

DIRECT TESTIMONY  
of

BONITA A. PEARCE

Accounting Department  
Financial Analysis Division  
Illinois Commerce Commission

Aqua Illinois, Inc.

Amended Petition for Approval of an Asset Purchase Agreement with Golf  
Greenwood Gardens Improvement Association, and for the Issuance of an  
Order Approving Rates, Accounting Entries and Depreciation

Docket No. 15-0465

November 18, 2015

## Table of Contents

<b><u>Purpose of Testimony .....</u></b>	<b><u>1</u></b>
<b><u>Schedule Identification .....</u></b>	<b><u>2</u></b>
<b><u>Journal Entries for the Purchase Transaction .....</u></b>	<b><u>4</u></b>
<b><u>Original Cost of Purchased Assets.....</u></b>	<b><u>7</u></b>
<b><u>Revenue Requirement Analysis .....</u></b>	<b><u>7</u></b>
<b><u>Summary of Conclusions and Recommendations .....</u></b>	<b><u>8</u></b>
<b><u>Conclusion .....</u></b>	<b><u>8</u></b>

1 **Witness Identification**

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

3 A. My name is Bonita A. Pearce. My business address is 527 East Capitol  
4 Avenue, Springfield, Illinois 62701.

5

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

7 A. I am currently employed as an Accountant in the Accounting Department  
8 of the Financial Analysis Division of the Illinois Commerce Commission  
9 (“ICC” or “Commission”).

10

11 **Q. Please describe your educational and professional background.**

12 I am a licensed Certified Public Accountant. I earned a B.S. in  
13 Accounting from Illinois State University in 1981. Prior to joining the  
14 Commission in 2001, I was engaged in the practice of public accounting  
15 for sixteen years. I returned to the practice of public accounting for a  
16 brief period in 2005, before returning to the Commission in 2006.

17

18 **Q. Have you previously testified before the Commission?**

19 A. Yes. I have testified on many occasions before the Commission.

20

21 **Purpose of Testimony**

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

23 A. I have reviewed and analyzed Aqua Illinois, Inc.'s ("Aqua" or "the  
24 Company") filing and underlying data regarding the Company's purchase  
25 of Golf Greenwood Gardens Improvement Association ("GGGIA" or  
26 "Association") Water and Sewer Systems. The purpose of my testimony  
27 is to submit my recommendations regarding:

- 28 • Company proposed journal entries to record the purchase of the  
29 water and sewer systems;
- 30 • Regulatory treatment of the acquisition adjustment;
- 31 • Original cost of purchased assets; and
- 32 • Company estimated revenue requirement.

33

34 **Schedule Identification**

35 **Q. Are you sponsoring any schedules as part of your direct**  
36 **testimony?**

37 A. Yes. I prepared the following schedules:

38 Schedule 1.01 Recommended Changes to Company Proposed  
39 Journal Entries to Record the Purchase of the  
40 GGGIA Water System at Closing

41 Schedule 1.02 Recommended Changes to Company Proposed  
42 Journal Entries to Record the Purchase of the  
43 GGGIA Sewer System at Closing

44

45 **Description of Proposed Transaction**

46 **Q. Please describe the proposed transaction.**

47 A. Aqua will pay \$25,000 to purchase the water and sewer system assets of  
48 GGGIA. The Company proposes to allocate \$21,089 of the total  
49 purchase price to the GGGIA water system assets<sup>1</sup> and the balance of  
50 \$3,911 to the GGGIA sewer system assets<sup>2</sup>. The Company also expects  
51 to incur approximately \$25,000 in transaction costs related to the  
52 acquisition. Aqua proposes to allocate \$21,089 of the total transaction  
53 costs to the GGGIA water system purchase<sup>3</sup> and the balance of \$3,911  
54 to the GGGIA sewer system purchase<sup>4</sup>. Aqua estimates the total  
55 combined cost to complete the acquisition of the GGGIA water and  
56 sewer assets will approximate \$50,000, excluding the cost of any capital  
57 improvements that Aqua expects to incur over the next four years.  
58 Because the \$50,000 purchase price exceeds the \$41,717 original cost  
59 of the purchased assets (allocated \$35,191 to water system assets and  
60 \$6,526 to sewer system assets), the Company proposes to record a  
61 combined acquisition adjustment for the difference of \$8,283 (\$50,000  
62 minus \$41,717 equals \$8,283). Aqua will allocate the total acquisition  
63 adjustment of \$8,283 between the water and sewer assets as follows:  
64 \$6,987 to the water assets<sup>5</sup> and the remainder of \$1,296 to the sewer  
65 assets<sup>6</sup>.

