



ILLINOIS
AMERICAN WATER

OFFICIAL LETTER
ILLINOIS COMMERCE COMMISSION

ORIGINAL

November 21, 2014

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

Re: Docket No. 14-0236 – Final Special Report (3rd Quarter 2014)

Dear Ms. Rolando:

In accordance with Illinois Administrative Code Title 83, Part 240, enclosed for filing on behalf of Illinois-American Water Company is a Special Report in Docket No. 14-0236. This report is being provided in duplicate.

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

Very truly yours,

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

Enclosure

cc: Sheena Kight-Garlich

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STATE OF ILLINOIS
ILLINOIS COMMERCE COMMISSION

ILLINOIS-AMERICAN WATER COMPANY

Illinois-American Water Company's) Docket No. 14-0236
Informational Statement under Section)
6-102(d) of the Public Utilities Act)

FINAL SPECIAL REPORT – 3rd QUARTER 2014

TO THE ILLINOIS COMMERCE COMMISSION:

Pursuant to Administrative Code Section 240.20, Illinois-American Water Company (“IAWC”) submits the following report for the period of July 1, 2014 through September 30, 2014.

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. 14-0236, Petitioner issued the following securities during the reporting period:

Amount & Type of Security	Date Issued	Rate	Price/\$100
\$20,000,000 Promissory Note	8/14/2014	3.40%	99.867% of Principal
\$62,000,000 Promissory Note	8/14/2014	4.30%	99.589% of Principal

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 (“American Water”), and an affiliate of Illinois-American Water Company (“IAWC”). The total amount, \$82 million, was part of a \$500 million

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two-part offering by AWCC, both parts of which were issued on August 14, 2014. Specifically, IAWC's \$20 million portion was part of AWCC's \$300 million bond. This is a 10.5-year bond due 3/1/2025 with a 3.4% coupon. IAWC's \$62 million portion was part of AWCC's \$200 million bond. This is a 28-year bond due 12/1/2042 with a 4.3% coupon.

B) As of September 30, 2014, the Company has issued total long-term debt in the amount of \$82 million under the approval granted in this docket. This debt was issued on August 14, 2014 in the form of two Promissory Notes to AWCC, one in the amount of \$20 million and the other in the amount of \$62 million. The \$20 million was issued at a discount of \$26,600, or at 99.867% of the principal amount, and the \$62 million was issued at a discount of \$254,820, or at 99.589% of the principal amount.

C) As of September 30, 2014, the total issuance costs incurred by IAWC associated with the securities issued pursuant to the authority granted in Docket No. 14-0236 have been \$1,307,177.94, including the bond discount. The legal fees of \$10,030.50 incurred directly by IAWC, and the ICC fee in the amount of \$196,800, were allocated to the Notes based on the proportion of their face amount to the total face amount. The itemization of issuance costs for each Promissory Note is as follows:

\$20 Million Promissory Note

Underwriter Fee	Legal Fees	Misc. Fees	ICC Fee	Bond Discount	Total Issuance Costs
\$130,000	\$7,495.42	\$30,665.05	\$48,000	\$26,600	\$242,760.47

\$62 Million Promissory Note

Underwriter Fee	Legal Fees	Misc. Fees	ICC Fee	Bond Discount	Total Issuance Costs
\$542,500	\$8,114.14	\$110,183.33	\$148,800	\$254,820	\$1,064,417.47

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b) In respect to application of proceeds:

Proceeds from the new issuances, \$82,000,000 (minus expenses) were used to reduce the Company's outstanding short-term debt balance.

c) In respect to unapplied proceeds:

As of September 30, 2014, IAWC has no remaining unapplied proceeds from the authorization granted in Docket No. 14-0236. 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 Finding Number (9) on page seven of the Final Order in Docket No. 14-0236, IAWC is required to provide the following:

Illinois-American Water Company shall comply with the reporting requirements in Part 240 (83 Ill. Adm. Code 240.10 *et seq.*). Such reports shall include (i) the actual interest rate for the Notes; and (ii) a comparison of the issuance costs and interest rate for the Notes issued to American Water Capital Corp., with estimates of the issuance costs and interest rate that Illinois-American Water Company might have incurred, had it issued unsecured indebtedness directly to investors.

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Debt financing through AWCC, IAWC's financing affiliate, currently allows IAWC to borrow at a lower interest rate due to AWCC's higher S&P credit rating of A-. Illinois-American's current assessment is that, on a stand-alone basis, the Company's Standard & Poor's credit rating would be BBB. Thus, with respect to IAWC's \$20 million Note, issuing the debt through AWCC resulted in an interest rate that was lower by approximately 30 basis points than if IAWC had issued the debt on a stand-alone basis to a third party. For this same reason, with its \$62 million Note, IAWC was able to obtain an interest rate that was approximately 31 basis points lower by issuing through AWCC rather than issuing the debt on its own to a third party. The analysis that derived these estimates is described below.

\$20 Million Promissory Note – 10.5 Year Term at 3.4%

The Company's normal procedure is to use data from Bloomberg Online to determine the spread between the yield applicable to IAWC's estimated credit rating with that of the yield applicable to AWCC's credit rating. Unfortunately, Bloomberg Online does not provide a yield curve for A- rated utility bonds, which is AWCC's current S&P credit rating. Rates are provided for BBB+ and A rated utility bonds, however. Thus, for purposes of this analysis, the yields on 10-year BBB+ and 10-year A rated utility bonds were averaged in an effort to approximate the yield on a 10-year A- rated utility bond. Based on data from Bloomberg Online on August 14, 2014, the spread between the 10-year BBB utility bond yield and the average of the 10-year BBB+ utility bond yield and the 10-year A rated utility bond yield was 30 basis points (3.4569% - 3.1606%). The maturity used for the yields from Bloomberg Online is consistent with the maturity of the Note issued by IAWC. Thus, placing the \$20 million long-term debt financing through AWCC with its stronger credit rating of A- resulted in IAWC obtaining a coupon interest rate that was approximately 30 basis points lower than it could have obtained if it issued this debt on its own.

