price for the assets of CUC was determined by arms-length negotiations, and not by any single technique. The Parent evaluated the purchase price by use of various factors, including those identified by Mr. Bobba. In addition to those factors, the Parent employed a discounted cash flow analysis. This analysis is included in Attachment 4(c)-6 to data request 1.02. The Parent evaluated the assets acquired (including the Utility Assets) on behalf of the subsidiaries. IAWC and Mr. Bobba confirmed the reasonableness of the price to be paid for the Utility Assets, as discussed in Mr. Bobba's direct testimony and exhibits.

<u>REDACTED</u>

Docket No. 00-0476
ICC Staff Exhibit 3.0
Schedule 4

REDACTED

Docket No. 00-0476
ICC Staff Exhibit 3.0
Schedule 5

REDACTED

Docket No. 00-0476
ICC Staff Exhibit 3.0
Schedule 6

ILLINOIS-AMERICAN WATER COMPANY

RESPONSE TO ILLINOIS COMMERCE COMMISSION

DATA REQUEST NUMBER RL 3.08

Person Responsible:	Bharani Bobba, Merrill Lynch
Title:	
Phone No.:	
Date Received:	September 21, 2000
Docket No.:	00-0476

RL 3.08 Mr. Bobba's direct testimony (page 3, lines 14-15) states, "Based on the analysis of transactions shown in Exhibit 6.3, the price paid by Illinois-American for CUCI's water/wastewater assets is reasonable and appropriate. Please provide the level of savings expected to result from the merger and acquisition transactions shown in Exhibit 6.3.

RESPONSE Mr. Bobba does not have knowledge of the level of savings expected to result from the merger and acquisition transactions shown in Exhibit 6.3.

REDACTED

Docket No. 00-0476
ICC Staff Exhibit 3.0
Schedule 8

REDACTED

ILLINOIS-AMERICAN WATER COMPANY

RESPONSE TO ILLINOIS COMMERCE COMMISSION

DATA REQUEST NUMBER RL 3.07

Person Responsible:	Bharani Bobba, Merrill Lynch
Title:	
Phone No.:	
Date Received:	September 21, 2000
Docket No.:	00-0476

RL 3.07 Mr. Bobba's direct testimony (page 3, lines 14-15) states, "Based on the analysis of transactions shown in Exhibit 6.3, the price paid by Illinois-American for CUCI's water/wastewater assets is reasonable and appropriate." Please describe how the facts surrounding the Acquisition and the facts surrounding the merger and acquisition transactions shown in Exhibit 6.3 are similar.

RESPONSE The acquisition by Illinois-American of CUCI's water/wastewater assets is similar to the merger and acquisition transactions highlighted in Exhibit 6.3 in at least three respects:

1) All of the transactions are acquisitions (with changes of control) in the same industry.
2) The transactions occurred within the same period of time.
3) All of the transactions were adjusted to reflect an asset purchase.

In determining that the price was fair and reasonable, Mr. Bobba considered it critical that the transactions were in the same industry, as multiples in other industries are very different. Similarly, even within the same industry, Mr. Bobba considers it important to examine similar transactions which occurred around the same time as the transaction at issue, because transaction multiples do change through time. Finally, Mr. Bobba adjusted each of the transactions as if it were an asset purchase, in order to make a proper comparison to the Illinois-American/CUCI transaction which is proposed to be an asset purchase.

REDACTED

ILLINOIS-AMERICAN WATER COMPANY

RESPONSE TO ILLINOIS COMMERCE COMMISSION

DATA REQUEST NUMBER RL 3.09

Person Responsible:	Bharani Bobba, Merrill Lynch
Title:	
Phone No.:	
Date Received:	September 21, 2000
Docket No.:	00-0476

RL 3.09 Please provide copies of the Orders of the decisions of the respective regulatory commissions in the merger and acquisition transactions shown in Exhibit 6.3.

RESPONSE The Company does not have copies of the referenced Orders. No Orders have been relied upon by Mr. Bobba.