

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

Aqua Illinois, Inc. :  
: :  
Petition for Approval of an Asset Purchase :  
Agreements, Issuance of a Certificate of : Docket No. 15-0384  
Public Convenience and Necessity to :  
Operate Water System; and for the Issuance :  
of an Order Approving Rates, Accounting :  
Entries and Tariff Language. :

Direct Testimony of

**PAUL J. HANLEY**

Controller of Aqua, Illinois Inc.  
Aqua Illinois, Inc.

July 31, 2015

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1 **I. INTRODUCTION AND WITNESS BACKGROUND**

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

3 A. My name is Paul J. Hanley. My business address is 1000 South Schuyler Avenue,  
4 Kankakee, Illinois, 60901.

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

6 A. I am employed by Aqua Illinois, Inc. (“Aqua Illinois” or the “Company”) as Controller.

7 **Q. Please state your educational, professional, and business background and**  
8 **experience.**

9 A. I am a Certified Public Accountant (“CPA”), with a degree in accountancy from the  
10 University of Illinois. I am a member of the American Institute of Certified Public  
11 Accountants and the Illinois CPA Society. Since receiving my Accountancy degree I  
12 have held three positions as an accountant, with increasing levels of responsibility,  
13 culminating in my current position with Aqua Illinois.

14 **Q. What are your responsibilities as Controller of Aqua Illinois?**

15 A. As Controller, I am responsible for supervising Aqua Illinois’ financial operations. These  
16 duties include overseeing the budget, forecasting, overseeing rates, and supervising the  
17 day-to-day financial operations of the Company.

18 **Q. Have you previously testified in regulatory proceedings before the Illinois**  
19 **Commerce Commission (the “Commission”)?**

20 A. Yes. Such proceedings include, but are not limited to, Docket No. 14-0396, a proceeding  
21 related to Aqua Illinois’ acquisition of the North Maine water and sewer assets from the

22 City of Glenview, and Docket No. 13-0595, a proceeding related to the Company's  
23 acquisition of the McHenry Shores Water Company.

24 **Q. Are you familiar with the Company's Petition regarding the acquisition of certain**  
25 **water system assets of Eastwood Manor Water Company ("Eastwood") and Nunda**  
26 **Utility Company ("Nunda")?**

27 A. Yes.

28 **II. PURPOSE OF TESTIMONY**

29 **Q. What is the purpose of your testimony?**

30 A. My testimony addresses the requested approvals for accounting entries and depreciation  
31 rates, and presents the pro forma income statements and rate base for the acquisition (the  
32 "Acquisition") of the water systems (collectively the "Systems") of Eastwood and Nunda.  
33 I also discuss the Company's proposal to establish the ratemaking rate base for the  
34 Systems pursuant to Section 9-210.5 of the Public Utilities Act ("Act"), 220 ILCS 5/9-  
35 210.5. In addition, I discuss the reorganization of Eastwood and Nunda pursuant to  
36 Section 7-204 of the Act. Lastly, I address the financial impact of the Acquisition on  
37 Aqua Illinois and its customers.

38 **Q. Are you offering any Exhibits in this proceeding?**

39 A. Yes. I am offering eight exhibits:

- 40 | • Aqua Exhibit ("Ex.") 2.1 [REV.](#) – Pro Forma and Supporting Schedules for  
41 | Eastwood;
- 42 | • Aqua Ex. 2.2 [REV.](#) – Pro Forma and Supporting Schedules for Nunda;
- 43 | • Aqua Ex. 2.3 – Batis Appraisal Contract;
- 44 | • Aqua Ex. 2.4 – Goodman Appraisal Contract;

- 45 • Aqua Ex. 2.5 – Heap Appraisal Contract;
- 46 • Aqua Ex. 2.6 – Batis Final Appraisal;
- 47 • Aqua Ex. 2.7 – Goodman Final Appraisal; and
- 48 • Aqua Ex. 2.8 – Heap Final Appraisal.

