

DIRECT TESTIMONY
OF
JANIS FREETLY

Finance Department
Financial Analysis Division
Illinois Commerce Commission

Illinois-American Water Company

Petition for Issuance of Expanded Certificate of Public Convenience
and Necessity to Operate a Water Supply and Distribution System
and Wastewater Collection and Treatment System;
and for Approval of Certain Provisions Related to Water
and Wastewater Plant Investment and Refunds,
a variance from the Provisions of Rule 16,
Accounting Entries, Depreciation Rates,
Water & Wastewater Rates.

Docket No. 06-0782

February 28, 2008

1 **Q. Please state your name and business address.**

2 A. My name is Janis Freetly. My business address is 527 East Capitol Avenue,
3 Springfield, Illinois 62701.

4 **Q. What is your current position with the Illinois Commerce Commission**
5 **(“Commission”)?**

6 A. I am currently employed as a Senior Financial Analyst in the Finance Department
7 of the Financial Analysis Division.

8 **Q. Please describe your qualifications and background.**

9 A. In May of 1995, I earned a Bachelor of Business degree from Western Illinois
10 University. I received a Master of Business Administration degree, with a
11 concentration in Finance, from Western Illinois University in May of 1998. I have
12 been employed by the Commission since September of 1998. I was promoted to
13 Senior Financial Analyst on August 31, 2001.

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

15 A. Illinois-American Water Company (“IAWC”) filed a petition for the issuance of an
16 expanded certificate of public convenience and necessity to construct, operate
17 and maintain a water supply and distribution system and wastewater collection
18 and treatment system in an area of McHenry County, Illinois, pursuant to Section
19 8-406 of the Illinois Public Utilities Act (“Act”). The purpose of my testimony is to
20 present my evaluation of the financial implications of the proposed construction
21 under Section 8-406(b)(3) of the Act.

22 **Q. What does Section 8-406(b)(3) of the Act require?**

23 A. Section 8-406(b)(3) of the Act requires that before issuing the requested
24 certificate of public convenience and necessity the Commission find “that the
25 utility is capable of financing the proposed construction without significant
26 adverse financial consequences for the utility or its customers.”

27 **Q. Please describe the Company’s proposal.**

28 A. The Company’s predecessor, Citizens Utilities Company of Illinois (“CUCI”), was
29 granted a certificate (“Original Certificate”) for the Original Terra Cotta Area by
30 the Commission in Docket No. 00-0194.¹ In 1999, CUCI entered into an Asset
31 Purchase Agreement (“Original Agreement”) with Terra Cotta Realty Co. (“Terra
32 Cotta”) to acquire the water backbone facilities, water distribution mains, sewer
33 backbone facilities, and sewer collection mains from Terra Cotta and serve the
34 Original Terra Cotta Area. The Original Agreement called for refunds to Terra
35 Cotta as customers attach to the water and sewer facilities.

36 Pursuant to the Order in Docket No. 00-0476, IAWC assumed CUCI’s rights and
37 obligations under the Original Certificate.² IAWC presently provides water and
38 wastewater service for the Original Terra Cotta Area through its Chicago-Metro
39 Division. In this proceeding, IAWC seeks an expanded certificate to provide
40 water and wastewater service to customers in an expanded area to be developed
41 by Terra Cotta and Westminster Swanson Land Partners (“Westminster”), which
42 is contiguous to the Original Terra Cotta Area in McHenry County. Terra Cotta

¹ Order, Docket No. 00-0194, April 25, 2001.

² Order, Docket No. 00-0476, January 15, 2002

43 will construct and fund the expansion of the Original Wastewater Plant to
44 increase the design average flow. Westminster will construct, at its expense,
45 water distribution mains and wastewater collection mains for the expanded area,
46 under the Water and Wastewater Agreement between IAWC and Westminster
47 (“Westminster Agreement”).³

48 **Q. Please describe proposed funding for the plant expansions and main**
49 **extensions.**

50 A. IAWC will continue to refund Terra Cotta for the cost of the TC Water Backbone
51 Plant as customers in the expanded area attach to the Water Backbone Plant.
52 IAWC will provide an investment in the amount of \$322,202 for the existing TC
53 Sewer Backbone Plant and Initial Plant Expansion. This investment consists of
54 \$86,309 to refund the cost of the existing TC Sewer Backbone Plant and a
55 \$235,893 investment in the Initial Plant Expansion.⁴

56 Westminster will pay for the construction of the water distribution mains (“WM
57 Water Mains”). IAWC will refund to Westminster an amount equal to one and
58 one-half times the average annual water revenue paid to IAWC by other similarly
59 situated customers for each new customer that connects to a WM Water Main
60 during the ten years following construction. IAWC will also refund to Westminster
61 the cost of the service line for each new customer.⁵ Westminster will also pay for
62 the construction of the wastewater collection mains (“WM Wastewater Mains”).
63 IAWC will refund to Westminster an amount equal to one and one-half times the

³ Amended Petition, pp. 9-13, IAWC Ex. BK 3.2.

