

DIRECT TESTIMONY

OF

ROCHELLE LANGFELDT

FINANCE DEPARTMENT

FINANCIAL ANALYSIS DIVISION

ILLINOIS COMMERCE COMMISSION

NORTHERN ILLINOIS UTILITIES, INC.

DOCKET NO. 01-0491

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 Northern Illinois Utilities, Inc. (“NIU”), pursuant to Section 4-502(c)(2) of the
20 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 NIU under Section 4-502(c) of the Act. Section 3-105 of the Act limits
25 public utilities to investor-owned entities. (220 ILCS 5/3-105) Accordingly,
26 the proximate public utilities are the operating subsidiaries of Utilities, Inc.

27 (“Utilities, Inc. subsidiaries”). Based on my analysis, the Utilities, Inc.
28 subsidiaries have the financial ability to acquire and operate NIU.

29

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

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

36

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

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

41

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

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

48

49 **9. Q. Please provide the amount of NIU’s total assets.**

50 A. According to NIU’s ILCC Form 22 annual report for December 31, 2000, its
51 total assets equal \$258,552.

52

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

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

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

67 A. Yes. During the Docket No. 01-0480 proceeding, in which N.V. Nuon
68 acquired Utilities, Inc., Staff reviewed Utilities, Inc.'s financial strength and
69 concluded that its financial strength is sufficient to raise capital on
70 reasonable terms. Specifically, Staff reviewed Utilities, Inc.'s pre-tax interest
71 coverage, funds from operations interest coverage, total debt to total capital
72 and funds from operations to total debt ratios for 1999 and 2000. Staff's
73 analysis indicated that each ratio is at, or above, the S&P benchmarks for a
74 "BBB" credit rating. (Id. at 5) According to S&P, a BBB-rated utility has an
75 adequate capacity to meet its financial obligations. (Standard & Poor's
76 Ratings Definitions, December 21, 2001, at 2)
77
78 Furthermore, S&P rates N.V. Nuon "AA-." (Standard & Poor's, "Summary:
79 N.V. Nuon," November 29, 2001) According to S&P, an AA-rated utility has a

¹ N.V. Nuon's December 31, 2000, consolidated balance sheet shows total assets of 8,171 million euros.

80 very strong capacity to meet its financial obligations. (Standard & Poor's
81 Ratings Definitions, December 21, 2001, at 1) The size and credit rating of
82 N.V. Nuon and the size and implied credit rating of Utilities, Inc. indicate that
83 the Utilities, Inc. subsidiaries have access to sufficient capital at reasonable
84 terms to acquire and operate NIU.

85

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

87 A. Yes.

On March 15, 2002, the euro to U.S. dollar conversion rate equaled 1.13 to \$1. (www.wsj.com)