49 **Q. Please describe the schedules within Aqua Ex. 2.1 [REV.](#) and Aqua Ex. 2.2 [REV.](#)**

50 A. Aqua Ex. 2.1 [REV.](#), the Pro Forma and Supporting Schedules for Eastwood and Aqua  
51 Ex. 2.2 [REV.](#), the Pro Forma and Supporting Schedules for Nunda, contain 7 schedules  
52 each, summarized as follows:

- 53 1. A water pro forma income statement with rate of return showing the initial  
54 investment, the post-acquisition investment, number of customers, revenues,  
55 expenses, net income, rate base and rates of return.
- 56 2. An average residential water bill based on the current rates and the proposed water  
57 rates after acquiring the Systems.
- 58 3. Projected capital spending for the Systems, including the initial investment, closing  
59 costs, and future miscellaneous capital spending.
- 60 4. The rate base as estimated at the time of the acquisition.
- 61 5. Accounting entries, to record the acquisition of the assets.
- 62 6. A summary of utility plant in service of the plant assets.
- 63 7. Water depreciation rates of Aqua Illinois' Consolidated Water Division.

64 **III. ESTABLISHING THE RATEMAKING RATE BASE**

65 **Q. What process does the Company propose to use to establish the ratemaking rate**  
66 **base for the Systems?**

67 A. The Company proposes to establish the rate base for the Systems pursuant to Section 9-  
68 210.5 of the Act. Section 9-210.5 provides an alternative procedure whereby a large  
69 public water and wastewater utility such as Aqua Illinois may choose to establish the  
70 ratemaking rate base for an acquired water or wastewater utility. Section 9-210.5 states  
71 that three appraisers selected by the Commission's Water Department Manager shall  
72 perform three independent appraisals of the Systems. The average of the three appraisals  
73 will represent the fair market value of the acquired water and/or wastewater assets.  
74 Thereafter, the lesser of the purchase price of the Systems or the appraisal-determined  
75 fair market value of the Systems plus transaction costs will constitute the rate base,  
76 subject to any Commission adjustments necessary to ensure that the rate base reflects  
77 prudent and useful investments in the provision of public utility service.

78 **Q. Has Aqua Illinois presented the Commission's Water Department Manager with**  
79 **potential appraiser selections for review and approval?**

80 A. Yes. In accordance with the Act, on July 1, 2015, the Company provided the  
81 Commission's Water Department Manager, Mr. William Marr, with an official notice  
82 letter proposing three appraisers to be used to establish the fair market value of the  
83 Systems. The three appraisers Aqua Illinois selected were: 1) Mr. Joseph E. Batis of  
84 Edward J. Batis & Associates, Inc., located at 313 N. Chicago Street, Joliet, IL 60432; 2)  
85 Ms. Elizabeth K. Goodman Schneider of Goodman Appraisal Consultants LLC, located  
86 at 6260 Lake Drive, Suite 718, Cudahy, WI 53110; and 3) Mr. Jay M. Heap of Jay M.  
87 Heap & Associates, Ltd., located at 310 W. Jefferson Street, Morris, IL 60450.

88 **Q. Were the three proposed appraisers approved?**

89 A. Yes. On July 2, 2015, Mr. Marr notified Aqua Illinois, in writing, that he approved the  
90 three appraisers proposed by the Company. The terms of engagements for the three  
91 appraisers are set forth in Aqua Exs. 2.3, 2.4, and 2.5, attached hereto.

92 **Q. Are the results of the three appraisals available?**

93 A. Yes. The three appraisals were completed in July 2015. Please see Aqua Exs. 2.6, 2.7,  
94 and 2.8, attached hereto. The appraised values for Eastwood were as follows: 1) Mr.  
95 Batis, \$860,000; 2) Ms. Goodman, \$907,~~000~~700; and 3) Mr. Heap, \$900,000. The  
96 average of the three appraisals determined that the fair market value of Eastwood is  
97 \$889,233. The appraised values for Nunda were as follows: 1) Mr. Batis, \$940,000; 2)  
98 Ms. Goodman, \$921,700; and 3) Mr. Heap, \$800,000. The average of the three  
99 appraisals determined that the fair market value of Eastwood is \$887,233.

100 **Q. Given that the purchase price is less than the average of the three appraisals, what is**  
101 **the Company's proposed rate base of the Systems?**

102 A. Section 9-210.5(d) of the Act states: "the lesser of (i) the purchase price or (ii) the fair  
103 market value determined under subsection (c) of this Section shall constitute the rate base  
104 associated with the water or sewer utility as acquired by and incorporated into the rate  
105 base of the district designated by the acquiring large public utility under this Section,  
106 subject to any adjustments that the Commission deems necessary to ensure such rate base  
107 reflects prudent and useful investments in the provision of public utility service." Given  
108 that the purchase price is less than the combined appraised values of the Systems, the  
109 Company proposes the rate base of the Systems to be the purchase price plus the  
110 transaction costs. The average appraisal of Eastwood is calculated to be \$889,233, while  
111 the allocated purchase price is calculated to be \$750,844  $((\$889,233 / \$1,776,466) \times$

112 \$1,500,000); therefore, the proposed rate base (including estimated transaction costs of  
113 \$65,000) for Eastwood is \$815,844. The average appraisal of Nunda is calculated to be  
114 \$887,233, while the allocated purchase price is calculated to be \$749,156 (( $\$887,233 /$   
115  $\$1,776,466$ ) x \$1,500,000); therefore, the proposed rate base (including estimated  
116 transaction costs of \$65,000) for Nunda is ~~\$815,156~~\$814,156.

