

DIRECT TESTIMONY

OF

ROCHELLE LANGFELDT

FINANCE DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

HIGHLAND SHORES WATER COMPANY

DOCKET NO. 01-0489

MARCH 2002

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

2 A. My name is Rochelle Langfeldt. My business address is 527 East Capitol
3 Avenue, Springfield, Illinois 62701.

4

5 **2. Q. What is your current position with the Illinois Commerce Commission**
6 **(“Commission”)?**

7 A. I am a financial analyst in the Finance Department of the Financial Analysis
8 Division.

9

10 **3. Q. Please describe your qualifications and background.**

11 A. In May 1998, I received a Bachelor of Arts degree in Finance from Illinois
12 College, Jacksonville, Illinois. In May 2000, I received a Master of Business
13 Administration degree from the University of Illinois at Springfield. I have
14 been employed by the Commission since June 2000.

15

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

17 A. I will present my evaluation of the financial ability of proximate public utilities
18 providing water and wastewater service that could potentially acquire
19 Highland Shores Water Company (“Highland Shores”), pursuant to Section
20 4-502(c)(2) of the Public Utilities Act (“Act”).

21

22 **5. Q. Please summarize your findings and recommendations.**

23 A. In Staff Exhibit 5.0, Roy King identifies the proximate public utilities that could
24 acquire Highland Shores under Section 4-502(c) of the Act. Section 3-105 of
25 the Act limits public utilities to investor-owned entities. (220 ILCS 5/3-105)
26 Accordingly, the proximate public utilities are the operating subsidiaries of
27 Utilities, Inc. (“Utilities, Inc. subsidiaries”). Based on my analysis, the Utilities,

28 Inc. subsidiaries have the financial ability to acquire and operate Highland
29 Shores.

30

31 **6. Q. Why is it necessary to evaluate the financial ability of all proximate**
32 **public utilities providing water and wastewater service?**

33 A. Under Section 4-502(c)(2) of the Act, in making a determination under
34 Section 4-502(a) of the Act, the Commission must consider the financial
35 ability of all proximate public utilities providing the same type of service. (220
36 ILCS 5/4-502(c)(2))

37

38 **7. Q. How do you define “financial ability”?**

39 A. In my judgment, for the purpose of Section 4-502 of the Act, a public utility
40 has “financial ability” if it has sufficient access to capital at reasonable terms
41 to acquire and operate the small utility.

42

43 **8. Q. How did you assess the proximate public utilities’ financial ability?**

44 A. I reviewed the proximate public utilities’ size and credit ratings or other
45 indicators of credit strength. If a proximate public utility is large relative to
46 Highland Shores and financially strong, the proximate public utility would
47 have the financial ability to acquire and operate Highland Shores without
48 injury to the proximate public utilities’ ability to raise capital on reasonable
49 terms.

50

51 **9. Q. Please provide the amount of Highland Shores’ total assets.**

52 A. According to Highland Shores’ ILCC Form 22 annual report for December
53 31, 2000, its total assets equal \$87,789.

54

55 **10. Q. How do the Utilities, Inc. subsidiaries obtain capital?**

56 A. The Utilities, Inc. subsidiaries obtain debt and equity capital through their
57 parent company, Utilities, Inc, whose assets total approximately \$389 million.
58 (Utilities, Inc.'s Audited 2000 Financial Statements) Nonetheless, in Docket
59 No. 01-0480, the Commission approved a reorganization in which N.V. Nuon
60 acquired Utilities, Inc. and its subsidiaries. (Order, Docket No. 01-0480,
61 November 27, 2001 at 1) Consequently, N.V. Nuon, whose assets total
62 approximately \$7 billion¹ (Consolidated Balance Sheet After Allocation of
63 Income of N.V. Nuon at December 31, 2000), would be responsible for
64 providing equity capital to the Utilities, Inc. subsidiaries if Utilities, Inc. did not
65 have sufficient funds on hand.

66
67 **11. Q. Do the Utilities, Inc. subsidiaries have access to the capital markets
68 on reasonable terms?**

69 A. Yes. During the Docket No. 01-0480 proceeding, in which N.V. Nuon
70 acquired Utilities, Inc., Staff reviewed Utilities, Inc.'s financial strength and
71 concluded that its financial strength is sufficient to raise capital on
72 reasonable terms. Specifically, Staff reviewed Utilities, Inc.'s pre-tax interest
73 coverage, funds from operations interest coverage, total debt to total capital
74 and funds from operations to total debt ratios for 1999 and 2000. Staff's
75 analysis indicated that each ratio is at, or above, the S&P benchmarks for a
76 "BBB" credit rating. (*Id.* at 5) According to S&P, a BBB-rated utility has an
77 adequate capacity to meet its financial obligations. (Standard & Poor's
78 Ratings Definitions, December 21, 2001, at 2)

79

¹ N.V. Nuon's December 31, 2000, consolidated balance sheet shows total assets of 8,171 million euros. On March 15, 2002, the euro to U.S. dollar conversion rate equaled 1.13 to \$1. (www.wsj.com)

80 Furthermore, S&P rates N.V. Nuon "AA-." (Standard & Poor's, "Summary:
81 N.V. Nuon," November 29, 2001) According to S&P, an AA-rated utility has a
82 very strong capacity to meet its financial obligations. (Standard & Poor's
83 Ratings Definitions, December 21, 2001, at 1) The size and credit rating of
84 N.V. Nuon and the size and implied credit rating of Utilities, Inc. indicate that
85 the Utilities, Inc. subsidiaries have access to sufficient capital at reasonable
86 terms to acquire and operate Highland Shores.

87

88 **12. Q. Does this conclude your prepared direct testimony?**

89 A. Yes.