IAWC Exhibit 1.0

DIRECT TESTIMONY

OF

FRED L. RUCKMAN

WITNESS IDENTIFICATION AND BACKGROUND

Q. Please state your name and business address.

A. My name is Fred L. Ruckman. My business address is Illinois-American Water Company, 300 N. Water Works Drive, P.O. Box 24040, Belleville, IL 62223-9040.

Q. Mr. Ruckman, what is your present position?

A. I am Vice President and Treasurer of Illinois-American Water Company ("Illinois-American" or the "Company").

Q. As Vice President/Treasurer, what are your responsibilities?

A. As Vice President and Treasurer, I am responsible for the Finance, Cash Management, Customer Service, Budgeting, Rates and Growth Activities functions of the Company.

Q. Please discuss your educational and business background.

A. I earned a Bachelor of Science degree, with a major in accounting, from Eastern Illinois University in 1971. I was employed by Northern Illinois Water Corporation ("NIWC") beginning April, 1972 as a Staff Accountant. In April, 1980, I was promoted to Comptroller and elected Secretary of NIWC. In 1994, I was elected to NIWC's Board of

Directors, and in 1996, I was promoted to the position of Vice President. On January 1, 2000, I became Vice President and Treasurer of Illinois-American.

PURPOSE OF TESTIMONY

Q. What is the purpose of your testimony in this proceeding?

A. The purpose of my testimony is to support the Amended Petition ("Petition") filed by Illinois-American requesting approval, pursuant to Sections 7-101 and 7-102 of the Illinois Public Utilities Act (the "Act") (220 ILCS 5/7-101, 7-102), to enter into a Financial Services Agreement (the "Agreement") with American Water Works Financing Corporation ("AWWFC"), a wholly-owned subsidiary of the Company's parent, American Water Works Company, Inc. ("AWW"). The Agreement will be substantially in the form of the document marked as IAWC Exhibit 1.1.

DESCRIPTION OF THE COMPANIES INVOLVED

Q. Please describe Illinois-American.

A. Illinois-American is a corporation organized under the laws of the State of Illinois with its principal office in the City of Belleville, Illinois, and is engaged in the business of supplying public water service within Alexander, Bond, Jersey, Madison, Peoria, St. Clair and Tazewell Counties, Illinois. On March 31, 2000, pursuant to the Order of the Commission in Docket 99-0418, the Company merged with Northern Illinois Water Corporation, which provides public water service in Champaign, LaSalle, Livingston and Whiteside Counties, Illinois. The combined company serves approximately 208,000 customers and is a public utility within the meaning of Section 3-105 of the Act. (220 ILCS § 5/3-105).

The Company has entered into agreements under which it would acquire all of the common stock of United Water Illinois, Inc. ("UWI"), which provides water utility service to approximately 5,900 customers in portions of Lincoln County, Illinois; and all of the water and wastewater utility assets of Citizens Utilities Company of Illinois, Inc. ("CUCI"), which provides water utility service to approximately 35,000 customers and wastewater collection and/or treatment service to approximately 32,000 customers in portions of Cook, DuPage, Will, Kane, Kendall and Grundy Counties in Illinois. The agreements are subject to Commission approval. If these acquisitions are consummated, the areas formerly served by UWI and CUCI will be served by Illinois-American.

Q. Please describe AWW.

A. AWW is a corporation duly organized under the laws of the State of Delaware, with its principal office in Voorhees, New Jersey. AWW is the parent of operating water company subsidiaries (including Illinois-American), which serve more than 10 million people in 23 states.

Q. Please describe AWWFC.

A. AWWFC is a corporation duly organized under the laws of the State of Delaware, with its principal office in Voorhees, New Jersey. AWWFC was formed to provide certain financial services to AWW and AWW's subsidiaries, including Illinois-American. Subject to the Commission's approval, such financial services will be provided to Illinois-American pursuant to the terms of the Agreement. AWWFC is an affiliated interest of Illinois-American as that term is defined in Section 7-101 of the Act.

