



ILLINOIS
AMERICAN WATER

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ILLINOIS COMMERCE COMMISSION

August 23, 2012

ILLINOIS
COMMISSION

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CHIEF CLERK'S OFFICE

ORIGINAL

Ms. Elizabeth A. Rolando, Chief Clerk
Illinois Commerce Commission
527 E. Capitol Avenue
Springfield, IL 62701

Re: Docket No. 10-0738 – Special Report

Dear Ms. Rolando,

In accordance with Illinois Administrative Code Title 83, Part 240, enclosed for filing on behalf of Illinois American Water Company are an original and three copies of a Special Report in Docket No. 10-0738.

Please file the report and return a file-marked copy to the undersigned in the enclosed return envelope.

Very truly yours,

Scott Rungren

Scott W. Rungren
Financial Analyst
American Water Company
727 Craig Road
St. Louis, MO 63141

Enclosures

cc: Sheena Kight-Garlich

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STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

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

THIS SPECIAL REPORT INCLUDES THE FOLLOWING:

2nd Quarter 2012 Report

TO THE ILLINOIS COMMERCE COMMISSION:

Pursuant to Administrative Code Section 240.20, Petitioner submits the following report for the period of April 1, 2012 through June 30, 2012.

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. 10-0738, Petitioner issued the following security during the reporting period:

Amount & Type of Security	Date Issued	Rate	Price/\$100
\$3,597,000 Promissory Note	6/11/2012	2.65%	Issued at Par
\$3,243,000 Promissory Note	6/11/2012	4.925%	Issued at Par

3) All classes of securities

A) The securities identified above were 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. The Promissory Note in the amount of \$3,597,000 has a maturity date of October 15, 2017, and the Promissory Note in the amount of \$3,243,000 has a maturity date of October 15, 2037

B) As of June 30, 2012 the Company has issued total long-term debt in the amount of \$12.84 million under the approval granted in this docket. This includes the two Notes indicated above and the previously reported \$6 million Note issued on May 19, 2011. All the debt has been issued in the form of Promissory Notes to the Company's financing affiliate, American Water Capital Corp. (AWCC). There was no discount or premium associated with the issuances.

C) As of June 30, 2012, the total issuance costs incurred by IAWC associated with the securities issued pursuant to the authority granted in Docket No. 10-0738 have been \$2,432.10. The itemization of this amount is as follows:

Underwriter Fees	Legal Fees	Misc. Fees	ICC Fees	Total Issuance Costs
\$0	\$2,432.10	\$0	\$0	\$2,432.10

b) In respect to application of proceeds:

Proceeds from the new Promissory Notes were used to refund the Company's Series R – Tax Exempt 5.5% First Mortgage Bond, which had a face amount outstanding of \$6.84 million at the time of retirement on June 11, 2012. The Company notes that the face amount of this Bond was reported as \$6,900,000 in its Informational Statement filed in this Docket, and is also noted as such in the Final Order. Subsequent to the issuance of the Final Order, however, the Company made sinking fund payments totaling \$60,000, which reduced the amount outstanding to \$6,840,000 prior to the Bond's retirement on June 11, 2012.

c) In respect to unapplied proceeds:

As of June 30, 2012, IAWC has remaining unapplied proceeds from the authorization granted in Docket No. 10-0738 in the amount of \$53,245,000. There are four remaining debt issues for which Illinois American received approval in this docket to refinance. 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 ICC 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 Notes totaling \$6.84 million, as discussed below, issuing these Notes through AWCC lowered the interest rate by approximately 48 basis points because IAWC, on a stand-alone basis, would have a lower credit rating.

As shown in Table 1 below, 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 BBB and BB+.

S&P Ratings Criteria

Table 1

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

Table 2

	Financial Risk Profile					
	Minimal	Modest	Intermediate	Significant	Aggressive	Highly Leveraged
FFO/Debt (%)	Over 60%	45%-60%	30%-45%	20%-30%	12-20%	Less than 12%
Debt/EBITDA (x)	Less than 1.5x	1.5x-2x	2x-3x	3x-4x	4x-5x	Greater than 5x
Debt/Capital (%)	Less than 25%	25%-35%	35%-45%	45%-50%	50%-60%	Greater than 60%

