

ILLINOIS-AMERICAN WATER COMPANY

| | | |
|---|---|---------|
| Informational Statement under Section 6-102(d) |) | 09-0247 |
| regarding issuance and sale of \$23,325,000 of long |) | |
| term indebtedness for refunding purposes. |) | |
| |) | (Cons.) |
| Petition under Section 7-101 Regarding Issuance |) | |
| and Sale of \$23,325,000 of Long Term Indebtedness |) | 09-0248 |
| to an Affiliated Interest |) | |

FINAL SPECIAL REPORT – 2nd Quarter 2010

TO THE ILLINOIS COMMERCE COMMISSION:

Pursuant to Administrative Code Section 240.20, Petitioner submits the following report for the period April 1 through June 30, 2010.

a) In respect to the issuance and sale of:

1) Capital Stock

Not applicable.

2) Bonds and other securities

A) and B) Petitioner did not issue any securities during the reporting period pursuant to Docket Nos. 09-0247 and 09-0248 (Cons).

3) All classes of securities

A) Not applicable.

B) Not applicable.

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COMMERCE COMMISSION

C) As of June 30, 2010, the total issuance costs incurred by Illinois American Water Company (IAWC) associated with the securities issued pursuant to the authority granted in Docket Nos. 09-0247 and 09-0248 (Cons.) were \$849,435.56. The itemization of this amount is as follows:

| Underwriter Fees | Legal Fees | Misc. Fees | ICC Fees | IFA Fees | Total Issuance Costs |
|-------------------------|-------------------|-------------------|-----------------|-----------------|-----------------------------|
| \$641,437.50 | \$115,273.75 | \$31,744.31 | \$55,980 | \$5,000 | \$849,435.56 |

b) In respect to application of proceeds:

Not applicable.

c) In respect to unapplied proceeds:

As of June 30, 2010, IAWC had no remaining unapplied proceeds from the authorization granted in Docket Nos. 09-0247 and 09-0248 (Cons.). The Company has utilized the full authorization granted by the ICC. Thus, the Company will not issue any additional securities pursuant to these dockets.

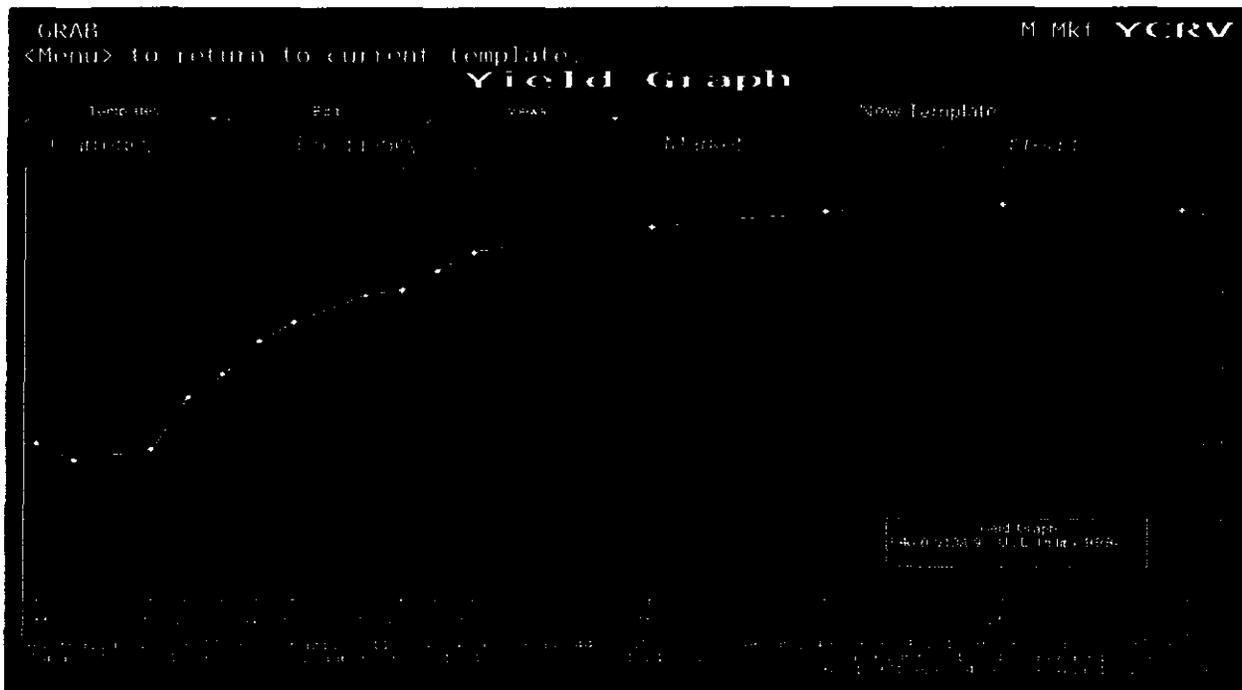
Pursuant to item (ii) of Findings and Ordering Paragraph 8 of the Final Order in Docket Nos. 09-0247 and 09-0248 (Cons.), IAWC is required to provide the following:

(ii) a comparison of the issuance costs and interest rate for the 2009 Note issued to AWCC with estimates of the issuance costs and interest rate that IAWC might have incurred had IAWC issued unsecured indebtedness directly to investors.

Debt financing through American Water Capital Corp. ("AWCC"), IAWC's financing affiliate, currently allows IAWC to borrow at a lower interest rate due to AWCC's higher credit rating of BBB+. As discussed below, issuing debt through AWCC lowered the interest rate by approximately 100 basis points because IAWC, on a stand-alone basis, would have a lower credit rating.

