

ILLINOIS COMMERCE COMMISSION

DOCKET NO. 13-0401

IAWC EXHIBIT 1.00

DIRECT TESTIMONY OF PAUL MARK SHAEFFER

ILLINOIS-AMERICAN WATER COMPANY

1 **Q. Please state your name.**

2 A. Paul Mark Shaeffer.

3 **Q. Please state your business address.**

4 A. 727 Craig Road, St. Louis, Missouri 63141.

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

6 A. I am employed by American Water Works Service Company, Inc. (“Service Company”
7 or “AWWSC”) as Director – Financial Planning and Analysis, Central Division. AWWSC
8 is the subsidiary of American Water Works Company, Inc. (“American” or “AW”) that
9 provides shared services to AW’s water utility subsidiaries.

10 **Q. Please summarize your higher education.**

11 A. I received a Bachelor of Science degree, with a major in accounting, from Greenville
12 College, Greenville, Illinois in 1985. I passed the CPA exam in 1987.

13 **Q. Have you participated in additional educational activities?**

14 A. Yes. I have attended the Utility Rate Seminar sponsored by the National Association of
15 Regulatory Utility Commissioners Water Committee and have participated in various
16 continuing education programs sponsored by my former employers and by the Service
17 Company.

18 **Q. Please summarize your employment experience.**

19 A. From 1987-1999 I worked for several public accounting firms in the St. Louis area
20 providing accounting, auditing, tax, and business services to various clientele. From
21 1999 to 2005 I worked for companies serving as Controller and Chief Financial Officer.
22 From 2005 until present I have held positions with AWWSC as a Financial Analyst,
23 Compliance Manager, and, since December 2011, as Director – Financial Planning and
24 Analysis, Central Division.

25 **Q. Have you previously testified before the Illinois Commerce Commission**
26 **("Commission") in other proceedings?**

27 A. No.

28 **Q. Have you testified before any other regulatory commissions?**

29 A. No.

30 **Q. Please summarize your responsibilities as Director – Financial Planning and**
31 **Analysis.**

32 A. My responsibilities as Finance Director – Financial Planning and Analysis, Central
33 Division involve providing the following services to AW's water utility subsidiaries in the
34 Central Division, including Illinois-American Water Company:

- 35 1. Leading the preparation of financial budgets
36 2. Preparing monthly financial statements and analyses
37 3. Providing support for acquisitions and divestitures.

38 **Q. Are you generally familiar with the business, facilities and the operations of**
39 **Illinois-American Water Company ("Illinois-American" or "IAWC") in each of its**
40 **districts?**

41 A. Yes.

42 **Q. Please describe IAWC.**

43 A. IAWC is engaged in the business of furnishing potable water service and sanitary sewer
44 service to the public of the State of Illinois, and is a "public utility" within the meaning of
45 the Public Utilities Act ("Act"). IAWC has its principal office in Belleville, and has 12
46 service districts throughout the state, including Alton, Cairo, Champaign, Chicago Metro,
47 Interurban (Belleville, East St. Louis, and Granite City), Lincoln, Pekin, Peoria, Pontiac,
48 South Beloit, Sterling, and Streator.

49 **Q. Are you generally familiar with the books and records of IAWC?**

50 A. Yes.

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

52 A. The purpose of my testimony is to address IAWC's purchase of the real estate located
53 at 1000 Internationale Parkway, Woodridge, Illinois 60517 (the "Real Estate") from its
54 affiliate, American Water Resources, LLC. ("AWR"). IAWC currently leases the Real
55 Estate from AWR, using the Real Estate as the administrative headquarters and
56 distribution center for its Chicago Metro division.

57 **Q. What is IAWC's relationship with AWR?**

58 A. IAWC and AWR are both wholly-owned subsidiaries of AW, and are therefore affiliated
59 interests under Section 7-101(2) of the Act.

60 **Q. Please describe the Real Estate.**

61 A. The Real Estate consists of a 4.85 acre parcel zoned ORI (Office, Research and Light
62 Industrial District), improved with a building of approximately 53,175 square feet and
63 adjacent parking areas. The building contains administrative offices (approximately
64 26,175 square feet) and a distribution center (approximately 27,000 square feet).

65 **Q. Does IAWC currently occupy the Real Estate?**

66 A. Yes, IAWC leases the Real Estate from AWR. The lease was last approved by the
67 Commission in Docket No. 04-0597. IAWC pays \$44,006.60 per month under the terms
68 of the lease. The underlying lease term has expired and IAWC is occupying the
69 premises on a month-to-month basis.

70 **Q. What is the current accounting treatment for the lease payments?**

71 A. The lease payments, currently recorded as rental expense, are an operating expense.

72 **Q. Please discuss the terms of the purchase of the Real Estate.**

73 A. IAWC and AWR have entered into a Purchase Agreement dated June 11, 2013. A copy
74 of the Purchase Agreement is attached hereto as IAWC Exhibit 1.01. The purchase price
75 is Three Million Four Hundred Thousand Dollars (\$3.4 million). Closing of the purchase
76 will occur upon fulfillment of a number of conditions, including approval of the purchase
77 by the Commission.

78 **Q. What is the proposed accounting treatment for the purchase of the Real Estate?**

79 A. IAWC proposes to record the purchase of the Real Estate in Account 101, Utility Plant in
80 Service, in a manner shown on IAWC Exhibit 1.02, which is attached hereto.

81 **Q. Why did IAWC decide to negotiate a purchase of the Real Estate from AWR?**

82 A. It is in the best interest of IAWC and its customers to purchase the Real Estate. Illinois-
83 American has been the lessee of the property since acquiring Citizens Utility Company
84 of Illinois in 2002 as the lease was one of the assets acquired by Illinois-American.
85 Illinois-American currently uses the building as an office and service center, and entered
86 into the Purchase Agreement to provide the lowest cost to the customer.

87 **Q. How does IAWC propose to finance the purchase of the Real Estate?**

88 A. IAWC will use internally generated funds to the extent available rather than obtaining
89 financing. If financing is required, IAWC considers the appropriate mix of short-term
90 debt, long-term debt, and common equity.

91 **Q. Should the Purchase Agreement be approved?**

92 A. Yes. The purchase of the Real Estate under the Purchase Agreement is fair and
93 reasonable for the type of property being acquired. In the opinion and judgment of
94 IAWC, it is in the best interest of IAWC and its customers, and otherwise in the public
95 interest, for the Purchase Agreement to be approved.

96 Q. Does this conclude your testimony?

97 A. Yes, it does.