IL Credit Statistics

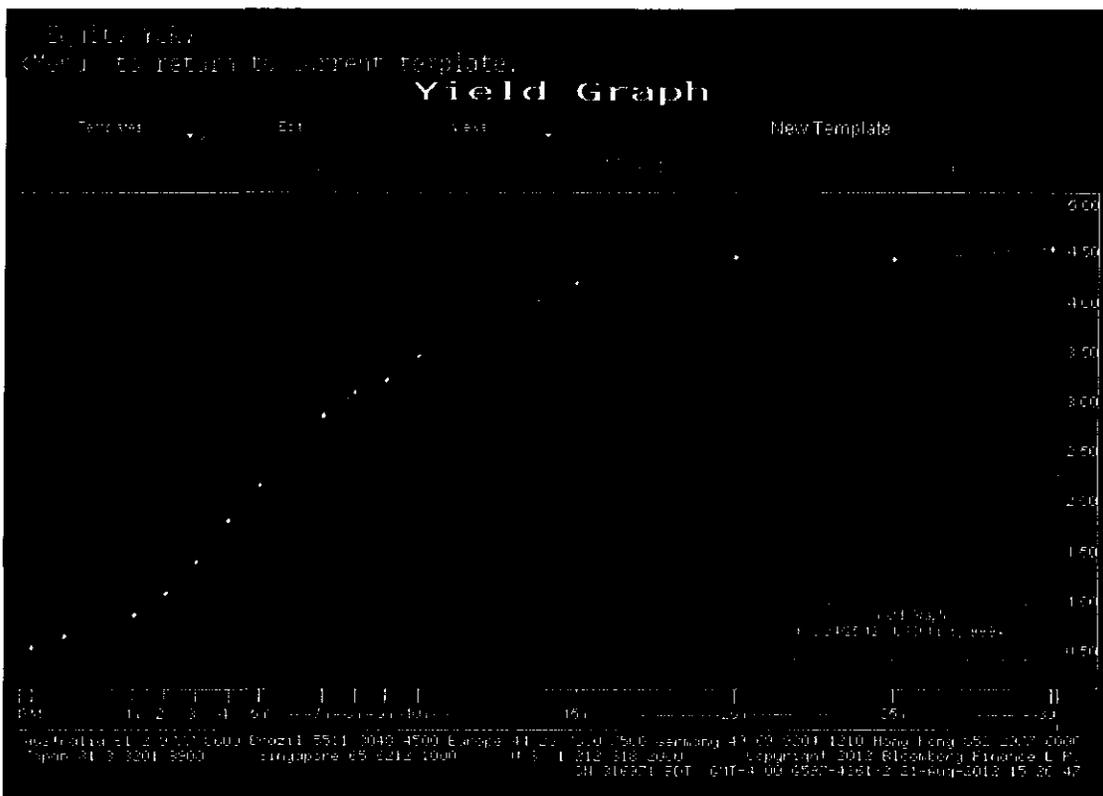
	Years ended 31 Dec			
	2011	2010	2009	2008
Adjusted EBITDA/Interest Expense	5.1x	4.5x	3.1x	2.6x
FFO/Interest Expense	4.7x	4.2x	4.0x	3.3x
FFO/Adjusted Debt	18.4%	16.4%	14.3%	11.3%
Adjusted Debt/ Adjusted EBITDA	3.9x	4.3x	6.9x	8.0x
Adjusted Debt/Capitalization	52.5%	52.1%	52.8%	55.4%

Estimated ILAW Credit Rating:

BBB to BB+

The graph below shows that when comparing the yields on BBB+ and BBB utility bonds for both the five-year and twenty five-year maturities results in yield differentials of 43 and 19 basis points, respectively:

Yield Differential Between a BBB+ and BBB U.S. Utility (Source: Bloomberg 4/25/12)



Since AWCC typically issues debt at a rate 40 to 50 basis points higher than the market rate, which is investors' required compensation for liquidity risk, 50 basis points were added to the yields for the BBB+ and BBB utility bonds, which resulted in rates of 2.64% and 3.07%, respectively, for a five-year maturity, and 4.90% and 5.09%, respectively, for a twenty five-year maturity. These rates were effective as of April 25, 2012, which is the date the rates on the new AWCC Notes were locked. This analysis is based on the spreads at the five-year and twenty five-year time horizons for taxable utility bonds, which is consistent with the terms of the Notes 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 42 (3.07 – 2.65) basis points on the five-year Note and 17 (5.09 – 4.925) basis points on the twenty five-year Note.

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 \$3.597 million Note is estimated at approximately 3.07%, rather

than the 2.65% rate that was obtained through AWCC. The rate that IAWC would have obtained on the \$3.243 million Note is estimated at approximately 5.09%, rather than the 4.925% that was obtained by issuing through AWCC. Based on these assumptions, the interest cost savings is \$15,107 annually on the \$3.597 million Note, which is \$75,535 over its five-year term, and \$5,351 annually on the \$3.243 million Note, which is \$133,775 over its twenty five-year term. Thus, the total interest cost savings from issuing through AWCC is estimated at \$209,310.

IAWC did not incur any issuance costs related to the two new Notes. The source of debt for IAWC's combined \$6.84 million borrowing is a fixed rate, senior, unsecured, taxable note issued by AWCC. The interest rates for the fixed rate notes were determined by prevailing market rates for these maturities, 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 \$291,538 (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 \$500,848 over the twenty five-year life.

Table 2
Actual and Estimated Long-Term Debt Issuance Costs

	AWCC Issuance (Actual)	IAWC Issuance (Estimated)	
Face Amount of Issuance	\$ 6,840,000	\$6,840,000	
Underwriter's Discount	\$ -	\$ 34,200	
Bond Ratings	-	140,000	
Trustee	-	4,000	
Trustee Counsel	-	-	
Local Counsel	-	-	
Purchaser's Counsel	-	30,000	
Company Counsel	-	57,338	
Printing & Miscellaneous	-	1,000	
Accountant's Fees	-	25,000	
Total	\$ -	\$ 291,538	
Difference			\$ 291,538

Dated August 23, 2012.

ILLINOIS AMERICAN WATER COMPANY

By: 
Mark Shaeffer
Vice President - Finance
Illinois American Water Company

VERIFICATION

Mark Shaeffer, Vice President – Finance 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.


Mark Shaeffer
Vice President - Finance
Illinois American Water Company

SUBSCRIBED and SWORN to before me this
23 day of August, 2012.


Notary Public