Based on AWCC's current S&P rating of A-, and the Company's estimate that IAWC would have been assigned an S&P rating of BBB if the Company had purchased a rating, the interest rate that IAWC would have obtained on the \$20 million Note is estimated at approximately 3.70%, which reflects the afore-mentioned 30 basis point spread above the 3.40% rate that

IAWC obtained through AWCC. Based on these assumptions, the interest cost savings is \$60,000 annually, which is \$630,000 over the 10.5-year term of the Note.

With respect to issuance costs, IAWC benefitted from the fact that its \$20 million debt issuance was part of a larger \$300 million debt offering 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 \$499,996. 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. The comparison excludes the bond discount.

Actual and Estimated Long-Term Debt Issuance Costs

	Issued Through AWCC (Actual)	If Issued By IAWC (Estimated)
Total Issuance Amount	\$ 20,000,000	\$ 20,000,000
Underwriter's Fee *	\$ 130,000	\$ 130,000
Rating Agency Fee - Moody's	12,000	180,000
Rating Agency Fee - S&P	11,900	178,500
Accountant (external)	2,800	42,000
Issuer's Counsel	4,878	73,169
SEC Filing Fees	2,576	38,640
Printing & Misc	789	11,886
Trustee	600	9,000
Trustee Counsel	171	2,555
Illinois Commerce Commission Fee	48,000	48,000
Local Legal Fees	2,446	2,446
Total Issuance Cost	\$ 216,160	\$ 716,157
Issuance Expenses as % of Issuance Amount	1.08%	3.58%
Difference		\$ 499,996
AWCC Issuance Amount	\$ 300,000,000	
IAWC Issuance as a % of AWCC Total Issuance	6.67%	
Issuance Costs for IAWC	\$ 216,160 **	\$ 716,157
* The underwriters' fee assumes public debt issuance via the institutional markets		
** IAWC share of the AWCC total issuance costs		

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\$62 Million Promissory Note – 28 Year Term at 4.3%

The Company used the same procedure as described above to estimate the interest savings incurred from issuing the \$62 million debt offering through AWCC rather than issuing it directly to investors, except for using 30-year utility bonds to calculate the spread. This term was used to closely approximate the 28-year term of the Company's debt offering. For this analysis, the yields on 30-year BBB+ and 30-year A rated utility bonds were averaged in an effort to approximate the yield on a 30-year A- rated utility bond. Based on data from Bloomberg Online on August 14, 2014, the spread between the 30-year BBB utility bond yield and the average of the 30-year BBB+ utility bond yield and the 30-year A rated utility bond yield was 31 basis points (4.5164% - 4.2087%). Thus, placing the \$62 million long-term debt financing through AWCC with its stronger credit rating of A- resulted in IAWC obtaining a coupon interest rate that was approximately 31 basis points lower than it could have obtained if it issued this debt on its own.

Based on AWCC's current S&P rating of A-, and the Company's estimate that IAWC would have been assigned an S&P rating of BBB if the Company had purchased a rating, the interest rate that IAWC would have obtained on the \$62 million Note is estimated at approximately 4.61%, which reflects the afore-mentioned 31 basis point spread above the 4.30% rate that IAWC obtained through AWCC. Based on these assumptions, the interest cost savings is \$192,200 annually, which is \$5,381,600 over the 28-year term of the Note.

With respect to issuance costs, IAWC benefitted from the fact that its \$62 million debt issuance was part of a larger \$200 million debt offering 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 on the next page, the Company's estimate of the issuance cost savings is \$246,427. 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. The comparison excludes the bond discount.

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Actual and Estimated Long-Term Debt Issuance Costs

	Issued Through AWCC (Actual)	If Issued By IAWC (Estimated)
Total Issuance Amount	\$ 62,000,000	\$ 62,000,000
Underwriter's Fee *	\$ 542,500	\$ 542,500
Rating Agency Fee - Moody's	36,890	119,000
Rating Agency Fee - S&P	37,200	120,000
Accountant (external)	8,680	28,000
Issuer's Counsel	15,122	48,780
SEC Filing Fees	7,986	25,760
Printing & Misc	2,446	7,891
Trustee	1,860	6,000
Trustee Counsel	530	1,710
Illinois Commerce Commission Fee	148,800	148,800
Local Legal Fees	7,584	7,584
Total Issuance Cost	\$ 809,597	\$ 1,056,024
Issuance Expenses as % of Issuance Amount	1.31%	1.70%
Difference		\$ 246,427
AWCC Issuance Amount	\$ 200,000,000	
IAWC Issuance as a % of AWCC Total Issuance	31.00%	
Issuance Costs for IAWC	\$ 809,597 **	\$ 1,056,024
* The underwriters' fee assumes 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.

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Dated: November 21, 2014.

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By: *Rich Kerckhove*
Rich Kerckhove
Assistant Treasurer
Illinois-American Water Company

VERIFICATION

Rich Kerckhove, 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.

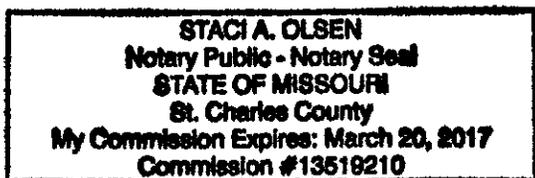


Rich Kerckhove
Assistant Treasurer
Illinois-American Water Company

SUBSCRIBED and SWORN to before me this
21st day of November, 2014.



Notary Public



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