FINANCIAL SERVICES TO BE PROVIDED UNDER AGREEMENT

Q. Please describe the types of financial services which will be provided to Illinois-American under the Agreement.

A. The Agreement will enable the Company to participate in a financial services program (the "Program") in which AWW and its subsidiaries will have an opportunity to participate. Under that Program, AWWFC will provide two types of financial services. First, AWWFC will provide Illinois-American with access to short-term and long-term debt. Second, AWWFC will provide Illinois-American cash management through cash sweeps and investment of excess cash.

BACKGROUND OF FINANCING PROGRAM

Q. Please describe the background of the Program.

A. At present, Illinois-American, like other utility subsidiaries of AWW, issues short-term and long-term debt securities on its own behalf. In general, Illinois-American obtains short-term debt (*i.e.*, debt with a maturity of one-year or less) from banks and issues long-term debt through private placements with institutional lenders, such as insurance companies. Changes in the financial markets, however, now present an opportunity for each utility to borrow on an unsecured basis at rates prevailing in the public market while minimizing borrowing expenses. In response to increasing demands for capital and liquidity, lenders are syndicating and securitizing their loans in larger amounts so that they can lend larger amounts and reduce their exposure to a single borrower. Larger loans are less costly for each dollar borrowed because up-front issuance costs (such as legal fees) remain relatively constant regardless of the size of the loan and lenders of larger loans are able to share their risk with others.

In addition, changes in the Federal securities laws have enabled the public security markets to become attractive alternatives to the private placements and bank borrowings on which utilities have traditionally relied. These changes give borrowers faster and easier access to the public debt market, a development that has encouraged those markets to provide short-term debt opportunities on attractive terms. These changes in the Federal securities laws have also encouraged the development of a liquid secondary market among institutional lenders that enables them to spread their risk and increase their own liquidity.

As a result of these developments, lenders such as insurance companies have come to favor the public markets as a more attractive investment alternative for their own investments than the traditional, secured, privately placed bonds that used to be the mainstay of their portfolios. As institutional lenders such as insurance companies moved into the public markets, the private market shrunk. As a result, issuers have encountered fewer bids per auction and reduced competition for their bonds in the private market.

As more institutional lenders moved with greater force into the public market, the dollar volume of the issues that market was willing and able to accommodate also increased. As the per dollar cost of substantial borrowings decreased and competition among lenders in the market increased, it has become apparent that borrowers can derive significant savings if they can participate in that market. Borrowers, however, can derive those benefits only if the amounts they borrow are large enough, and their credit rating high enough, to meet that market's significant entry level requirements.

ACCESS TO SHORT AND LONG-TERM DEBT

Q. Will the Agreement enable Illinois-American and its customers to obtain the benefits of the public market for debt which you have described?

A. Yes. Standing alone, the amounts of Illinois-American's debt issuances are often not large enough to provide the Company with access to the public market for debt. Pursuant to the Agreement, AWWFC will permit Illinois-American to "pool" its borrowing requirements with AWW and other subsidiaries of AWW (collectively, the "Participants"), each of which will enter into a separate agreement with AWWFC, with terms consistent with the Agreement. As a result, the Agreement will enable Illinois-American to: (i) reduce the amount of administrative cost incurred by the Company (per dollar of debt issued) in connection with debt issuances through the spreading of administrative costs over a larger issuance amount; and (ii) reduce debt costs as a result of the increased number of bids received for larger debt issuances in the public market. Such reduced debt costs will be reflected in the cost of capital used to establish rates.

Q. Can you describe in more detail how Illinois-American and other Participants will obtain access to short-term and long-term debt under the Program?

