

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 a Water System, and for the Issuance of an Order  
Approving Rates, Accounting Entries and Tariff Language

Docket No. 15-0596

February 17, 2016

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

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

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

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

35 **Q. Please summarize your conclusions.**

36 A. The proposed reorganization will not impair Aqua Illinois's ability to raise  
37 necessary capital on reasonable terms. In addition, Aqua Illinois is capable of  
38 financing the proposed system upgrades to Crystal Clear without significant  
39 adverse financial consequences for the utility or its customers.

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

41 A. Aqua Illinois requests authority to provide water service to areas in Illinois now  
42 served by Crystal Clear. Aqua Illinois obtained three appraisals of the fair market  
43 value of the Crystal Clear system as required by Section 9-210.5(c) of the Act.  
44 220 ILCS 5/9-210.5(c). The average fair market value of the three appraisals is

45 \$795,000, with estimated transaction costs of \$70,000. Hence, the total  
46 estimated cost of the acquisition of Crystal Clear by Aqua Illinois is \$865,000.

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

48 A. Aqua Illinois plans to initially close the transaction using short-term debt.  
49 (Company Response to Staff DR JF 1.01.) The Company will subsequently  
50 adjust its capital structure through dividend policy and long-term debt issuances  
51 so that it achieves its objective of attaining a capital structure of 53% equity and  
52 47% debt. Id.

53 **Q. How does the estimated cost of the acquisition (i.e. \$865,000) compare to**  
54 **Aqua Illinois' existing utility assets and revenues?**

55 A. The estimated cost of the acquisition is diminutive relative to Aqua Illinois' net  
56 utility plant and utility operating revenue. Aqua Illinois' utility plant had a net value  
57 of \$305,909,092 as of December 31, 2014; its utility operating revenue for the  
58 twelve months ended December 31, 2014, was \$49,473,030. (Aqua Illinois Form  
59 22 ILCC, December 31, 2014, 4f; 7f.) The total cost of the proposed acquisition  
60 represents 0.28% of the Company's net utility plant and 1.75% of the Company's  
61 total utility operating revenue for the calendar year ending 2014.

62 **Q. How does the capital spending associated with the proposed upgrades to**  
63 **the Crystal Clear system compare to Aqua Illinois' budgeted capital**  
64 **expenditures over the next five years?**

65 A. The Company intends to spend an additional \$492,000 on capital improvements  
66 to upgrade the Crystal Clear system over the 2016 through 2020 period. (Aqua

67 Ex. 2.0, 7.) These costs for the Crystal Clear system are not included in the  
68 Company's total capital budget forecast, which the Company projected to total  
69 more than \$117 million for the next five years. (Company Response to Staff DR  
70 JF 1.02.) The capital spending associated with the proposed upgrades to the  
71 Crystal Clear system only equates to 0.42% of the Company's total budgeted  
72 capital expenditures over the next five years.

73 **Q. Is Aqua Illinois capable of financing the acquisition of and proposed**  
74 **upgrades to the Crystal Clear system without significant adverse**  
75 **consequences for the utility or its customers?**

76 A. Yes. Aqua Illinois has access to a variety of funds to finance the proposed  
77 acquisition of, and upgrades to, the Crystal Clear system. After initially closing  
78 the transaction using short-term debt, the Company will engage in financing to  
79 maintain its capital structure at approximately 53% equity and 47% debt, as  
80 authorized in its last rate case, Docket No. 14-0419.

81 Aqua Illinois can also access the credit facilities of its parent company, Aqua  
82 America. As of September 30, 2015, Aqua America had more than \$73 million  
83 available for borrowing under its \$200 million unsecured revolving credit facility,  
84 which expires in March 2017. (Aqua America, SEC Form 10Q for the Quarter  
85 ending September 30, 2015, 26.) In addition, Aqua America has more than \$132  
86 million available for borrowing under a \$160.5 million short-term line of credit with  
87 annual renewal. Id. Additionally, Aqua America had over \$4 million of cash and  
88 cash equivalents as of September 30, 2015. Id.

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

90 A. Aqua America is not rated by Standard & Poor's ("S&P"). S&P ratings on water  
91 utility Aqua Pennsylvania, however, reflect the consolidated credit quality of its  
92 parent company, Aqua America, since more than half of the parent's revenues  
93 and cash flow come from this utility. S&P assigned Aqua Pennsylvania a  
94 corporate credit ratings of A+ with a Stable outlook. (S&P Ratings Direct,  
95 *Summary: Aqua Pennsylvania*, October 13, 2015.) An A+ corporate credit rating  
96 from S&P indicates that the company's capacity to meet its financial  
97 commitments is strong. (S&P Ratings Direct, *S&P Ratings Definitions*, June 22,  
98 2012.)

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

100 A. Based on the above facts, in my judgment Aqua Illinois has met the requirements  
101 of Sections 7-204(b)(4) of the Act. With respect to the proposed reorganization, I  
102 recommend the Commission find that Aqua Illinois has the ability to raise  
103 necessary capital on reasonable terms.

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

105 A. Yes, it does.