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ILLINOIS-AMERICAN WATER COMPANY

Illinois-American Water Company's Informational Statement under Section 6-102(d) of the Public Utilities Act	)))	Docket Nos. 12-0576/12-0577 (Consol)

FINAL SPECIAL REPORT - 1st QUARTER 2013

TO THE ILLINOIS COMMERCE COMMISSION:

Pursuant to Administrative Code Section 240.20, Petitioner submits the following report for the period of January 1, 2013 through March 31, 2013.

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 Nos. 12-0576/12-0577 (Consol), Petitioner issued the following security during the reporting period:

Amount & Type of Security	Date Issued	Rate	Price/$100
$15,000,000 Promissory Note	12/17/2012	4.30%	99.81% of Principal

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. This amount, $15,000,000, was part of a $67,800,000 Promissory issued to AWCC, and has a maturity date of December 1, 2042. The remaining amount, $52,800,000, was

issued under authority granted in ICC Docket Nos. 10-0738. The Company filed its final 240 report for 4th quarter 2012 pursuant to the Order in that docket.

B) As of March 31, 2013 the Company has issued total long-term debt in the amount of $15 million under the approval granted in this docket. This debt was issued in the form of a Promissory Note to the Company's financing affiliate, American Water Capital Corp. (AWCC). The $15 million was issued on December 17, 2012 at a discount of $27,300, or at 99.81% of the principal amount.

C) As of March 31, 2013, the total issuance costs incurred by IAWC associated with the securities issued pursuant to the authority granted in Docket Nos. 12-0576/12-0577 (Consol) have been $225,463. The itemization of this amount is as follows:

Underwriter Fees	Legal Fees	Misc. Fees	ICC Fees	Bond Discount	Total Issuance Costs
$131,250	$10,642	$20,271	$36,000	$27,300	$225,463

b) <u>In respect to application of proceeds:</u>

Proceeds from the new issuance, $15,000,000 (minus expenses), were used to reduce the Company's outstanding short-term debt balance.

c) <u>In respect to unapplied proceeds:</u>

As of March 31, 2013, IAWC has no remaining unapplied proceeds from the authorization granted in Docket Nos. 12-0576/12-0577 (Consol). The Company has utilized the full authorization granted by the ICC and, thus, will not issue any additional securities pursuant to this docket.

Pursuant to Section II entitled "Staff Position" starting on page two of the Final Order, and affirmed by Paragraph 4 of the "Findings and Ordering Paragraphs" section on page four of the Final Order in Docket Nos. 12-0576/12-0577 (Consol), IAWC is required to provide the following:

> If IAWC elects to issue indebtedness through AWCC, IAWC should provide a comparison of the costs to issue indebtedness through AWCC (including interest) and the costs IAWC estimated it would incur to issue indebtedness directly to investors. The interest rate on the new indebtedness, and if applicable, the cost comparison for the

new indebtedness, could be either included in the reports filed pursuant to Part 240 or provided in a separate filing.

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 $15 million Note, as discussed below, issuing the Note through AWCC lowered the interest rate by approximately 16 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

	Financial Risk Profile					
Business Risk	**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+**

Based on data from Bloomberg Online on December 14, 2012, the yields on BBB and BBB+ utility bonds for the thirty-year maturity indicate a spread of 16 basis points (4.1926% - 4.0348%). This time period is consistent with the time horizon for the term of the Note 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 16 basis points.

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 $15 million Note is estimated at approximately 4.46%, rather than the 4.30% rate that was obtained through AWCC. Based on these assumptions, the interest cost savings is $24,000 annually, which is $720,000 over its thirty-year term.

With respect to issuance costs, IAWC benefitted from the fact that its $15 million debt issuance was part of a larger $300 million debt financing issued by AWCC. The economies of scale produced by pooling IAWC's debt financing with those of other American Water subsidiaries resulted in lower issuance costs being allocated to IAWC than IAWC would have incurred had it issued the bonds directly to investors. As shown in the table below, the Company's estimate of the issuance cost savings is $128,450. The table shows the actual issuance costs incurred by IAWC as compared to the Company's estimates of those costs assuming IAWC had issued the bonds directly to investors.

Table 2
Actual and Estimated Long-Term Debt Issuance Costs

	Issued Through AWCC (Actual)	If Issued By IAWC (Estimated)
Total Issuance Amount	$ 15,000,000	$ 15,000,000
Underwriter's Commission *	$ 131,250	$ 131,250
Underwriter's Counsel	250	250
Ratings Agencies	11,550	140,000
Trustee	425	425
Trustee Counsel	175	175
Printing & Misc	1,250	1,250
Accountant (external)	5,000	5,000
Issuer's Counsel	3,250	3,250
SEC Filing Fees	2,046	2,046
Illinois Commerce Commission Fee	36,000	36,000
Local Legal Fees	6,967	6,967
Total Issuance Cost	$ 198,163	$ 326,613
Issuance Expenses as % of Issuance Amount	1.32%	2.18%
Difference		$ 128,450
AWCC Issuance Amount	$ 300,000,000	
IAWC Issuance as a % of AWCC Total Issuance	5.00%	
Issuance Costs for IAWC	$ 198,163 **	$ 326,613

* The underwriters' fee assume public debt issuance via the institutional markets
** IAWC share of the AWCC total issuance costs

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 May 30, 2013.

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
30th day of May, 2013.

Deborah S. Hendrix
Notary Public

DEBORAH S. HENDRIX
NOTARY PUBLIC - NOTARY SEAL
STATE OF MISSOURI, ST. LOUIS COUNTY
MY COMMISSION EXPIRES 8-11-2015
COMMISSION #11420583