

DIRECT TESTIMONY  
OF  
JANIS FREETLY

Finance Department  
Financial Analysis Division  
Illinois Commerce Commission

Aqua Illinois, Inc.

Petition for Approval of an Asset Purchase Agreement,  
Issuance of a Certificate of Public Convenience and Necessity to  
Operate Water System, and for the Issuance of an Order  
Approving Rates, Accounting Entries and Tariff Language

Docket No. 15-0384

October 5, 2015

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 as a Financial Analyst since September of  
13 1998. I was promoted to Senior Financial Analyst on August 31, 2001.

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

15 A. On June 29, 2015, Aqua Illinois Inc. (“Aqua Illinois” or “Company”) filed a petition  
16 pursuant to Sections 7-204, 8-406 and 9-210.5 of the Illinois Public Utilities Act  
17 (“Act”) requesting that the Commission enter an Order (1) approving the Asset  
18 Purchase Agreement (“APA”) entered into between Aqua Illinois and Eastwood  
19 Manor Water Company (“Eastwood”) and Nunda Water Company (“Nunda”)  
20 (collectively, the “Systems”); (2) granting Aqua Illinois a Certificate of Public  
21 Convenience and Necessity authorizing Aqua Illinois to construct, operate, and  
22 maintain the assets of the Systems in portions of unincorporated McHenry

23 County, Illinois (the “Area”), pursuant to the terms of Aqua Illinois’ current Rules,  
24 Regulations, and Conditions of Service as approved by the Commission; (3)  
25 establishing the ratemaking rate base for the Eastwood and Nunda water assets  
26 purchased pursuant to the APA; and (4) approving applicable rates for the  
27 provision of water service in the Area, accounting entries, and applicable tariffs. I  
28 will present my evaluation of Aqua Illinois’ financial ability to acquire substantially  
29 all of the assets of the Systems and pay for additional capital expenditures to  
30 upgrade the Systems.

31 **Q. What does Section 7-204 (b)(4) of the Act require?**

32 A. Before the Commission may approve a reorganization, Section 7-204(b)(4)  
33 requires that the Commission find that “the proposed reorganization will not  
34 significantly impair the utility’s ability to raise necessary capital on reasonable  
35 terms or to maintain a reasonable capital structure.” 220 ILCS 5/7-204(b)(4).

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

37 A. Section 8-406(b)(3) of the Act requires that, before issuing the requested  
38 certificate of public convenience and necessity, the Commission find, among  
39 other things, “that the utility is capable of financing the proposed construction  
40 without significant adverse financial consequences for the utility or its  
41 customers.” (220 ILCS 5/8-406(b).)

42 **Q. Please summarize your conclusions.**

43 A. The proposed reorganization will not impair Aqua Illinois’s ability to raise  
44 necessary capital on reasonable terms. In addition, Aqua Illinois is capable of

45 financing the proposed System upgrades without significant adverse financial  
46 consequences for the utility or its customers.

47 **Q. Please describe the proposed acquisition and estimated total costs.**

48 A. Aqua Illinois requests authority to provide water service to areas in Illinois now  
49 served by Eastwood and Nunda. Aqua Illinois obtained three appraisals of the  
50 fair market value of the Eastwood and Nunda Systems as required by Section 9-  
51 210.5(c) of the Act. (220 ILCS 5/9-210.5(c).) The average fair market value of  
52 the three appraisals is \$1,776,467, with estimated transaction costs of \$130,000.  
53 Hence, the total estimated cost of the acquisition of the Systems by Aqua Illinois  
54 is \$1,906,467.

55 **Q. How will Aqua Illinois finance the cost of the proposed acquisition?**

56 A. Aqua Illinois plans to initially close the transaction using short-term debt.  
57 (Company Response to Staff DR JF 1.01.) The Company will subsequently  
58 adjust its capital structure through dividend policy and long-term debt issuances  
59 so that it achieves its objective of attaining a capital structure of 53% equity and  
60 47% debt. Id. If Aqua Illinois needs additional equity to purchase the Systems,  
61 the Company will infuse equity from its parent company, Aqua America.