A. Yes. Under their respective agreements with AWWFC, each Participant (including Illinois-American) will, each year, provide AWWFC with an estimate of its borrowing requirements for the coming year and, on a rolling basis, for one to three years in advance. On the basis of this information, AWWFC will arrange to obtain funds necessary to meet the Participants' short and long-term debt requirements. AWWFC will loan the proceeds of its borrowings and debt issuances to Participants, including Illinois-American, on the same terms (including maturity and interest rates) as those obtained by AWWFC. The indebtedness of Illinois-American to AWWFC will be evidenced by a note in one of the two forms attached to the Agreement (Exhibit 1.1). The form of short-term note in the amount of the maximum anticipated short-term borrowings over the course of a year will evidence the Company's obligation in respect to short-term indebtedness. The form of medium/long-term note attached to the Agreement will evidence medium and long-term borrowings, which have a specific maturity, amount and payment schedule. The debt of each Participant, including Illinois-American, to AWWFC will be unsecured.

Q. Will the financing program offered by AWWFC provide a cost-effective means of raising short-term and long-term financing?

A. Yes. As discussed above, by "pooling" the borrowing requirements of the Participants, AWWFC will be able to arrange for the issuance of short and long-term debt on more favorable terms and at a lower cost than the terms and costs which would normally be applicable to debt issued by each of the Participants (including Illinois-American) directly on its own behalf. As I will discuss, under the Agreement, Illinois-American will pay a charge to recover a portion of AWWFC's overhead costs. These overhead costs, however, will be more than offset by the reduction in the costs (including interest rates and issuance costs) incurred by Illinois-American to obtain its own financing.

Q. Will the Agreement require Illinois-American to obtain all of its short-term and long-term debt financing from AWWFC?

A. No. The Agreement gives Illinois-American the express option to borrow from any source.

Q. Is the Company, in its Petition, requesting advance approval for all debt issuances which it may make to AWWFC under the terms of the Agreement?

A. No. In this Petition, Illinois-American is requesting approval to enter into the Agreement and to obtain future financing through AWWFC in accordance with the terms of the Agreement, pursuant to Section 7-101 (which requires approval of affiliated interest agreements). Illinois-American is not, however, requesting approval for any specific debt issuance for which approval is required under Section 6-102 of the Act (220 ILCS 5/6-102). Approval of the Agreement will permit the Company to issue to AWWFC short-term debt (*i.e.*, debt with a maturity of 12 months or less), for which approval is not otherwise required under Section 6-102. However, to the extent that the filing of an information statement or a request for Commission approval with respect to the issuance to AWWFC of debt with a maturity of more than 12 months is required by Section 6-102, such filing will be made, and any necessary Commission approval obtained, prior to issuing such debt.

Q. How will AWWFC obtain funds to loan to Illinois-American and the other Participants?

A. AWWFC will obtain its funds primarily by borrowing from two sources. First, it will arrange for a syndicated bank credit line to provide short-term loans (*i.e.*, loans with a maturity of one year or less). Second, it will register its own debt securities for sale in the public market by filing a "shelf registration" with the U.S. Securities and Exchange Commission ("SEC").

Q. What is a "shelf registration"?

A. A "shelf registration" is a method of registering securities for public sale under the U.S. Federal Securities Act of 1933. It permits a company to register the general terms of an offering of debt securities with the SEC and then to make specific sales of those securities without having to make any new pre-sale filings with the SEC. It thereby enables an issuer of debt securities to respond quickly to, and to take advantage of, rapid changes in the debt market.

Q. What are the advantages of a "shelf registration"?

A. A shelf registration gives an issuer the ability to respond quickly to changes in the market and to sell securities when rates and terms are most favorable. The issuer does not have to miss a "window" because the supplemental filings for each sale are not subject to the delays usually involved in a standard registered offering of securities. In fact, once a basic filing package has become effective, as little as 24 hours can elapse between the time that a decision to sell is made and the time the sale is consummated.

Securities can be sold under a shelf registration on a fully underwritten basis (*i.e.*, sold to a syndicate of underwriters which then resells the securities to the public). The dynamics of the public market can thereby be brought to bear so that the participants in the AWWFC Program obtain the benefit of the discipline of the competitive price and terms available in the public agency basis (*i.e.*, through investment bankers acting as agent). AWWFC thereby has the flexibility to adapt to the most favorable method of sale given prevailing market conditions.