117 **Q. Does Aqua Illinois anticipate any additional capital spending after acquiring the**  
118 **Systems?**

119 A. Yes. Based on Aqua Illinois' initial inspection of the Systems, the Company anticipates  
120 investing a significant amount of capital (almost 50%) over the initial five-year period of  
121 ownership (2016 – 2020). The majority of the capital spending will occur on upgrading  
122 the wells, mains, and meters.

123 **Q. How much capital does Aqua Illinois anticipate spending after acquiring the**  
124 **Systems?**

125 A. In the Eastwood System, the Company projects total capital spending over the five-year  
126 period to be \$372,000. In the Nunda System, the Company projects total capital  
127 spending over the five-year period to be \$329,000.

128 **Q. Is Aqua Illinois electing to utilize the special treatment of Allowance for Funds Used**  
129 **During Construction (“AFUDC”) for post-acquisition capital investments?**

130 A. Yes. Aqua Illinois is electing to utilize the special treatment provided for by the AFUDC  
131 of capital expenditures as described in Section 9-210.5(i) of the Act. According to this  
132 section of the Act, any post-acquisition improvements made by the large public utility to  
133 the acquired water or sewer utility shall accrue a cost for financing set at the large public

134 utility's determined rate for allowance for funds used during construction, inclusive of  
135 the debt, equity, and income tax gross up components, after the date on which the  
136 expenditures were incurred by the large public utility until the investment has been in  
137 service for a four year period or, if sooner, until the time the rates are implemented in the  
138 large public utility's next rate case.

139 **Q. Is Aqua Illinois electing to utilize the special treatment for depreciation for post –**  
140 **acquisition capital investments?**

141 A. Yes. Aqua Illinois is electing to utilize the special treatment provided for depreciation of  
142 capital expenditures as described in Section 9-210.5(i) of the Act. According to this  
143 section of the Act, any post-acquisition improvements made by the large public utility to  
144 the acquired water or sewer utility shall not be depreciated for ratemaking purposes from  
145 the date on which the expenditures were incurred by the large public utility until the  
146 investment has been in service for a four year period or, if sooner, until the time the rates  
147 are implemented in the large public utility's next rate case.

148 **IV. APPLICATION OF RATES**

149 **Q. Does Aqua Illinois propose to consolidate the Eastwood and Nunda Water Systems**  
150 **into an existing rate area?**

151 A. Yes. The Company proposes to merge the Systems into Aqua Illinois' existing  
152 Consolidated Water Division rate area.

153 **Q. Will the Acquisition of the Systems have any impact on Aqua Illinois' existing**  
154 **customers?**

155 A. No, the Acquisition will not impact Aqua Illinois' existing customers. Both Systems'  
156 customers will be charged the same rates as the existing customers in our Consolidated  
157 Water Division and the acquired customers will be included in the Company's next  
158 Consolidated Water rate case. In addition, the average monthly bills for the existing  
159 customers of the Company will not increase by more than 2.5%, in compliance with  
160 Section 9-210.5(d) of the Act. As reflected in the schedules attached to my testimony,  
161 Aqua Exs. 2.1 Rev. and 2.2 Rev., the Company is projecting a stand-alone estimated  
162 revenue increase in 2018 (or three years after the Acquisition) compared to 2016 (one  
163 year after the Acquisition) of \$17,796 (\$212,023 - \$194,227) for Eastwood and \$69,641  
164 (\$175,323 - \$105,682) for Nunda. This combined revenue increase for the Systems of  
165 \$87,437 represents only 0.02% of the projected revenue of the Company's existing  
166 Consolidated Water Division for 2016. Therefore, and in accordance with Section 9-  
167 210.5(d) of the Act, the Company believes that the existing customers' bills will not  
168 increase by more than 2.5% as a result of this acquisition.

