ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN WATER COMPANY, INC., AN INDIANA CORPORATION, FOR (1) APPROVAL OF ITS 2009-2011 FINANCING PROGRAM WHICH INCLUDES (A) APPROVAL ON AN EXPEDITED BASIS OF THE RECEIPT OF FUNDING FROM THE DRINKING WATER STATE REVOLVING FUND IN THE FORM OF LOW INTEREST LOANS AND FORGIVABLE LOANS FOR DRINKING WATER INFRASTRUCTURE RENEWAL PROJECTS IN THE AMOUNT OF APPROXIMATELY $3,530,000, (B) APPROVAL OF THE ISSUANCE OF UP TO $80,000,000 IN AGGREGATE PRINCIPAL AMOUNT OF SECURED OR UNSECURED LONG-TERM DEBT (INCLUSIVE OF THE SRF LOAN) AND (C) THE ISSUANCE AND SALE OF ADDITIONAL COMMON STOCK TO ITS PARENT COMPANY IN AN AGGREGATE AMOUNT OF UP TO $20,000,000; AND (2) AUTHORITY TO USE THE NET PROCEEDS THEREFROM TO REIMBURSE ITS TREASURY, REPAY SHORT AND LONG TERM BORROWINGS AND FINANCE ITS CONSTRUCTION PROGRAM.	)	**CAUSE NO. 43767** **PHASE I ORDER** **APPROVED:** OCT 07 2009

BY THE COMMISSION:
James D. Atterholt, Commissioner
David E. Veleta, Administrative Law Judge

On August 26, 2009, Indiana-American Water Company, Inc. ("Petitioner" or "Indiana-American") filed its Petition with the Indiana Utility Regulatory Commission ("Commission") seeking Commission approval of its 2009-2011 financing program. Petitioner's 2009-2011 financing program is comprised of both low interest and forgivable loans for drinking water infrastructure renewal projects. The forgivable loans are offered to the Petitioner by the Drinking Water State Revolving Fund Loan Program ("DWSRF") pursuant to the American Recovery and Reinvestment Act ("ARRA") of 2009. On August 28, 2009, Petitioner filed testimony and exhibits constituting its case-in-chief.

Petitioner requested that the Commission bifurcate this proceeding into two phases: Phase I to address Petitioner's request for authority to borrow up to $3,530,000 from the DWSRF and Phase II to address Petitioner's request for approval of the issuance of up to

$80,000,000 in aggregate principal amount of secured or unsecured long term debt. Petitioner requested expedited consideration of the proceeding and issuance of an Order on Phase I of this proceeding by October 15, 2009. Due to its request for expedited relief, the Presiding Officers permitted the Petitioners to offer the direct testimony and exhibits constituting its case-in-chief into the record at the Prehearing Conference and Preliminary Hearing. In addition, Mr. Stacy S. Hoffman, Petitioner's Director of Engineering, testified at the Prehearing Conference and Preliminary Hearing and offered a correction to the amount of the low interest and forgivable loans for drinking water infrastructure renewal projects awarded to Petitioner in the loan. On September 14, 2009, the Indiana Office of Utility Consumer Counselor ("OUCC") prefiled the testimony of Edward R. Kaufman. On September 15, 2009, Petitioner prefiled its rebuttal testimony.

An evidentiary hearing was held pursuant to proper legal notice on October 5, 2009 in Room 222 of the National City Center, 101 West Washington Street, Indianapolis, Indiana. There were no intervenors, and the hearing proceeded solely on the issue of Petitioner's request for approval of the Phase I portion of this proceeding. The evidence offered by Petitioner and the OUCC was entered into evidence without objection. No members of the public appeared at the hearing or otherwise sought to testify.

Based upon the applicable law and evidence herein, and being duly advised in the premises, the Commission now finds:

1. **Notice and Jurisdiction.** Due, legal and timely notice of the public hearing conducted herein was given by the Commission as required by law. Petitioner is a "public utility" within the meaning of that term in Indiana Code § 8-1-2-1 and is subject to the jurisdiction of the Commission in the manner and to the extent provided by law. The Commission has jurisdiction over Petitioner and the subject matter of this proceeding.

2. **Petitioner's Characteristics.** Indiana-American is an Indiana corporation engaged in the business of rendering water utility service to customers in numerous municipalities and counties throughout the State of Indiana for residential, commercial, industrial, public authority, sale for resale and public and private fire protection purposes. Indiana-American also provides sewer utility service in Wabash and Delaware Counties.

3. **Petitioner's Existing Capitalization.** As of June 30, 2009, Petitioner's capitalization amounted to $521,388,435, and consisted of long-term debt in the principal amount of $249,133,000 (excluding current maturities in the amount of $34,769,000); cumulative preferred stock in the amount of $240,000 (excluding current maturities in the amount of $30,000); and common equity in the amount of $272,015,435. As of June 30, 2009, Petitioner's long-term debt included two (2) series of First Mortgage Bonds, including one (1) series of bonds issued in connection with tax-exempt financings; eight (8) series of General Mortgage Bonds, including one (1) series of bonds issued in connection with tax-exempt financings; two (2) promissory notes to the Indiana Bond Bank in connection with DWSRF projects in Prairieton and Gary; and six (6) unsecured promissory notes to American Water Capital Corp. ("AWCC"). On June 30, 2009, Petitioner had outstanding short-term bank borrowings of $33,476,352. Petitioner had issued and outstanding 2,700 shares of cumulative

preferred stock with a par value of $100 per share and 411,565 shares of Common Stock. One hundred percent of Petitioner's common stock is held by American Water Works Company, Inc. ("American"). The Commission has duly authorized all of the outstanding bonds, preferred stock and common stock.