The Company's analysis suggests that, based on IAWC's values for the S&P Ratings criteria published in Standard & Poor's RatingsDirect, IAWC's stand-alone credit rating would be between BB+ and BBB-. The graph below shows an approximate 100 basis point yield difference between a BBB+ utility and a BBB- utility. This assumption is based on the spread at the 22 year time horizon, since the bonds mature on May 1, 2032. Thus, issuance through AWCC allowed IAWC to borrow at a rate consistent with a stronger credit rating of BBB+, resulting in a coupon interest rate reduction of approximately 100 basis points.

Yield Differential Between a BBB+ and BBB- U.S. Utility (Source: Bloomberg 8/10/09)



S&P Ratings Criteria

Table 1

| Business Risk | Financial Risk Profile | | | | |
|---------------|------------------------|--------|--------------|------------|------------------|
| | Minimal | Modest | Intermediate | Aggressive | Highly Leveraged |
| Excellent | AAA | AA | A | BBB | BB |
| Strong | AA | A | A- | BBB- | BB- |
| Satisfactory | A | BBB+ | BBB | BB+ | B+ |
| Weak | BBB | BBB- | BB+ | BB- | B+ |

Table 2

| | Financial Risk Profile | | | | |
|----------------------|------------------------|----------|--------------|------------|------------------|
| | Minimal | Modest | Intermediate | Aggressive | Highly Leveraged |
| Cash Flow/Debt | Over 60% | 45%-60% | 30%-45% | 15-30% | less than 15% |
| Debt/ Capitalization | Below 25% | 25%-35% | 35%-45% | 45%-55% | Over 55 |
| Debt/EBITDA | Less than 1.4 | 1.4 -2.0 | 2.0-3.0 | 3.0-4.5 | Over 4.5 |

IL Credit Statistics

Years ended 31 Dec

| | <u>2009</u> | <u>2008</u> | Credit Rating |
|-----------------------------------|-------------|-------------|---------------|
| Adjusted EBITDA1/Interest Expense | 3.1x | 2.6x | |
| FFO/Interest Expense | 4.0x | 3.3x | |
| FFO/Adjusted Debt | 14.2% | 11.2% | |
| Adjusted Debt/ Adjusted EBITDA | 6.9x | 8.1x | |
| Adjusted Debt/Capitalization | 53.0% | 55.6% | |

Based on AWCC's current BBB+/baa2 ratings from S&P and Moody's, respectively, and the Company's estimate that, based on the above analysis, IAWC would have been assigned a BBB- rating from S&P if the Company had purchased an S&P rating, the interest rate that IAWC would have obtained on the \$23.325 million bond issue is estimated to be 7.25%, rather than the

6.25% rate that was obtained by issuing through AWCC. Based on that assumption, the total interest cost savings is \$233,250 annually, which over the life of the bonds is \$5,287,000.

With respect to issuance costs, since this issuance was not pooled with that of any other American Water subsidiary, the only cost component that differed by issuing through AWCC rather than issuing directly to investors was the rating agency fees. The rating agency fees totaled \$15,000, and the Company estimates that this cost would have totaled \$117,000 if IAWC had purchased both S&P and Moody's bond ratings and issued the bonds directly to investors. Thus, the issuance cost savings to IAWC by issuing through AWCC is estimated to be \$102,000, as shown in the following table below.

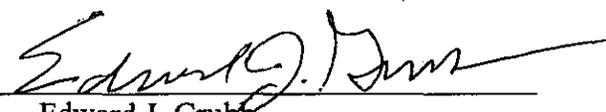
Issuance Cost Comparison of Tax Exempt Debt Issuance

| | <u>AWCC</u> | <u>IL-Am</u> |
|--------------------------|-------------------|-------------------|
| Face Amount of Issuance | \$ 23,325,000 | \$ 23,325,000 |
| Underwriter's Discount | \$ 641,438 | \$ 641,438 |
| Bond Ratings | 15,000 | 117,000 |
| Trustee | 2,500 | 2,500 |
| Trustee Counsel | 6,688 | 6,688 |
| IFA Fee | 5,000 | 5,000 |
| Issuer Counsel Fee | 4,841 | 4,841 |
| IAWC Counsel | 6,209 | 6,209 |
| Bond Counsel | 97,536 | 97,536 |
| Printing & Miscellaneous | 1,864 | 1,864 |
| Accountant's Fees | 12,380 | 12,380 |
| ICC Fee | 55,980 | 55,980 |
| Total | <u>\$ 849,436</u> | <u>\$ 951,436</u> |

This is IAWC's final report for this docket. As noted in Part C above, the Company has utilized the full authorization granted by the ICC. Thus, the Company will not issue any additional securities pursuant to this docket.

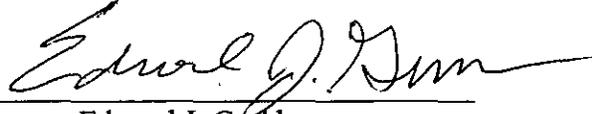
Dated August 27, 2010.

ILLINOIS AMERICAN WATER COMPANY

By: 
 Edward J. Grubb
 Assistant Treasurer
 Illinois American Water Company

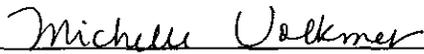
VERIFICATION

Edward J. Grubb, Assistant Treasurer of Illinois American Water Company, being first duly sworn, deposes and states that he is familiar with the facts stated in the foregoing Special Report and that said facts are true and correct to the best of his knowledge, information and belief.



Edward J. Grubb
Assistant Treasurer
Illinois American Water Company

SUBSCRIBED and SWORN to before me this
21th day of August, 2010.



Notary Public

