

DIRECT TESTIMONY

OF

SHEENA KIGHT

FINANCE DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

UTILITIES INC.

WILDWOOD WATER SERVICE COMPANY

WILDWOOD UTILITY COMPANY

DOCKET NO. 01-0178

MAY 2001

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

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

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

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

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

8 A. In May of 1998, I received a Bachelor of Business degree in Finance and
9 Marketing from Western Illinois University in Macomb, Illinois. I am currently
10 pursuing a Master of Business Administration degree, with a concentration in
11 Finance, also at Western Illinois University. I have been employed by the
12 Commission in my present position since January of 2001.

13 **Q. Please state the purpose of your testimony in this proceeding.**

14 A. The purpose of my testimony is to present my evaluation of Utilities, Inc. (“UI”),
15 Wildwood Water Service Company (“WWSC”), and Wildwood Utility
16 Company’s (“WUC”) Joint Petition for approval of the reorganization of WUC
17 into WWSC through UI’s proposed acquisition of WUC pursuant to Section 7-
18 204(b)(4) of the Illinois Public Utilities Act (220 ILCS 5/1-101 *et seq.*, “Act”).
19 My evaluation will focus on the financial implications of the proposed
20 reorganization on UI and WWSC’s (collectively the “Companies”) ability to

21 access the capital markets on reasonable terms. In addition, I will address UI
22 and WWSC's request for approval to finance the acquisition through
23 intercompany funding pursuant to Section 7-101 of the Act.

24 **Q. Why is it necessary to evaluate the financial implications of the**
25 **proposed reorganization?**

26 A. In order to approve a proposed reorganization, Section 7-204(b)(4) of the Act
27 requires the Commission to find that "the proposed reorganization will not
28 significantly impair the utility's ability to raise necessary capital on reasonable
29 terms or to maintain a reasonable capital structure."

30 **Q. Please describe the corporate relationship between WWSC and UI.**

31 A. WWSC is and will continue to be a wholly owned subsidiary of UI. Upon
32 completion of the proposed reorganization, the public utility property and
33 assets of WUC will be merged into WWSC, which will continue serving WUC's
34 customers in a substantially unchanged manner.¹

35 **Q. Do you have any concerns regarding UI's financial strength as it**
36 **pertains to WWSC's ability to raise capital on reasonable terms?**

37 A. No. As the indirect owner of the capital stock and the conduit through which
38 WWSC will access capital markets, UI must maintain a level of financial

¹ Joint Petition, p. 2.

39 strength sufficient to raise capital on reasonable terms. Based on my
40 evaluation, I consider UI's current financial position sufficient for this purpose.

41 **Q. How did you evaluate UI's financial position?**

42 A. I examined the Joint Petition and all supporting documentation that was filed by
43 the Companies. Subsequently, I prepared a data request to obtain additional
44 information. In the responses to those questions, UI provided current financial
45 statements, from which I computed four ratios for 1999 and 2000: pre-tax
46 interest coverage, funds from operations ("FFO") interest coverage, total debt
47 to total capital, and funds from operations to total debt ratios. UI's resulting
48 score for each ratio is within or above the benchmark ranges set by Standard
49 & Poor's ("S&P") ratings agency for utilities with a credit rating of BBB and a
50 business position rating of three.^{2, 3, 4, 5} The tables below indicate that UI's
51 ratios are consistent with an S&P rating of at least A/BBB.

² Companies' response to Staff data requests SK 1.01-1.03.

³ Standard & Poor's, *Utilities and Perspectives*, June 18, 1999, p. 3.

⁴ An S&P rating of BBB or better is considered investment grade.

⁵ Most water utilities have an S&P business position rating of three. Standard and Poor's *Utilities and Perspectives*, June 26, 2000. pp. 11-12.

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2000

Ratio	S&P A-Rating Benchmark	S&P BBB-Rating Benchmark	Mean for A-Rated Water Utilities ⁶	Utilities, Inc.
Pre-tax Interest Coverage	2.8 - 3.4 x	1.8 - 2.8 x	2.81 x	3.30 x
FFO Interest Coverage	3.1 - 3.9 x	2.1 - 3.1 x	3.43 x	3.30 x
Total Debt to Total Capital	47.5 - 53%	53 - 61%	55.80%	52.57%
FFO to Total Debt	20 - 26%	14 - 20%	15.94%	20.64%

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1999

Ratio	S&P A-Rating Benchmark	S&P BBB-Rating Benchmark	Mean for A-Rated Water Utilities	Utilities, Inc.
Pre-tax Interest Coverage	2.8 - 3.4 x	1.8 - 2.8 x	2.81 x	3.43x
FFO Interest Coverage	3.1 - 3.9 x	2.1 - 3.1 x	3.43 x	3.86 x
Total Debt to Total Capital	47.5 - 53%	53 - 61%	55.80%	47.05%
FFO to Total Debt	20 - 26%	14 - 20%	15.94%	27.94%

54 **Q. Based on your evaluation, does the proposed reorganization**
 55 **significantly impair the Companies' ability to raise necessary capital on**
 56 **reasonable terms or to maintain a reasonable capital structure?**

57 A. No, it does not.

⁶ Standard and Poor's, *Financial Medians Water Utilities*, July 7, 2000

58 **Q. Does the proposed reorganization of WUC into UI meet the**
59 **requirements of Section 7-204(b)(4) of the Act?**

60 A. According to my analysis, the proposed reorganization meets the
61 requirements of Section 7-204(b)(4) of the Act. Therefore, I see no reason the
62 Commission should reject the proposed reorganization from a financial
63 perspective.

64 **Q. The Company proposes to finance this acquisition through**
65 **intercompany financing that it will record in WWSC's books as**
66 **common equity. Do you have any objection to this proposal?**

67 A. No, I do not.

68 **Q. Do you have any objections to WWSC using UI's capital structure for**
69 **the purpose of setting rates?**

70 A. No, as long as UI is the sole conduit through which WWSC will access the
71 capital markets and that UI's capital structure is reasonable from a cost
72 standpoint, I agree that it should be used for setting rates.

73 **Q.** **Does this conclude your direct testimony?**

74 **A.** Yes, it does.