4. **Relief Requested.** In the Phase I portion of this proceeding, Petitioner seeks Commission approval of a financing program for the two-year period ending June 30, 2011 that would permit Petitioner from time to time, during this period, to obtain, in October, 2009, funding pursuant to the ARRA of 2009 from the DWSRF in the form of drinking water low interest loans and forgivable loans for drinking water infrastructure renewal projects in the amount of approximately $3,530,000.

5. **Evidence of the Parties.** Petitioner has entered into a Financial Services Agreement with AWCC which allows Petitioner to participate in a financial services program (the "AWCC Program") with American and other subsidiaries of American (collectively, the "Participants"). Under the AWCC Program, AWCC provides Indiana-American and the other Participants with access to short-term and long-term debt. Mr. VerDouw testified that the Financial Services Agreement with AWCC does not prohibit or restrict Petitioner from borrowing from other parties or obtaining financial services from other parties whenever and on whatever terms Petitioner deems appropriate. Mr. VerDouw testified that, in February 2009, Petitioner applied to the DWSRF to obtain funding assistance pursuant to the ARRA of 2009. Mr. Hoffman explained that as a result of that application, DWSRF awarded Petitioner approximately $3,530,000 in drinking water stimulus grants (forgivable loans) and low interest loans for drinking water infrastructure renewal projects in the Indiana communities of Kokomo, Richmond, Muncie, Terre Haute, Gary and Farmersburg. The award comprises approximately $2,410,000 in forgivable loans and $1,120,000 in low interest loans. Mr. VerDouw stated that the actual amount of forgivable debt will be trued up to actual costs. He explained that the forgivable loans are more appropriately considered grants, insofar as they will be forgiven so long as Petitioner complies with the DWSRF guidelines. Mr. VerDouw further explained that in order to obtain this beneficial financing, Petitioner must close on the agreements with the DWSRF by October 15, 2009 and construction must begin by December 2009. The DWSRF has informed Petitioner that this means Petitioner must have authorization from the Commission for this portion of the Financing Program to allow such a closing by October 15.

Senior Utility Analyst Edward R. Kaufman testified that the OUCC has no objection to the proposed DWSRF loan, provided that (1) within three weeks of closing of the DWSRF loan, Petitioner should inform the OUCC and the Commission of the terms and conditions of the financing; (2) within three weeks of learning the final status of the loans and forgiven loans after completion of the projects to which the proceeds of the DWSRF loan are to be applied, Petitioner should inform the OUCC and the Commission of the amount of the forgivable debt portion that is actually forgiven and the amount that will remain outstanding as long-term debt; and (3) to the extent any projects are financed with forgiven debt, such forgiven debt be booked as Contributions in Aid of Construction ("CIAC"). In rebuttal, Mr. VerDouw testified that these conditions were acceptable to Petitioner.

6. **Commission Findings.** The Commission finds that the DWSRF portion of the Financing Program outlined herein is advantageous and necessary, in the public interest and in the best interest of Petitioner and its customers.

The debt that Petitioner will have outstanding following the DWSRF portion of the Financing Program will bear a reasonable proportion to Petitioner's total capitalization and will be reasonable in the aggregate amount, with due consideration given to the nature of Petitioner's business, Petitioner's credit, future prospects and earnings and the effect that the issuance of such securities may have on the management and efficient operations of Petitioner. Petitioner's total outstanding capitalization, when adjusted for the DWSRF loan, and the application of the proceeds therefrom, will be reasonable in relation to the total value of Petitioner's property and will not be in excess of the fair value of Petitioner's property used and useful for the convenience of the public.

The issuance of tax-exempt debt pursuant to the DWSRF loan is reasonably necessary for the purposes for which such securities may be authorized by the Commission and is in accordance with the provisions of the laws of the State of Indiana relating to the issuance of securities by public utilities. Therefore, the Commission finds that the DWSRF portion of Petitioner's proposed financing program should be approved, and a Certificate of Authority should be issued to Petitioner authorizing the DWSRF loan.

IT IS THEREFORE ORDERED BY THE INDIANA UTILITY REGULATORY COMMISSION THAT:

1. Petitioner shall be, and hereby is, authorized to carry out and consummate the DWSRF loan portion of the financing program described in the Petition and the evidence admitted in this cause. In particular, Petitioner is authorized to obtain funding pursuant to the ARRA of 2009 from the DWSRF in the form of drinking water loans and forgivable loans for drinking water infrastructure renewal projects in the amount of approximately $3,530,000 and use and apply the cash proceeds arising from the DWSRF loan for the purposes set forth in this Order.

2. There shall be, and hereby is issued to Petitioner, a Certificate of Authority for the issuance of securities, upon the terms and conditions, of the character, for the consideration, in the manner, and for the purposes, set forth in this Order.

3. Within twenty-one (21) days after closing of the DWSRF loan, Petitioner shall submit a report to the Commission with a copy to the OUCC summarizing the results of the financing. The report shall include a description of the terms of the financing, including the calculation of the effective interest rate and resulting capital structure.

4. Within twenty-one (21) days after learning the final status of the loans and forgiven loans following completion of the projects for which the DWSRF loan proceeds will be used, Petitioner shall submit a report to the Commission with a copy to the OUCC indicating the actual amount of the forgivable debt that is forgiven and the portion that will be outstanding long-term debt.

5. To the extent any of Petitioner's projects are financed with forgiven debt pursuant to the DWSRF loan, such forgiven debt shall be reflected on Petitioner's books as CIAC.

6. This Order shall be effective on and after the date of its approval.

HARDY, ATTERHOLT, GOLC, AND ZIEGNER CONCUR; LANDIS ABSENT:

APPROVED: OCT 07 2009

I hereby certify that the above is a true and correct copy of the Order as approved.

Brenda A. Howe

Brenda A. Howe
Secretary to the Commission