

**STATE OF ILLINOIS**  
**ILLINOIS COMMERCE COMMISSION**

<b>Atmos Energy Corporation and</b>	:	
<b>Liberty Energy (Midstates) Corp.</b>	:	
	:	Docket No. 11-0559
Application for Approval of Proposed	:	
Reorganization and Other Relief	:	

REBUTTAL TESTIMONY OF

IAN ROBERTSON

SUBMITTED ON BEHALF OF  
LIBERTY ENERGY (MIDSTATES) CORP.

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

2 A. My name is Ian E. Robertson. My business address is 2845 Bristol Circle, 2  
3 Oakville, Ontario, Canada L6H 7H7.

4 **Q. Have you previously testified in this Docket?**

5 A. Yes. I testified in Joint Applicant Exhibit 1.0.

6 **Q. What is the purpose of your rebuttal testimony?**

7 A. The purpose of my rebuttal testimony is to rebut the direct testimony of Staff  
8 witness Janis Freetly by (1) demonstrating the ability of Liberty Energy Midstates  
9 to obtain capital on reasonable terms as required by section 7-204(b)(4); (2)  
10 discussing why the proposed transaction is not likely to result in adverse rate  
11 impacts as required by section 7-204(b)(7); and (3) identifying the debt financing  
12 for which Liberty Energy Midstates seeks approval in this docket.

13 **Q. Are you sponsoring any Exhibits to your testimony?**

14 A. Yes. I am sponsoring the following Exhibits:

15 Exhibit 6.1 – Response to JF 4.01

16 Exhibit 6.2 – Examples of recent debt and equity offerings

17 Exhibit 6.3 – Key terms of debt issuances

18 Exhibit 6.4 – Response to JF-5.01

19 Exhibit 6.5 – Supplemental response to JF-1.19

20 Exhibit 6.1 and 6.5 contain proprietary information and are provided on a  
21 confidential basis.

22 **Q. Please summarize the testimony of Staff witness Janis Freetly with respect**  
23 **to her recommendation regarding Section 7-204(b)(4) of the Public Utilities**  
24 **Act?**

25 A. Staff witness Freetly states that Liberty Energy Midstates will have sufficient  
26 access to the equity markets. However, she states that the joint applicants have  
27 not provided enough information to allow her to evaluate Liberty Utilities Co.'s  
28 ability to issue debt on reasonable terms. In particular, she stated that she would  
29 need to review actual and forecasted financial statements from 2011 through  
30 2015, including forecasted balance sheets, income statements and cash flows,  
31 along with assumptions.

32 **Q Have the joint applicants provided actual and estimated financial**  
33 **statements for Liberty Utilities Co.?**

34 A. Yes, we provided a five year forecast for Liberty Utilities Co. in response to JF  
35 4.01 (attached as Exhibit 6.1) on December 15, 2011. Exhibit 6.1 contains  
36 proprietary information and is being provided on a confidential basis. The  
37 forecast covers the five year period from 2011 through 2015 and includes  
38 forecasted balance sheets, income statements and statements of cash flows.  
39 Detailed descriptions of all assumptions underlying the information are included  
40 in the forecast.

41 We have not provided actual financial statements for Liberty Utilities Co. because  
42 it is a new company and does not yet have actual financial statements because it  
43 was not previously in existence.

44 The Liberty Utilities Co.'s five year financial forecast shows strong credit metrics,  
45 including a Debt to Capitalization ratio of approximately 50%, a Debt to EBITDA  
46 ratio of between 3-4 times and an interest coverage ratio of greater than 4 times.  
47 As a result, I am confident that Liberty Utilities Co. will have access to the debt  
48 markets and be able to raise debt on reasonable terms.. I am hopeful that the  
49 forecasts will enable Ms. Freetly to recommend that the Commission find that the  
50 requirements of Section 7-204(b)(4) have been met.

51 **Q. Has Liberty Energy Midstates demonstrated the competitiveness of the**  
52 **terms of its private placement?**

53 A. Yes. On November 1, the joint applicants and Staff had a phone discussion  
54 regarding the details of Liberty Energy Midstates proposed debt and equity  
55 offerings. Following this discussion, we provided Staff with a summary of  
56 examples of recent debt and equity offerings (attached as Exhibit 6.2) on  
57 November 7, 2011.