---

<sup>1</sup> ICC Staff Exhibit 1.0, Schedule 1.01, Journal Entry #1.

<sup>2</sup> Id.

<sup>3</sup> Id.

<sup>4</sup> Id.

<sup>5</sup> ICC Staff Exhibit 1.0, Schedule 1.01, Journal Entry #2.

<sup>6</sup> Id.

66 **Journal Entries for the Purchase Transaction**

67 **Q. Please describe Schedules 1.01 and 1.02, Recommended Changes**  
68 **to Company Proposed Journal Entries to the Record the Purchase**  
69 **of GGGIA Water and Sewer Systems, respectively, at Closing.**

70 A. Schedules 1.01 and 1.02 present my recommended changes to the  
71 Company's proposed journal entries to record the purchase of the  
72 GGGIA water and sewer systems.

73 Aqua witness Paul Hanley, in Aqua Exhibit 2.1, proposes the journal  
74 entries to record the purchase as follows:

- 75 • JE #1 - Record the \$50,000 purchase price payment as a charge to  
76 Account 104 - Utility Plant Purchased or Sold ("Account 104") and as  
77 a reduction to Cash;  
78
- 79 • JE #2 - Record the original cost of utility plant and associated  
80 accumulated depreciation, with the remaining amount as a credit to  
81 Account 104; and  
82
- 83 • JE #3 - Record amortization of the entire acquisition adjustment as a  
84 one-time entry below the line in Account 421.

85 I propose no changes to Journal Entries #1 or #2, to record the purchase  
86 price to Account 104 and to clear the purchase price from Account 104 to  
87 Account 300 (Schedules 1.01 and 1.02, lines 1-9, respectively). I  
88 propose an adjustment to Journal Entry #3 to reflect one-time  
89 amortization of the acquisition adjustment to Account 426, Miscellaneous  
90 Nonutility Expenses, instead of Account 421, Nonutility Income (reflected  
91 on Schedules 1.01 and 1.02, line 10), in accordance with the Uniform  
92 System Of Accounts for water and sewer utilities operating in Illinois.

93 I note that the determination of the acquisition adjustment will change by  
94 the closing date of the transaction to the extent that the transaction costs  
95 are more or less than the \$25,000 of transaction costs estimated by  
96 Aqua for this transaction, (\$21,089<sup>7</sup> to the water system and \$3,911<sup>8</sup> to  
97 the sewer system).

98

99 **Q. Do you have any recommendations regarding the journal entries?**

100 A. Yes, for the purpose of monitoring compliance of the final journal entries  
101 with the Commission's Final Order, I recommend the Commission order  
102 the Company to file the final journal entries for the transaction, showing  
103 the actual dollar values of all involved accounts, as a filing on the  
104 Commission's e-Docket system in this docket with a copy to the  
105 Commission's Accounting Department Manager at  
106 [AccountingMgr@icc.illinois.gov](mailto:AccountingMgr@icc.illinois.gov) within sixty (60) days of the transaction  
107 date and, if the transaction has not occurred within six months of the  
108 Final Order in this proceeding, then the Company shall file a status  
109 report at six month intervals until the journal entries are filed on the  
110 Commission's e-Docket system with a copy to the Commission's  
111 Accounting Department Manager at [AccountingMgr@icc.illinois.gov](mailto:AccountingMgr@icc.illinois.gov) .

---

<sup>7</sup> ICC Staff Exhibit 1.0, Schedule 1.01, line 2.

<sup>8</sup> ICC Staff Exhibit 1.0, Schedule 1.02, line 2.