169 **Q. How does the current calculated average monthly water bill for the Eastwood**  
170 **customers compare to the projected average monthly water bill under the**  
171 **Consolidated Water rates?**

172 A. Currently, an average monthly water bill of 5,000 gallons for an Eastwood customer is  
173 ~~\$32.03~~21.08. ~~Upon~~Following the acquisition~~Acquisition~~ and upon utilizing the  
174 Consolidated Water rates, an average monthly water bill of 5,000 gallons for an  
175 Eastwood customer is projected to be \$47.60. This represents a ~~49~~126% increase. Please  
176 see Schedule 2 of Aqua Ex. 2.1 REV.

177 **Q. What is the current calculated average monthly water bill for the Nunda customers?**

178 A. Currently, an average monthly water bill of 5,000 gallons for a Nunda customer is  
179 | ~~\$40.04~~25.67. ~~Upon~~Following the acquisition~~Acquisition~~ and upon utilizing the  
180 Consolidated Water rates, an average monthly water bill of 5,000 gallons for a Nunda  
181 customer is projected to be \$47.60. This represents an 1985% increase. Please see  
182 Schedule 2 of Aqua Ex. 2.2 REV.

183 **Q. Do you believe the ~~rate-increase~~proposed bill mentioned above to be just and**  
184 **reasonable?**

185 A. Yes, the Company anticipates making \$372,000 and \$329,000 of capital investments in  
186 the Eastwood and Nunda Systems over a five-year period, respectively. The \$372,000 of  
187 capital investments in the Eastwood System represents a 46% increase in rate base. In  
188 addition, the average investment per customer after the anticipated capital spending in the  
189 Systems is \$3,494  $((\$815,844 + 372,000) / 340)$  for Eastwood and \$6,179  $((\$814,156 +$   
190  $329,000) / 185)$  for Nunda. As a comparison, the rate base per customer for Aqua  
191 Illinois' existing consolidated water customers in \$2,777. As stand-alone Systems, both  
192 Eastwood and Nunda could potentially have higher rates than the rates currently charged  
193 in the Consolidated Water Division. Therefore, in my opinion, the ~~rate-increase~~proposed  
194 bill is reasonable.

195 **Q. Section 9-210.5(g) of the Act provides that the “annual bill of customers of the**  
196 **acquired water or sewer utility, exclusive of fire service or related charges” should**  
197 **be less than or “equal to 1.5% of the latest median household income as reported by**  
198 **the United States Census Bureau for the most applicable community or county”.**  
199 **Does the Acquisition comply with this part of Section 9-210.5(g) of the Act?**

200 A. Yes, per Census Tract 8707.02 McHenry County, Illinois, the 2013 median household  
201 income for the Eastwood area is \$72,210. The calculated threshold for an annual  
202 customer bill is \$1,083.15 ( $\$72,210 \times 1.5\%$ ), or \$90.26 per month. In addition, per  
203 Census Tract 8708.12 McHenry County, Illinois, the 2013 median household income for  
204 the Nunda area is \$72,438. The calculated threshold for an annual customer bill is  
205 \$1,086.57 ( $\$72,438 \times 1.5\%$ ), or \$90.55 per month. In both Systems, the calculated  
206 threshold is significantly higher than the projected monthly bill of \$47.60 customers  
207 mentioned above. Therefore, this Acquisition is in compliance with this part of Section  
208 9-210.5(g) of the Act.

209 **V. ACCOUNTING ENTRIES**

210 **Q. How does Aqua Illinois propose to record the original cost of the acquired plant?**

211 A. In accordance with Commission Policy and the Uniform System of Accounts (“USOA”)  
212 for Water Utilities, adopted pursuant to 83 Ill. Admin. Code 605.10, Aqua Illinois  
213 proposes to record the original cost of the acquired plant as a credit to Account 104, as set  
214 forth in Aqua Ex. 2.1 [REV.](#), Schedule 5 and Aqua Ex. 2.2 [REV.](#), Schedule 5. The  
215 proposed journal entries are submitted to clear from Account 104 the amounts involved.  
216 Finally, the proposed journal entries are consistent with the requirements of the USOA  
217 for Water Utilities.

218 **Q. Please discuss the accounting entries that will be made to record the Acquisition of**  
219 **the Systems.**

220 A. Aqua Illinois proposes to record the fair market value and transaction costs of the  
221 Systems in the applicable accounts. The accounting entries proposed by Aqua Illinois are  
222 detailed in Aqua Ex. 2.1 [REV.](#), Schedule 5 and Aqua Ex. 2.2 [REV.](#), Schedule 5.