Q. Will the debt issued by AWWFC be supported by the credit of AWW?

A. Yes. AWW will issue a "support letter" for the benefit of the purchasers of AWWFC's debt. A "support letter" requires the parent company of a group to continue to own all of the issued and outstanding stock of its financing subsidiary, to cause its financing subsidiary to maintain a positive tangible net worth and, if its financing subsidiary is unable to satisfy its obligations when due, to provide funds to assure such payment. AWW's undertaking under its support letter will constitute a separate, registerable security under the Federal Securities laws. As co-registrants, AWW and AWWFC will be subject to the statutory liabilities imposed by the Securities Act of 1933, and AWWFC will become a reporting company under the Securities Exchange Act of 1934. Through its arrangement, each operating utility Participant, including Illinois-American, will derive the benefits of a public sale of its securities without having to undertake these responsibilities imposed by the Federal Securities laws on issuers of debt in the public markets.

Q. Are there other benefits from the issuance by AWW of a "support letter"?

A. Yes. As a result of the support letter, the sale of AWWFC's debt securities in the public markets will be based on the credit of AWW. Thus, rating agencies will consider the credit quality of the entire American Water Works System. Rating agencies may regard favorably factors such as the geographically diversified operations of the entire American Water Works System because the Parent derives its dividend flow from the entire System rather than from only one part of it that could be subject to adverse weather conditions.

Q. Will the support agreement permit recourse by third party lenders to the stock of Illinois-American?

A. No. Although some support agreements permit recourse by third party lenders directly against a parent company if its finance subsidiary does not pay its debts, those support letters specifically exclude recourse to the stock of regulated subsidiaries owned by that parent.

CASH MANAGEMENT

Q. Does the Agreement provide for services other than access to short and long-term debt?

A. Yes. Under the Agreement, AWWFC will provide cash management services which will enable Illinois-American and other Participants to manage their cash balances more efficiently. Under this program, operating cash surpluses of each Participant (including Illinois-American) will be "swept" on a daily basis. Such cash surplus shall be treated as a "loan" to AWWFC, and AWWFC will pay the Participant interest on that loan at the same rate that AWWFC is required to pay for its own short-term borrowings under

AWWFC's bank lines. The interest which AWWFC will pay on the daily cash balances will exceed the interest on excess cash balances that Illinois-American would otherwise be able to receive on bank deposits and other available short-term investment options.

Q. How will AWWFC use the cash obtained through the daily cash "sweeps"?

A. The cash that AWWFC obtains through the daily cash sweeps will be used to offset the amount that AWWFC would otherwise be required to obtain under banks lines of credit and/or through the public market on a short-term basis. The excess cash will be used by AWWFC to make loans to those Participants with short-term cash requirements, for which they will also pay AWWFC interest at the same rate as AWWFC pays for its own short-term borrowings. By using system-wide internally generated cash obtained through the daily cash "sweeps", AWWFC will be able to reduce the overall principal amount of short-term borrowings from external sources, thereby reducing borrowing costs, such as commitment fees. This reduction in costs will benefit all Participants, including Illinois-American.

Q. Will Illinois-American be required to obtain cash management services exclusively from AWWFC?

A. No. As is the case of the debt access service, the Agreement provides that the Company will not be restricted from obtaining cash management services from third parties.

CHARGES FOR SERVICES

Q. How will AWWFC recover the costs incurred to provide financial services to Illinois-American and other Participants?

A. The costs incurred by AWWFC in connection with its bank credit lines and short-term public borrowings will be divided among the Co-Participants in proportion to the maximum principal amount that each Co-Participant requests be made available to it during the course of a year. The costs incurred by AWWFC in connection with each long-term borrowing by AWWFC will be divided among each Co-Participant in proportion to the principal amount of that borrowing that is loaned to that Co-Participant. As I have previously discussed, such issuance costs will be less (per dollar of debt issued) than the costs that each Participant (including Illinois-American) would incur by issuing debt on its own behalf.