112 I further recommend that ICC Staff Exhibit 1.0, Schedules 1.01 and 1.02,  
113 respectively, be attached as an appendix to the Final Order in this  
114 proceeding.

115

116 **Regulatory Treatment of the Acquisition Adjustment**

117 **Q. Please describe the acquisition adjustment.**

118 A. An acquisition adjustment is the difference between the purchase price  
119 of a system(s) and the original cost of the assets being purchased. A  
120 positive acquisition adjustment occurs, as in this docket, when a utility  
121 pays more than the original cost of purchased assets. A negative  
122 acquisition adjustment occurs when a utility pays less than the original  
123 cost of purchased assets.

124

125 **Q. What is the regulatory treatment proposed by Aqua for the**  
126 **acquisition adjustment?**

127 A. Aqua proposes to record the acquisition adjustment below-the-line and to  
128 amortize the entire acquisition adjustment within the first year after  
129 closing the proposed transaction.

130

131 **Q. Do you agree with this treatment?**

132 A. Yes. Since the acquisition adjustment will not be reflected in Aqua's rate  
133 base in a future rate case, ratepayers will not pay a return on the amount  
134 by which the purchase price exceeds the original cost of the purchased

135 assets. Also, the amortization of the acquisition adjustment will not  
136 increase costs to ratepayers in a future rate case because the acquisition  
137 adjustment will be recorded below-the-line and will be fully amortized  
138 within one year.

139

140 **Original Cost of Purchased Assets**

141 **Q. What is the original cost of the purchased assets that should be**  
142 **determined by the Commission?**

143 A. I recommend the Commission determine the original cost of the  
144 purchased assets to be \$51,973<sup>9</sup> for the water system and \$43,507<sup>10</sup> for  
145 the sewer system, as reflected on ICC Staff Exhibit 1.0, Schedules 1.01  
146 and 1.02 in Journal Entry #2.

147 The Company provided, in Aqua Ex. 2.2, the original cost study to  
148 determine the original cost less depreciation of the physical water and  
149 sewer assets acquired from GGGIA. I reviewed the original cost study  
150 and found no reason to object to it.

151

152 **Revenue Requirement Analysis**

153 **Q. Do you accept Aqua's Revenue Requirement Analysis supporting**  
154 **the investment in GGGIA's water and sewer system assets provided**  
155 **on Aqua Ex. 2.1?**

---

<sup>9</sup> Aqua Ex. 2.1, Schedule 12 of 15; Aqua Ex. 2.2, Original Cost Study, p. 1.

<sup>10</sup> Aqua Ex. 2.1, Schedule 13 of 15; Aqua Ex. 2.2, Original Cost Study, p. 2.

156 A. I have no reason to disagree with the Company's projected revenue  
157 requirement as reflected on Aqua Ex. 2.1. A.

158

159 **Summary of Conclusions and Recommendations**

160 **Q. Please summarize your recommendations.**

161 A. I recommend that the Commission:

- 162
- 163 • Approve the journal entries as presented on ICC Staff Exhibit 1.0,  
164 Schedules 1.01 and 1.02 and attach the entries to the Final Order  
165 as an appendix in this proceeding;
  - 166 • Order the Company to file the final journal entries for the  
167 transaction, showing the actual dollar values of all involved  
168 accounts, as a filing on the Commission's e-Docket system in this  
169 docket with a copy to the Commission's Accounting Department  
170 Manager at [AccountingMgr@icc.illinois.gov](mailto:AccountingMgr@icc.illinois.gov) within sixty (60) days of  
171 the transaction date and, if the transaction has not occurred within  
172 six months of the Final Order in this proceeding, the Company shall  
173 file a status report at six month intervals until the journal entries are  
174 filed on the Commission's e-Docket system with a copy to the  
175 Commission's Accounting Department Manager at  
176 [AccountingMgr@icc.illinois.gov](mailto:AccountingMgr@icc.illinois.gov);
  - 177
  - 178 • Approve the regulatory treatment of the acquisition adjustment to  
179 be amortized below-the-line in Account 426, Miscellaneous  
180 Nonutility Expenses within the first year after closing the proposed  
181 transaction; and,
  - 182
  - 183 • Determine the original cost to be \$51,973 for the water system  
184 and \$43,507 for the sewer system as of the purchase date, as  
185 reflected on ICC Staff Exhibit 1.0, Schedules 1.01 and 1.02 in  
186 Journal Entry #2  
187

