

ILLINOIS-AMERICAN WATER COMPANY

Illinois-American Water Company's)
Informational Statement under Section)
6-102(d) of the Public Utilities Act)

Docket No. 10-0738

CHIEF CLERK'S OFFICE
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ILLINOIS COMMERCE
COMMISSION

SPECIAL REPORT – 2nd Quarter 2011

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, 2011.

a) In respect to the issuance and sale of:

1) Capital Stock

A) and B) Not applicable.

2) Bonds and other securities

A) and B) Pursuant to Docket No. 10-0378, Petitioner issued the following security during the reporting period:

Amount & Type of Security	Date Issued	Rate	Price/\$100
\$6,000,000 Promissory Note	5/19/2011	5.90%	Issued at Par

3) All classes of securities

A) The security identified above was issued to American Water Capital Corp. ("AWCC"), which is the financing subsidiary of American Water Works Company, and an affiliate of Illinois American Water Company. It is a Promissory Note with a maturity date of October 15, 2037.

B) As shown in the above table, the Promissory Note is in the amount of \$6 million. There was no discount or premium associated with the issuance.

C) As of June 30, 2011, the total issuance costs incurred by IAWC associated with the securities issued pursuant to the authority granted in Docket No. 10-0738 have been \$2,432.1. The itemization of this amount is as follows:

Underwriter Fees	Legal Fees	Misc. Fees	ICC Fees	Total Issuance Costs
\$0	\$2,432.1	\$0	\$0	\$2,432.1

b) In respect to application of proceeds:

Proceeds from the Promissory Note were used to reduce the Company's outstanding short-term debt balance which, in turn, had been increased by \$6 million to fund the retirement of the original \$6 million 9.625% Note on February 23, 2011.

c) In respect to unapplied proceeds:

As of June 30, 2011, IAWC had remaining unapplied proceeds from the authorization granted in Docket No. 10-0738 in the amount of \$54,085,000. The Company will continue to file reports pursuant to this docket until all debt issues identified as refunding candidates in the ICC's Order in Docket No. 10-0738 have been refunded, or the expiration of the authorization granted in Docket No. 10-0738 expires.

Pursuant to item (ii) in the section entitled "IAWC's Proposal" on page three of the Final Order, and affirmed by Paragraph 7 of the "Commission Conclusions, Findings and Ordering Paragraphs" on page five of the Final Order in Docket No. 10-0738, IAWC is required to provide the following:

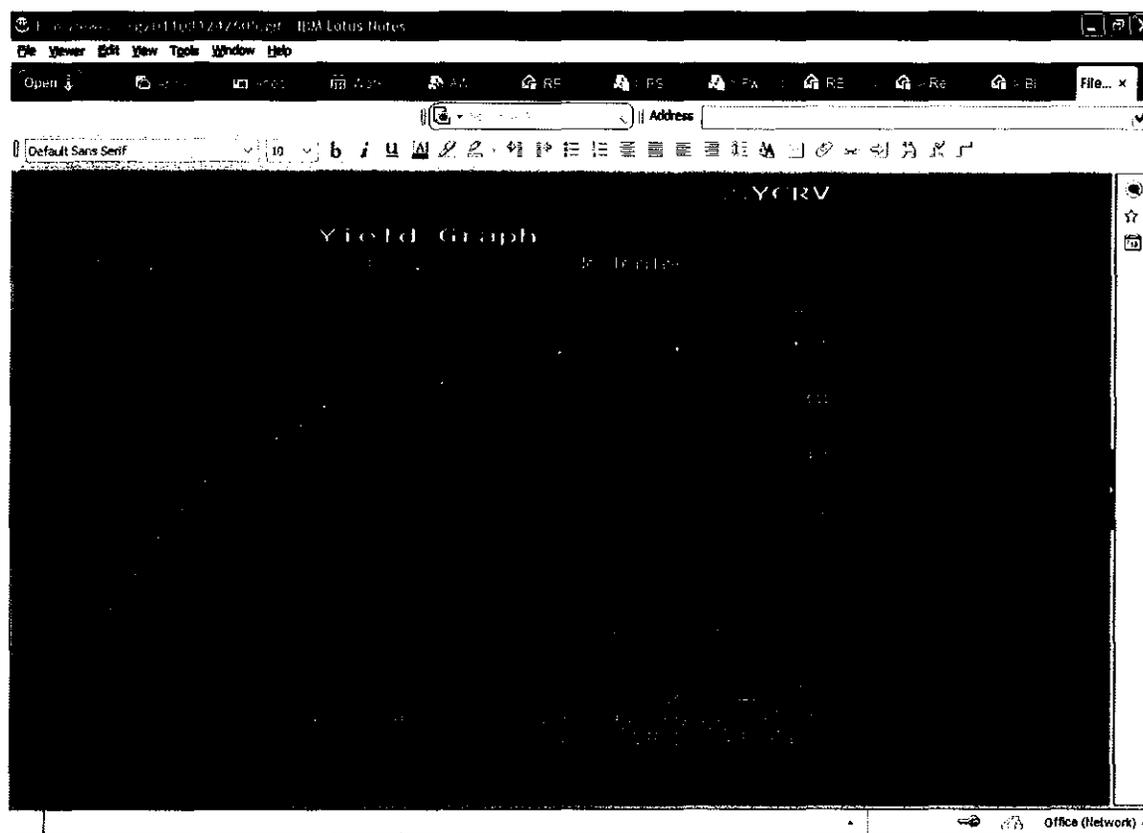
(ii) a comparison of the issuance costs and interest rates for the new Note(s) issued to AWCC with estimates of the issuance costs and interest rates that IAWC might have incurred had IAWC issued unsecured indebtedness directly to investors.