AWWFC also will charge each Participant a portion of AWWFC's overhead. These overhead costs will be allocated among the Co-Participants in the same proportion as each Co-Participant's long-term and maximum, requested short-term borrowings and investments in a calendar year bear to all of the long and maximum short-term borrowings and investments by all Co-Participants during the same year. The overhead costs will consist primarily of the same kinds of charges as Illinois-American currently pays to American Water Works Service Company for accounting, financial and related services, pursuant to an affiliated agreement approved by the Commission in Docket 88-0303. The overhead charges will be more than offset by the reduction in the costs incurred by Illinois-American to obtain its own financings.

Q. Will the charges to Illinois-American under the Agreement be calculated to enable AWWFC to make a profit?

A. No. All services will be provided to Illinois-American and the other Participants at cost. No profit element will be included in any of the charges to Illinois-American under the Agreement.

OTHER CONTRACT TERMS

Q. Are there other significant terms of the Agreement which you wish to bring to the Commission's attention?

A. Yes. The Agreement provides that the obligations of the Participants in the AWWFC program are several and not joint. Accordingly, Illinois-American's obligations will be limited to the amount that it actually borrows. Illinois-American has the right to inspect AWWFC's books and records. Illinois-American may terminate the Agreement by giving ten days prior written notice. AWWFC can terminate the Agreement by giving 90 days prior written notice. No termination will affect any amounts then outstanding or due under an outstanding note.

TIMING

Q. When does AWWFC propose to commence operations?

A. AWWFC proposes to commence operations on behalf of Illinois-American and other Participants early in the third quarter of 2000. For this reason, Illinois-American requests that the Commission approve the Agreement as expeditiously as possible, and in no event later than June 30, 2000.

CONCLUSION

Q. In your opinion, should the Commission authorize Illinois-American to enter into the Agreement?

A. Yes. For all the reasons I have discussed, it is my opinion that the terms and provisions of the Agreement are fair and reasonable and the execution and performance of the Agreement are in the interests of Illinois-American and its customers and are in the public interest.

Q. Does this conclude your direct testimony?

A. Yes, it does.

IAWC EXHIBIT 1.1

FINANCIAL SERVICES AGREEMENT

THIS AGREEMENT, dated as of May ___, 2000, by and between Illinois-American Water Company (the "Company") and American Water Works Financing Corporation ("AWWFC").

BACKGROUND

The Company currently performs its own financial services.

However, the Company has determined that it can obtain these services more efficiently through the consolidation of certain necessary management and staff functions with those performed for other entities that may enter into agreement with AWWFC substantially similar to this one ("Co-Participants").

AWWFC is dedicated to performing such consolidated functions.

Accordingly, the parties have determined to enter into this Agreement for the provision of financial services by AWWFC to the Company and for the proper determination and allocation of the costs of providing such services.

Therefore, the parties agree as follows:

AGREEMENT

1. Services. AWWFC will provide, either directly or through arrangements with third parties for the benefit of the Company, such financial services as the Company and AWWFC may from time to time agree, including but not limited to those more fully described in Appendix I attached to this Agreement.

2. Costs. In consideration of the provision of the services contemplated by paragraph 1, the Company agrees to pay AWWFC a portion of the costs and appropriate overhead incurred by AWWFC in providing those services, as follows. The costs incurred by AWWFC in connection with its bank credit lines and short-term public borrowings will be divided among the Co-Participants in proportion to the maximum principal amount that each Co-Participant requests be made available to it during the course of a year. The costs incurred by AWWFC in connection with each long-term borrowing by AWWFC will be divided among each Co-Participant in proportion to the principal amount of that borrowing that is loaned to that Co-Participant. AWWFC's overhead will be allocated among the Co-Participants in the same proportion as each Co-Participant's long-term and maximum, requested short-term borrowings and investments in a calendar year bear to all of the long and maximum short-term borrowings and investments by all Co-Participants during the same year.

3. Statements. AWWFC will prepare and deliver to the Company monthly statements of the services provided by AWWFC and amounts payable to AWWFC, giving effect

to all the provisions of this Agreement. The Company shall pay the net amount shown on its statement within thirty (30) days after the billing date.