188 **Conclusion**

189 **Q. Does this end your prepared direct testimony?**

190 A. Yes.

Aqua Illinois, Inc.  
 Recommended Changes to Company Proposed Journal Entries - Water System  
 to Record the Purchase of the Golf Greenwood Garden Improvement Association Water System at Closing

Line No.	Account Number (A) (a)	Account Description (b)	Entry Per Company (B)		Staff Proposed Adjustments		Proposed Entry Per Staff	
			Debit (c)	Credit (d)	Debit (e)	Credit (f)	Debit (g)	Credit (h)
<b>Journal Entry #1 - To record the initial purchase price to Account 104.</b>								
1	104	Utility Plant Purchased or Sold	21,089				21,089	
2	104	Legal - Closing Costs	21,089	-			21,089	
3	131	Cash		42,178				42,178
<b>Journal Entry #2 - To transfer at closing the initial purchase price from Account 104 to the appropriate utility plant related accounts.</b>								
4	104	Utility Plant Purchased or Sold		21,089				21,089
5	104	Utility Plant Purchased or Sold		21,089				21,089
6	114	Utility Plant Acquisition Adjustment	6,987				6,987	
7	300	Utility Plant in Service	51,973				51,973	
8	108	Accumulated Depreciation - Utility Plant		16,782				16,782
9		Totals	<u>58,960</u>	<u>58,960</u>	<u>-</u>	<u>-</u>	<u>58,960</u>	<u>58,960</u>
<b>Journal Entry #3 - To record below the line a one-time entry for amortization of the utility plant acquisition adjustment.</b>								
10	426	Miscellaneous Nonutility Expenses	6,987				6,987	
11	115	Accumulated Amortization of Utility Plant Acquisition Adjustment		6,987				6,987

Sources:

- (A) Journal Entry #3 - ICC Staff Ex. 1.0.
- (B) Aqua Ex. 2.1, Schedule 10 of 15

Aqua Illinois, Inc.  
 Recommended Changes to Company Proposed Journal Entries - Sewer System  
 to Record the Purchase of the Golf Greenwood Garden Improvement Association Sewer System at Closing

Line No.	Account Number (A) (a)	Account Description (b)	Entry Per Company (B)		Staff Proposed Adjustments		Proposed Entry Per Staff	
			Debit (c)	Credit (d)	Debit (e)	Credit (f)	Debit (g)	Credit (h)
<b>Journal Entry #1 - To record the initial purchase price to Account 104.</b>								
1	104	Utility Plant Purchased or Sold	3,911				3,911	
2	104	Legal - Closing Costs	3,911				3,911	
3	131	Cash		7,822				7,822
<b>Journal Entry #2 - To transfer at closing the initial purchase price from Account 104 to the appropriate utility plant related accounts.</b>								
4	104	Utility Plant Purchased or Sold		3,911				3,911
5	104	Utility Plant Purchased or Sold		3,911				3,911
6	114	Utility Plant Acquisition Adjustment	1,296				1,296	
7	300	Utility Plant in Service	43,507				43,507	
8	108	Accumulated Depreciation - Utility Plant		36,981				36,981
9		Totals	<u>44,803</u>	<u>44,803</u>	<u>-</u>	<u>-</u>	<u>44,803</u>	<u>44,803</u>
<b>Journal Entry #3 - To record below the line a one-time entry for amortization of the utility plant acquisition adjustment.</b>								
10	426	Miscellaneous Nonutility Expenses	1,296				1,296	
11	115	Accumulated Amortization of Utility Plant Acquisition Adjustment		1,296				1,296

Sources:

- (A) Journal Entry #3 - ICC Staff Ex. 1.0.
- (B) Aqua Ex. 2.1, Schedule 11 of 15