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+. Regarding IAWC's \$6 million taxable bond, as discussed below, issuing this bond through AWCC lowered the interest rate by approximately 48 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 48 basis point yield difference between a BBB+ utility and a BBB- utility. Including a 40 basis point adder for liquidity which the market normally requires for AWCC issuances, the yields for the BBB+ and BBB- utility bonds were 5.8972% and 6.3773%, respectively, on the date of issue, May 19, 2011. This assumption is based on the spread at the 30 year time horizon for a taxable utility bond, which is consistent with the term of the bond issued by the Company. 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 48 basis points.

Yield Differential Between a BBB+ and BBB- U.S. Utility (Source: Bloomberg 5/19/11)



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

II. Credit Statistics

Years ended 31 Dec

	2010	2009	2008	Credit Rating
Adjusted EBITDA1/Interest Expense	3.9x	3.1x	2.6x	BBB- to BB+
FFO/Interest Expense	4.2x	4.0x	3.3x	
FFO/Adjusted Debt	16.3%	14.2%	11.2%	
Adjusted Debt/ Adjusted EBITDA	4.9x	6.9x	8.1x	
Adjusted Debt/Capitalization	52.2%	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 \$6 million bond issue is estimated to be approximately 6.38%, rather than the 5.90% rate that was obtained by issuing through AWCC. Based on that assumption, the total interest cost savings is \$28,800 annually, which over the 26.5-year life of the AWCC Note is \$763,200.

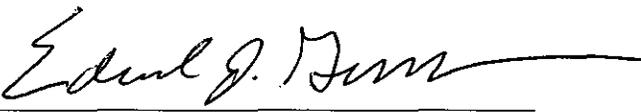
With respect to issuance costs, the only costs incurred by IAWC were legal fees related to obtaining regulatory approval from the ICC for the refinancing. The source of debt for [IAWC's \$6.0 million borrowing is a fixed rate, senior, unsecured, taxable note issued by AWCC. The interest rate for the fixed rate note was determined by prevailing market rates for this maturity, based upon third party quotes and sources, had AWCC issued this same form of debt in a larger institutionally acceptable offering into the public markets at the time of the borrowing by IAWC from AWCC. Thus, IAWC's estimate of the issuance cost savings by obtaining the debt through AWCC is \$287,338 (see Table below). The total cost savings, including interest and issuance costs, to IAWC by obtaining the debt proceeds from AWCC is estimated to be \$1,050,538 over the life of the AWCC Note.

Actual and Estimated Long-Term Debt Issuance Costs

	AWCC Issuance <u>(Actual)</u>	IAWC Issuance <u>(Estimated)</u>
Face Amount of Issuance	\$ 6,000,000	\$ 6,000,000
Underwriter's Discount	\$ -	\$ 30,000
Bond Ratings	-	140,000
Trustee	-	4,000
Trustee Counsel	-	-
Local Counsel	2,432	2,432
Purchaser's Counsel	-	30,000
Company Counsel	-	57,338
Printing & Miscellaneous	-	1,000
Accountant's Fees	-	25,000
Total	<u>\$ 2,432</u>	<u>\$ 289,770</u>
Difference		\$ 287,338

Dated August 30, 2011.

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
1st day of ~~August~~, 2011.
September



Notary Public