4. Inspection. Upon reasonable notice, AWWFC will make available to the Company for its inspection AWWFC's books, records, bills, accounts and any other documents which describe or support the costs allocated to the Company under this Agreement.

5. Obligations Not Joint. AWWFC and the Company expressly agree: (a) that the obligations of the Company and each Co-Participant to AWWFC are several and not joint; (b) that the Company will not be responsible to any Co-Participant, to AWWFC or to any assignee or creditor of AWWFC for any payment in excess of payments due by the Company to AWWFC under this Agreement or a Note in the form attached to this Agreement; and (c) that no Co-Participant will be responsible to the Company, to any other Co-Participant, to AWWFC or to any assignee or creditor of AWWFC for any payment in excess of payments due by that Co-Participant to AWWFC under any agreement substantially similar to this Agreement or under any Note attached to that other agreement. AWWFC covenants and agrees that it will require, as a condition to its entering into any such other agreement with a Co-Participant, that such other agreement contains the same provision as that contained in the immediately preceding sentence.

6. Notes. The Company's borrowings under this Agreement will be evidenced by one or more promissory note in the form of Exhibit A or Exhibit B attached to this Agreement.

7. Non-Exclusivity. Nothing in this Agreement prohibits or restricts the Company from borrowing from third parties, or obtaining services described in this Agreement from third parties, whenever and on whatever terms it deems appropriate.

8. Effectiveness. This Agreement shall be effective as of May 30, 2000, provided that, if prior approval by the regulatory commission of any jurisdiction is required before this Agreement may become effective as to the Company, or before AWWFC may provide a particular service hereunder to the Company, this Agreement shall not be effective as to the Company or as to that service, as the case may be, unless and until the required approval has been obtained. Unless and until this Agreement becomes effective as to the Company in whole or in part, the Company shall not be entitled to the benefits of, nor shall it have any rights or duties under, this Agreement. This Agreement may be amended or rescinded only by written instrument signed by the Company and AWWFC.

9. Termination. The Company may terminate its participation in this Agreement by giving ten (10) days prior written notice of such termination to AWWFC; and (b) AWWFC may terminate this Agreement by giving ninety (90) days prior written notice of such termination to the Company. Termination of this Agreement will not affect: (a) the Company's obligations under any Promissory Notes; (b) any party's obligations with respect to any amounts owing under Sections 2 and 3 of this Agreement (including such amounts attributable to obligations of any terminating party under any Promissory Notes that remain outstanding after this Agreement is terminated as to that party); or (c) AWWFC's obligations to repay any investments made by a Company pursuant to Appendix I.

10. Copies. This Agreement may be executed by the parties in one or more copies and each executed copy shall be considered an original.

In witness of the foregoing, each of the Company and AWWFC has caused its respective corporate seal to be affixed to this Agreement and has caused this Agreement to be signed on its behalf by its duly authorized officers.

ATTEST:	ILLINOIS-AMERICAN WATER COMPANY
By:______________________ Title:	By:______________________ Title:
ATTEST:	AMERICAN WATER WORKS FINANCING CORPORATION
By:______________________ Title:	By:______________________ Title:

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APPENDIX I

DESCRIPTION OF FINANCIAL SERVICES

Set forth below is a list of the services which AWWFC agrees to provide to the Company upon its request pursuant to the Agreement to which this Appendix is attached.

1. Short-Term Loans. AWWFC will provide Short-Term Loans to the Company pursuant to the terms set forth in the promissory notes to be issued by the Company to AWWFC, each substantially in the form attached to this Agreement as Exhibit A.

2. Long-Term Borrowings. AWWFC will provide loans other than Short-Term Loans to the Company pursuant to the terms set forth in the promissory notes to be issued by the Company to AWWFC, each substantially in the form attached hereto as Exhibit B.

