

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

ILLINOIS-AMERICAN WATER COMPANY Consolidated Docket Nos.

Petition under Section 7-101 of the Act for : 13-0565
Approval of Affiliated Interest Transaction :
Regarding Issuance and Sale of \$13,000,000 :
of Indebtedness. :

ILLINOIS-AMERICAN WATER COMPANY

Informational Statement under Section 6- : 13-0566
102(d) Regarding Issuance and Sale of :
\$13,000,000 of Long Term Indebtedness :

**STAFF'S ANSWER TO ILLINOIS-AMERICAN WATER COMPANY'S
PETITION AND INFORMATIONAL STATEMENT**

Now comes the Staff of the Illinois Commerce Commission ("Staff") in response to Illinois-American Water Company's ("IAWC" or Company") Petition and Informational Statement. On October 4, 2013, IAWC filed its Petition pursuant to Section 7-101 of the Public Utilities Act, 220 ILCS 5/7-101 *et. seq.* ("Act") and its Informational Statement pursuant to Section 6-102(b) of the Act. In its Petition, IAWC requested that the Commission enter an Order authorizing IAWC to enter into "an affiliated interest transaction with American Water Capital Corp. ("AWCC") for the issuance and sale of up to \$13,000,000 in indebtedness." (Petition, 1) The Company's Informational Statement requests the Commission authorize IAWC to issue \$13,000,000 of indebtedness in one or more transactions, in one or both of the following forms pursuant

to the Financial Services Agreement between IAWC and its affiliate AWCC: (1) taxable promissory notes (“Taxable Notes”) and (2) loan obligations to a governmental issuer (*i.e.* governmental bodies or political subdivisions of the State of Illinois) in connection with the issuance by the governmental issuer of one or more series of tax-exempt bonds (“Tax-Exempt Bonds). IAWC proposes AWCC loan funds to IAWC in the form of Notes pursuant to the Financial Services Agreement (“FSA”), which the Commission’s Order in Docket No. 04-0582 authorized. In the instant cases, IAWC requests authority for AWCC to fund any indebtedness to IAWC through long-term unsecured debt instruments. According to the Company, AWCC has more ready access to the capital markets than IAWC, which should result in a lower interest rate and financing costs than would an independent debt issuance by IAWC. IAWC also states it will not issue Notes to AWCC unless it can determine that such issuance will result in the lowest overall cost available to IAWC for the securities of comparable type, maturity and terms.¹ That is, the FSA could provide IAWC long-term unsecured financing at a lower cost than would be available to IAWC as a standalone borrower.

The purpose of the Company’s proposed issuance and sale of up to \$13,000,000 aggregate amount of new indebtedness is for “(i) refunding, redeeming or refinancing outstanding issues of bonds, notes or other evidences of indebtedness, including short-term debt incurred to temporarily fund construction expenditures expected to be incurred for the construction or improvements of or additions to its facilities” (IAWC Exhibit 1.0, 5) and (ii) for utility expenditures incurred through their normal course of

¹ IAWC Exhibit 1.0, p. 7.

business, including payment of certain issuance expenses of the proposed indebtedness.” (IAWC response to Staff Data Request SK 1.01; IAWC Exhibit 1.0, 5)

IAWC intends to issue and sell up to \$13,000,000 aggregate amount of indebtedness in one or more issuances with the pricing and issuance of securities scheduled to occur on or after November 1, 2013. (Informational Statement, 2,3) The Company will not issue any indebtedness under the authority granted in this docket after December 31, 2014. The terms of the new indebtedness will be determined at the time of offering. The Company's indebtedness is expected to have a term to maturity of one to 30 years from the date of issue. According to IAWC, the exact interest rate associated with the indebtedness will be a factor of the term of the issuance and market conditions at the time of sale. Recent market rates indicated the interest rate available to IAWC through AWCC is 3.8% to 4.0% for ten-year taxable bonds. (IAWC Exhibit 1.0, 6)

Staff recommends that IAWC be required to report the actual interest rates for any new indebtedness authorized in the instant docket. Further, in the event that IAWC elects to issue indebtedness through AWCC, the Company should provide a comparison of the costs to issue indebtedness through AWCC (including interest) and the costs the Company 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. Staff does not have a preference.