58 Staff witness Freetly mentions the June 10, 2011 Atmos issuance of \$400 million  
59 of senior unsecured notes due 2041 at 5.50%. In comparison, on December 13,  
60 2010, APUC finalized a \$50 million private placement debt financing commitment  
61 for its subsidiary Liberty Water Co. ("Liberty Water"). The notes are senior  
62 unsecured with a ten year final, 8.8 year average life maturity and will bear  
63 interest at 5.6%. On December 7, 2010, APUC finalized a \$70 million private  
64 placement debt financing commitment for its subsidiary California Pacific Electric  
65 Company ("CalPECo"). The private placement is a \$70 million senior unsecured  
66 private placement with US institutional investors. The notes are fixed rate and

67 split into two tranches, \$45 million of 10-year 5.19% notes and \$25 million of  
68 5.59% 15-year notes.

69 The terms of these recent offerings are competitive. While market terms will  
70 necessarily change with time, the recent examples provide a reliable indicator of  
71 our corporate family's ability to issue debt on competitive terms.

72 **Q. Please provide a summary of the debt issuances for which Liberty Energy**  
73 **Midstates is seeking approval from the Commission in this docket?**

74 A. A summary of the key terms of the proposed debt issuances is attached to my  
75 rebuttal testimony as Exhibit 6.3. Of course, final details (including interest rate  
76 and maturity) will not be in place until immediately prior to signing.

77 **Q. Has Liberty Energy Midstates provided the projected cost of capital**  
78 **requested by Staff witness Freetly?**

79 A. Yes. Supplemental Attachment JF 1.19, which is attached to my rebuttal  
80 testimony as Exhibit 6.5 and was submitted confidentially, contains Liberty  
81 Energy Midstates' Illinois estimated cost of capital. Exhibit 6.5 contains  
82 proprietary information and is being provided on a confidential basis. The cost of  
83 debt was estimated based on our recent experience in the debt markets.  
84 However, until the debt is actually issued it is not possible to definitively know the  
85 cost of debt.

86 **Q. Please address Staff witness Freetly's concerns regarding the percentage**  
87 **of common equity in Liberty Energy Midstates' proposed capital structure.**

88 A. Staff witness Freetly correctly points out that Liberty Energy Midstates is  
89 targeting an initial capital structure of approximately 45% debt and 55% equity,  
90 and that this represents a higher proportion of common equity than currently  
91 exists for Atmos. Staff witness Freetly stated a concern that increasing the  
92 amount of common equity in the capital structure generally results in a higher  
93 cost of capital.

94 Our intention in proposing a 45%/55% initial target capital structure was to  
95 demonstrate the strong commitment of Liberty Utilities Co. to our customers,  
96 regulators, employees and other stakeholders. We believe this strong capital  
97 structure has significant benefits, including enhancing our ability to access capital  
98 markets, and are prepared to proceed with it notwithstanding the fact that we  
99 have not requested and are not seeking approval of this capital structure for  
100 ratemaking purposes. We fully understand that the Commission will determine an  
101 appropriate capital structure for rate-setting at Liberty Energy Midstates' next rate  
102 proceeding and that this decision may not reflect the actual capital structure that  
103 we have put in place for Liberty Energy Midstates.

104 **Q. Please address Staff witness Freetly's concern regarding measuring or**  
105 **excluding incremental risk or cost of capital due to its affiliation with APUC**  
106 **from its rate of return for the purpose of setting rates.**

107 A. Liberty Energy Midstates will be isolated from risks of non-utility or affiliate  
108 businesses in a number of ways. In response to Staff data request JF-5.01,  
109 Liberty Energy Midstates identified the significant "ring-fencing" protections in

110 existence. A copy of that response is attached to my testimony as Exhibit 6.4. In  
111 addition, as indicated earlier in Exhibit 6.3, the proposed debt being obtained by  
112 Liberty Energy Midstates is solely for its own use. Liberty Energy Midstates will  
113 borrow separately from its affiliates and will not be required to guarantee or  
114 otherwise support the credit of those affiliates.

115 **Q. Does this conclude your rebuttal testimony?**

116 A. Yes.