3. Cash Management. Cash not required by the Company to pay its daily disbursements or to pay when due the principal of and interest on, the Company's borrowings from AWWFC other than Short-Term Loans will be used by AWWFC first to reduce the outstanding principal balance of the Company's Short-Term Loans owing to AWWFC and any excess will be deemed to be invested with AWWFC and will earn a daily rate of interest that is equal to the interest income earned by AWWFC on those funds. Upon the request of that Company, AWWFC shall execute one or more promissory notes in favor of the Company, in form and substance substantially similar to the Promissory Note attached as Exhibit A to the Agreement as evidence of such investment.

EXHIBIT A
PROMISSORY NOTE
<u>FOR SHORT-TERM LOANS</u>

$____________________ ________________, 2000

FOR VALUE RECEIVED, Illinois-American Water Company, a ____________________ corporation (herein "Borrower") hereby promises to pay ON DEMAND to the order of American Water Works Financing Corporation, a Delaware corporation ("Lender"), in same day funds at its offices at Voorhees, New Jersey or such other place as Lender may from time to time designate, the principal sum of ________________ dollars ($__________) (the "Maximum Principal Sum"), or such lesser amount as shall equal the aggregate unpaid principal amount of the loans made by Lender to Borrower (other than loans evidenced by a promissory note under which the principal amount is due and payable in one or more scheduled installments more than one year after the date of its issue), together with interest thereon from the date hereof until paid in full. Interest will be charged on the unpaid outstanding principal balance of this Note at a rate per annum equal to Lender's actual cost of funds to make such loan, such rate to change as Lender's actual cost of funds changes. Interest on borrowings shall be due and payable on the first business day of each month, commencing with the first business day of the month after the month in which this Note is executed. In the absence of manifest error, the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

Borrower may borrow, repay and reborrow hereunder in amounts which do not, in the aggregate outstanding at any time, exceed the Maximum Principal Sum.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of

Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waivers presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of it rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated April ___, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of the parties hereto.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

ILLINOIS-AMERICAN WATER COMPANY

By:____________________________________
Title:

CH: 1102103 v 1
087865-013002

EXHIBIT B
PROMISSORY NOTE
FOR LONG-TERM BORROWINGS

$____________________ ________________, 2000

FOR VALUE RECEIVED, Illinois-American Water Company, a ____________________ corporation (herein "Borrower") hereby promises to pay to the order of American Water Works Financing Corporation, a Delaware corporation ("Lender"), in same day funds at its offices at ______________________ or such other place as Lender may from time to time designate, the principal sum of ________________ dollars ($__________), together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waivers presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of it rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated April ___, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

ILLINOIS-AMERICAN WATER COMPANY

By:__________________________________

Title:

STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

ILLINOIS-AMERICAN WATER COMPANY	)	
	)	
	)	
Petition for authority to enter into affiliated interest agreement with American Water Works Financing Corporation	)	**Docket No. 00-0306**

AFFIDAVIT OF FRED L. RUCKMAN

STATE OF ILLINOIS)
) ss
COUNTY OF ST. CLAIR)

Fred L. Ruckman, being first duly sworn, deposes and says that: (1) he is Vice President/Treasurer of Illinois American Water Company; (2) he prepared or caused to be prepared the direct testimony marked as IAWC Exhibit 1.0, and prepared or caused to be prepared Exhibit 1.1, which is sponsored in that testimony; (3) he prepared or caused to be prepared Data Request Responses numbered 1 through 4 and Verbal Data Request Responses numbered 1 through 3; and (4) said testimony and each of the referenced Exhibits and data request responses are true and correct, except that the name of American Water Works Financing Corporation is being changed to American Water Capital Corp.

IN WITNESS WHEREOF, the undersigned executes this Affidavit this 10th day of May, 2000.

Fred L. Ruckman

Subscribed and sworn to before me this 10th day of May, 2000.

Patricia A. Barnett
Notary Public

(SEAL)

OFFICIAL SEAL
PATRICIA A BARNETT
NOTARY PUBLIC, STATE OF ILLINOIS
MY COMMISSION EXPIRES: 05/07/04