Staff has reviewed the Company's Petition, Informational Statement, the Testimony of Scott Rungren (IAWC Exhibit 1.0), supplemental information provided by

the Company in support of its Petition, Section 7-101 of the Act and Article VI of The Act and states as follows:

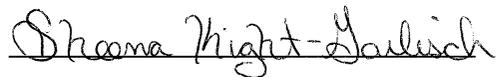
1. IAWC and AWCC are affiliated interests as that term is defined in Section 7-101 of the Act.
2. Staff does not object to AWCC loaning funds to IAWC in the form of Notes pursuant to the Financial Services Agreement (“FSA”), which the Commission’s Order in Docket No. 04-0582 authorized, provided such issuance will result in a lower overall cost to IAWC than would an independent debt issuance by IAWC for securities of comparable type, maturity and terms.
3. The Company’s proposal is subject to Section 6-101, which requires the Commission to provide proper identification numbers on the proposed indebtedness when issued. The Company requested two (2) identification numbers.
4. The Company’s proposal is subject to Section 6-102(a), which requires a Commission order authorizing the proposed issuance and sale of indebtedness. The order must also state the amount of the proceeds and purposes to which they are to be applied, and that such applications are reasonably required.
5. The Company’s proposal is not subject to Section 6-102(b) since at least 90% of the proceeds will be used for the purpose of refunding outstanding indebtedness.

6. The Company's proposal is subject to Section 6-102(d), which requires the Informational Statement filed by the Company and a Commission order in conformance with Section 6-102(a).
7. Subject to Section 6-108, the Company has agreed to pay the fee in an amount equal to 24 cents for every \$100 of the \$13,000,000 principal amount of indebtedness authorized by the Commission. The fee of \$31,200 is to be paid no later than 30 days after service of the Commission Order authorizing the issuance of the First Mortgage Bonds. The fee was calculated as follows:
$$\$13,000,000 \times (\$0.24/\$100) = \$31,200 \text{ (fee to Commission)}$$
8. The Company's proposal is also subject to 83 Illinois Administrative Code Part 240, which requires the petitioner to file reports relative to the issuance and sale of the indebtedness and application of the proceeds, unless the Commission Order provides otherwise (Section 240.30).

WHEREFORE, the Staff of the Illinois Commerce Commission does not object to the Company's request that the Commission enter an Order authorizing the transaction described in IAWC's Petition pursuant to Section 7-101 of the Act. Staff further recommends that the Commission issue an Order, pursuant to Section 6-102(d) of The Act, authorizing the transactions described in the Company's Informational Statement, identifying the applicable provisions of The Act and Administrative Code. Staff further recommends that the Commission order the Company to pay a \$31,200 fee pursuant to Section 6-108 of the Act and to file reports relating to the issuance of the securities approved in this Order pursuant to 83 Ill. Adm. Code 240. Staff further recommends that IAWC be required to report the actual interest rates for any new indebtedness and if

issued through AWCC, provide a comparison of the costs to issue indebtedness through AWCC (including interest) and the costs the Company estimates it would incur to issue indebtedness directly to investors. Finally, Staff asks that the utility be specifically directed in the order authorizing the issuance that the payment and reporting requirements are mandatory and that failure to make the mandated payment and filings could result in an action against the utility seeking penalties for failure to comply with a Commission order, the requirements of statute, or the rules of the Commission.

Respectfully submitted,



Sheena Kight-Garlich
Senior Financial Analyst
Finance Department
Illinois Commerce Commission
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October 21, 2013

VERIFICATION

I, Sheena Kight-Garlich, first being duly sworn upon oath, depose and say that I am a Senior Financial Analyst in the Finance Department of the Staff of the Illinois Commerce Commission; that I have read the above and foregoing Answer to Illinois-American Water Company's Petition and Informational Statement in Consolidated Docket Nos. 13-0565/13-0566 by me subscribed and know the contents thereof; and that said contents are true in substance and in fact, except as to those matters stated upon information and belief, and as to those, I believe same to be true.

Sheena Kight-Garlich

Sheena Kight-Garlich
Senior Financial Analyst
Finance Department

Subscribed and sworn to before me
this 21st day of October, 2013.



Mary Ellen Ruffner

Notary Public, Illinois

CERTIFICATE OF SERVICE

I, Sheena Kight-Garlich, Senior Financial Analyst for the Finance Department, Financial Analysis Division, Illinois Commerce Commission, do hereby certify that on the 21st day of October, 2013, the Finance Department has electronically filed with the Clerk of the Illinois Commerce Commission, the attached Answer to Illinois-American Water Company's Petition and Informational Statement in Consolidated Docket Nos. 13-0565/13-0566, a copy of which is also hereby served upon the service list.



Sheena Kight-Garlich
Senior Financial Analyst
Finance Department