223 **Q. Will Aqua Illinois incur other costs to complete the transaction?**

224 A. Yes. As stated in the Petition, Aqua Illinois will incur, and has incurred, costs related to  
225 the proposed transaction. These costs may include, but are not limited to, appraisals,  
226 inspection fees, and engineering. In addition, Aqua Illinois will incur legal costs and  
227 fees, as well as other transaction-related expenses, which together with the appraisals,  
228 inspection fees, and engineering costs, are estimated to total approximately \$130,000.

229 **Q. Section 9-210.5(d) of the Act also provides: “The amount of the appraiser’s fees to  
230 be included in the transaction and closing costs shall not exceed the greater of  
231 \$15,000 or 5% of the appraised value of the water or wastewater utility being  
232 acquired.” What are the appraiser costs?**

233 A. Aqua Illinois anticipates the costs for the three appraisals to be approximately \$60,000, or  
234 an average of \$10,000 per appraiser per System. This is significantly lower than the 5%  
235 maximum, or \$88,823 (\$1,776,467 x 5%), requirement. As a result, the entire amount of  
236 costs to be expended for the appraisals can be included in the rate base of the Systems.

237 **Q. Where does Aqua Illinois intend to record the costs of the three appraisals  
238 performed pursuant to Section 9-210.5 [and Section 7-204\(c\)\(ii\)](#) of the Act?**

239 A. Aqua Illinois is establishing the ratemaking rate base for the Systems pursuant to Section  
240 9-210.5 of the Act. Therefore, the Company proposes to include the appraisals in rate  
241 base ultimately recovered during the next rate case proceeding. The Company proposes

242 to record the estimated transaction costs in the amount of \$130,000 to account  
243 301 – Organization Costs. Upon the closing of the acquisition of the Systems, [and](#)  
244 [subject to the Commission’s approval pursuant to Section 7-204\(c\)\(ii\) of the Act,](#) the  
245 Company proposes to amortize the transaction costs above-the-line to Account  
246 407.3 – Amortization of Other Utility Plant. The proposed amortization rate would be  
247 the Company’s current composite depreciation water rate of 3.1% for amortizing the  
248 transaction costs.

249 **Q. Where does Aqua Illinois propose to record the anticipated transaction costs of the**  
250 **Acquisition?**

251 A. According to the USOAs for Water Utilities and Wastewater Utilities, 83 Ill. Admin.  
252 Code 605 and 650, the costs of the Acquisition, including incidental expenses properly  
253 incorporated into utility plant, will be recorded in Account 104 – Utility Plant Purchased  
254 or Sold. Aqua Illinois proposes to prorate the transaction costs of both Systems based on  
255 the Commission-determined rate base of the Water Systems.

256 **Q. After the transaction costs of the Acquisition are cleared from Account 104 – Utility**  
257 **Plant Purchased or Sold, where will Aqua Illinois record the costs?**

258 A. The journal entries to record the transaction costs are set forth in Aqua Ex. 2.1 [REV.](#) As  
259 shown, the transaction costs, totaling \$130,000, are added to the fair market value of the  
260 Systems in order to establish a final rate base.

261 **Q. How does the Company propose to amortize the transaction costs?**

262 A. The Company proposes recording the annual amortization of the Organizational Costs to  
263 Account 407.3, Amortization of Other Utility Plant, which is an above-the-line account.

264 **Q. At what rate does the Company propose to amortize the transaction costs?**

265 A. The Company proposes recording the annual amortization of the Organizational Costs  
266 using the composite depreciation rate from our existing consolidated water system. The  
267 proposed rate is 3.1% annually.

268 **VI. DEPRECIATION RATES**

269 **Q. What depreciation rates does the Company propose?**

270 A. Aqua Illinois proposes to use the depreciation rates of the Consolidated Water Division  
271 rate area that were established in Aqua Illinois' rate proceeding in Docket No. 11-0436.  
272 Please see Aqua Ex 2.1, Schedule 7 and Aqua Ex 2.2, Schedule 7 for a schedule of these  
273 rates.

274 **VII. ACQUISITION**

275 **Q. Will Aqua Illinois' proposed acquisition of the Systems adversely affect the utility's**  
276 **ability to perform its duties under the Act?**

277 A. No, the proposed Acquisition will not have an adverse effect on the Company's activities  
278 or ability to provide service. Although I am not an attorney, I understand that the  
279 Commission is required to find that, in a situation where a public utility acquires  
280 substantially all of the assets of another public utility, the Company meets certain  
281 requirements under Section 7-204 of the Act.