62 **Q. How does the estimated cost of the acquisition (i.e. \$1,906,467) compare to**  
63 **Aqua Illinois' existing utility assets and revenues?**

64 A. The estimated cost of the acquisition is diminutive relative to Aqua Illinois' net  
65 utility plant and utility operating revenue. Aqua Illinois' utility plant had a net value  
66 of \$305,909,092 as of December 31, 2014; its utility operating revenues for the

67 twelve months ended December 31, 2014, was \$49,473,030. (Aqua Illinois Form  
68 22 ILCC, December 31, 2014, 4f; 7f.) The total cost of the proposed acquisition  
69 represents 0.62% of the Company's net utility plant and 3.85% of the Company's  
70 total utility operating revenue for the calendar year ending 2014.

71 **Q. How does the capital spending associated with the proposed upgrades to**  
72 **the Systems compare to Aqua Illinois' budgeted capital expenditures over**  
73 **the next five years?**

74 A. The Company intends to spend an additional \$720,000 on capital improvements  
75 to upgrade the Systems over the 2016 through 2021 period. (Aqua Ex. 1.0, 11-  
76 12.) These costs for the Systems are included in the Company's capital budget  
77 forecast, which the Company projected to total more than \$129 million for the  
78 next five years. (Company Response to Staff DR JF 1.04.) The capital spending  
79 associated with the proposed upgrades to the Systems only accounts for 0.56%  
80 of the Company's total budgeted capital expenditures over the next five years.

81 **Q. Is Aqua Illinois capable of financing the Project without significant adverse**  
82 **consequences for the utility or its customers?**

83 A. Yes. Aqua Illinois has access to a variety of funds to finance the proposed  
84 acquisition of, and upgrades to, the Systems. After initially closing the  
85 transaction using short-term debt, the Company will engage in financing as to  
86 maintain its capital structure at approximately 53% equity and 47% debt, as  
87 authorized in its last rate case, Docket No. 14-0419. If the Company needs  
88 additional equity, it would be infused from its parent company, Aqua America.

89 Aqua Illinois can also access the credit facilities of Aqua America. As of June 30,  
90 2015, Aqua America had more than \$100 million available for borrowing under its  
91 \$200 million unsecured revolving credit facility, which expires in March 2017.  
92 (Aqua America, SEC Form 10Q for the Quarter ending June 30, 2015, 26.) In  
93 addition, Aqua America has more than \$124 million available for borrowing under  
94 a \$160.5 million short-term line of credit with annual renewal. Id. Additionally,  
95 Aqua America had over \$4 million of cash and cash equivalents as of June 30,  
96 2015. Id. at 8.

97 **Q. What is Aqua America's current credit rating?**

98 A. Standard & Poor's ("S&P") ratings on water utility Aqua Pennsylvania reflect the  
99 consolidated credit quality of its parent company, Aqua America. S&P assigned  
100 Aqua Pennsylvania a corporate credit ratings of A+ with a Stable outlook. (S&P  
101 Ratings Direct, *Summary: Aqua Pennsylvania*, May 8, 2015.) An A+ corporate  
102 credit rating from S&P indicates that the company's capacity to meet its financial  
103 commitments is strong. (S&P Ratings Direct, *S&P Ratings Definitions*, June 22,  
104 2012.)

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

106 A. Based on the above facts, in my judgment Aqua Illinois has met the requirements  
107 of 7-204(b)(4) and 8-406(b)(3) of the Act. With respect to the proposed  
108 reorganization, I recommend the Commission find that Aqua Illinois has the ability  
109 to raise necessary capital on reasonable terms. With respect the requested  
110 certification, I recommend that the Commission find that Aqua Illinois is capable of

111 financing the proposed construction without significant adverse financial  
112 consequences for the utility or its customers.

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

114 **A.** Yes, it does.