⁴ IAWC Exhibit 3.0, Direct Testimony of Bob Khan, p. 16.

64 amount of estimated per customer annual sewer collection service revenue from
65 a similarly situated customer for customers that contract for at least one year of
66 service within 30 days of the service becoming available.⁶

67 **Q. What is the total cost of the proposal in this docket to IAWC?**

68 A. IAWC estimates that it will invest \$1.3 million over the first five years through
69 refunds as customers connect into the system. This investment is in addition to
70 IAWC's \$322,202 initial investment in the TC Sewer Backbone Plant.⁷

71 **Q. How does IAWC plan to finance the cost of its proposal?**

72 A. IAWC will initially finance the cost of its proposal through internally generated
73 funds and short-term debt, if needed. Any short-term debt would eventually be
74 replaced by a combination of long-term debt and equity.⁸

75 **Q. Is IAWC capable of financing the proposed main extensions without**
76 **significant adverse financial consequences for the Company or its**
77 **customers?**

78 A. Yes. As noted above, IAWC will not finance the construction of the WM Water
79 Mains or the service lines or the WM Wastewater Mains. Rather, IAWC will
80 reimburse the developers at the time customers attach. Thus, IAWC's
81 investment in the proposed main extensions would quickly produce new revenue.
82 Moreover, IAWC is capable of raising the funds required to pay the required

⁵ Id., p. 18.

⁶ Id., p. 19.

⁷ IAWC Response to Staff Data Request JF-1.01.

⁸ IAWC Response to Staff Data Request JF-1.02.

83 refunds. The Company's net utility plant was \$637,354,257 as of December 31,
84 2006; its total utility operating revenues for the twelve months ended December
85 31, 2006, was \$170,354,474.⁹ As discussed, IAWC's initial costs would be
86 \$322,202. That amount represents 0.05% of the Company's net utility plant and
87 0.19% of the Company's total utility operating revenue. The Company's total
88 investment of \$1.3 million represents 0.20% of the Company's net utility plant
89 and 0.76% of the Company's total utility operating revenue. Thus, the cost of the
90 proposed expansion would be de minimus relative to the Company's total utility
91 plant and operating revenue. Further, IAWC notes that its total capital,
92 comprised of short-term debt, long-term debt and common equity, was \$546
93 million as of December 31, 2006.¹⁰ The total investment of \$1.3 million
94 represents 0.23% of IAWC's December 31, 2006 capital structure.

95 **Q. What is your recommendation?**

96 A. In my judgment, IAWC has met the requirement of Section 8-406(b)(3) of the
97 Act. Therefore, I conclude that the Company is capable of financing the
98 proposed main extensions without significant adverse financial consequences for
99 the utility or its customers.

100 **Q. Does this conclude your prepared direct testimony?**

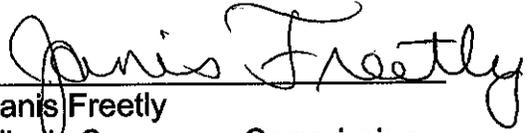
101 A. Yes, it does.

⁹ IAWC, Form 22 ILCC, December 31, 2006, pp. 4F and 7F.

¹⁰ IAWC Response to Staff Data Request JF-1.03.

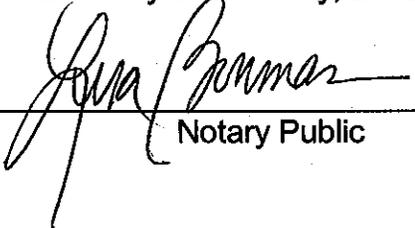
VERIFICATION

I, Janis Freetly, being first duly sworn, depose and state that I am a Senior Financial Analyst in the Finance Department of the Financial Analysis Division of the Illinois Commerce Commission; that I sponsor the foregoing Direct Testimony of Janis Freetly; that I have personal knowledge of the information stated in the foregoing Direct Testimony; and that such information is true and correct to the best of my knowledge, information and belief.



Janis Freetly
Illinois Commerce Commission

Subscribed and sworn to before me
this 28th day of February, 2008.



Notary Public