282 | In compliance with Section 7-204(b)(1) of the Act, ~~The~~ the Acquisition of  
283 Eastwood and Nunda will not diminish Aqua Illinois' ability to provide adequate,  
284 reliable, efficient, safe and least-cost public utility service. Given that the purchase price  
285 of the Systems is \$1,500,000 and that Aqua Illinois serves approximately 71,500 water

286 and wastewater customers in the State of Illinois, the acquisition of the Systems reflects a  
287 .8% addition to the Company's overall ongoing operations in Illinois. In addition, as  
288 reflected in the direct testimony of Mr. Craig L. Blanchette (Aqua Ex. 1.0), the Company  
289 has an extensive and proven track record in the acquisition, operation, and management  
290 of water and/or wastewater systems of all sizes and financial conditions throughout the  
291 state. Further, pursuant to Section 7-204(b)(7) of the Act, the proposed reorganization  
292 will not result in any adverse rate impacts on retail customers. Lastly, the application of  
293 the rates that Aqua Illinois proposes herein would give the Company the opportunity to  
294 recover the costs associated with operating the Systems.

295 **Q. Will the proposed transaction result in the unjustified subsidization of non-utility**  
296 **activities by Aqua Illinois or its customers?**

297 A. The Acquisition will not result in the unjustified subsidization of non-utility activities by  
298 Aqua Illinois or its customers, in compliance with Section 7-204(b)(2) of the Act. At  
299 present, neither Aqua Illinois nor the Systems engage in a significant level of such  
300 activity.

301 Q. Does the Company believe that the proposed reorganization will likely have a  
302 significant adverse effect on competition in those markets over which the  
303 Commission has jurisdiction?

304 A. No, the Company does not believe that the proposed reorganization will have a  
305 significant adverse effect on competition. Although I am not an attorney, I understand  
306 that Section 7-204(b)(6) of the Act requires that the Commission find that the proposed  
307 reorganization is not likely to have a significant adverse effect on competition in those  
308 markets over which the Commission has jurisdiction. The assets of the Systems are

309 located entirely in unincorporated McHenry County, which is directly situated between  
310 Aqua Illinois' Boone County and Lake County operations and is near Aqua Illinois'  
311 recently purchased McHenry Shores operations. As such, the system is located in a  
312 region already served by the Company. Aqua Illinois does not foresee any adverse  
313 impact on competition in those markets over which the Commission has jurisdiction.

314 **Q. Will costs and facilities be fairly and reasonably allocated between utility and non-**  
315 **utility activities in the future, in such a manner that the Commission may identify**  
316 **those costs and facilities that are properly included by the utility for ratemaking**  
317 **purposes?**

318 A. At present, neither Aqua Illinois nor the Systems engage in a significant level of non-  
319 utility activities. To the extent Aqua Illinois engages in such activities in the future, it  
320 will continue to maintain its books and records in such a manner as to fairly and  
321 reasonably allocate utility and non-utility activities in compliance with Section 7-  
322 204(b)(3) of the Act, and to allow the Commission to identify costs and facilities that are  
323 properly included for ratemaking purposes.

324 **Q. Does the Company anticipate that any savings will result from the proposed**  
325 **reorganization?**

326 A. No, the Company does not foresee any identifiable savings that will result from the  
327 acquisition. Thus, Section 7-204(c)(i) of the Act does not apply to this proceeding.  
328 However, the Company may have the ability to take advantage of some operating  
329 efficiencies, such as national purchasing contracts, in order to reduce both operating  
330 expenses and capital costs.

331 **Q. How will the acquisition of the Eastwood and Nunda Water Systems impact future**  
332 **capital spending and the capital structure of Aqua Illinois?**

333 A. The transaction will not adversely impact Aqua Illinois' capital spending plan or capital  
334 structure. Aqua Illinois' goal is to attain a capital structure of 53% equity and 47% debt,  
335 with an allowed return on equity of no less than 9.81%, as the Commission previously  
336 approved in Docket No. 14-0419. Furthermore, [in compliance with Section 7-204\(b\)\(4\)](#)  
337 [of the Act](#), the transaction will not impair Aqua Illinois' ability to raise necessary capital  
338 on reasonable terms.

339 **VIII. CONCLUSION**

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

341 A. Yes.