

ORIGINAL

STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF INDIANA-AMERICAN WATER)
 COMPANY, INC., AN INDIANA CORPORATION,)
 FOR (1) APPROVAL OF ITS 2012-2015 FINANCING)
 PROGRAM WHICH INCLUDES (A) APPROVAL OF)
 THE ISSUANCE OF UP TO \$162,000,000 IN)
 AGGREGATE PRINCIPAL AMOUNT OF SECURED) CAUSE NO. 44252
 OR UNSECURED LONG-TERM DEBT AND (B) THE)
 ISSUANCE AND SALE OF ADDITIONAL COMMON)
 STOCK TO ITS PARENT COMPANY IN AN) APPROVED:
 AGGREGATE AMOUNT OF UP TO \$21,000,000; AND)
 (2) AUTHORITY TO USE THE NET PROCEEDS)
 THEREFROM TO REIMBURSE ITS TREASURY,)
 REPAY SHORT AND LONG TERM BORROWINGS)
 AND FINANCE ITS CONSTRUCTION PROGRAM.)

JAN 09 2013

ORDER OF THE COMMISSION

Presiding Officers:
 Larry S. Landis, Commissioner
 David E. Veleta, Administrative Law Judge

On September 20, 2012, Indiana-American Water Company, Inc., an Indiana corporation (“Petitioner” or “Indiana-American”), filed its Petition with the Indiana Utility Regulatory Commission (“Commission”) seeking approval of its 2012-2015 financing program. Petitioner’s 2012-2015 financing program comprises (1) the issuance of secured or unsecured long-term debt in aggregate principal amount of up to \$162,000,000, and (2) the issuance and sale of additional common stock to Petitioner’s parent company in an aggregate amount of up to \$21,000,000. On September 21, 2012, Petitioner filed testimony and exhibits constituting its case-in-chief. On November 16, 2012, the Indiana Office of Utility Consumer Counselor (“OUCC”) prefiled the testimony of Edward R. Kaufman, Chief Technical Advisor of the OUCC Water/Wastewater Division. On November 26, 2012, Petitioner filed its Notice of Intent Not to File Rebuttal Testimony along with corrections to Petitioner’s Exhibit GPR.

Pursuant to proper legal notice, an evidentiary hearing was held at 1:00 p.m. on December 13, 2012 in Room 224 of the PNC Center, 101 West Washington Street, Indianapolis, Indiana. 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 on 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 time and place 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. **Relief Requested.** Petitioner seeks Commission approval of a financing program for the period ending December 31, 2015 that would permit Petitioner from time to time, during this period, to:

(a) issue long-term debt in an aggregate principal amount not to exceed \$162,000,000;

(b) obtain funding from the Drinking Water State Revolving Fund (“DWSRF”) and other low cost or tax-advantaged government programs and to participate in tax-exempt financings, provided the amount of such new debt in combination with debt described in (a) above does not exceed \$162,000,000; and

(c) issue and sell additional common stock for cash to American Water Works, Inc. (“American”) in an aggregate amount not to exceed \$21,000,000.

The \$162,000,000 long-term debt proposed to be issued includes the following amounts related to four proposed refinancings to take advantage of more favorable terms currently available: (a) approximately \$7,500,000 in connection with the proposed refinancing of one series of Petitioner’s outstanding First Mortgage Bonds, and (b) approximately \$71,500,000 in connection with the proposed refinancing of three series of Petitioner’s unsecured promissory notes to American Water Capital Corp. (“AWCC”). In addition, two series of Petitioner’s General Mortgage Bonds, in aggregate principal amount of \$40,000,000, will be maturing during the period of the proposed financing program and approximately \$400,000 of debt securities issued through the DWSRF will be retired through operation of the sinking fund.

4. **Petitioner’s Existing Capitalization.** As of July 31, 2012, Petitioner’s capitalization amounted to \$652,233,561, and consisted of long-term debt in the principal amount of \$318,270,166 (excluding current maturities in the amount of \$121,920); and common equity in the amount of \$333,963,395. As of July 31, 2012, 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; six (6) series of General Mortgage Bonds, including one (1) series of bonds issued in connection with tax-exempt financings; three (3) promissory notes to the Indiana Bond Bank and Indiana Finance Authority in connection with DWSRF projects in Prairieton, Gary and Farmersburg; and eight (8) unsecured promissory notes to AWCC. On July

31, 2012, Petitioner had outstanding short-term bank borrowings of \$44,419,431. As of that date, Petitioner had issued and outstanding 411,565 shares of common stock and no preferred stock outstanding. One hundred percent of Petitioner’s common stock is held by American. The Commission has duly authorized all of the outstanding bonds and common stock.

5. Evidence of the Parties. Petitioner’s witness Gregory P. Roach, Manager of Rates for Petitioner, stated that 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 Petitioner and the other Participants with access to short-term and long-term debt. 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. Roach testified that the long-term debt to be issued pursuant to the financing program will be for maturities ranging from 5 to 30 years at market interest rates. The long-term debt may be in the form of promissory notes or other unsecured evidences of indebtedness or secured debt issued pursuant to Petitioner’s Indenture of Mortgage dated as of May 1, 1968, as supplemented and amended (the “General Mortgage”). Debt issued pursuant to the General Mortgage will be in the form of General Mortgage Bonds issued in accordance with one or more Supplemental Indentures to the General Mortgage creating a new series of General Mortgage Bonds and specifying the terms thereof. The long-term debt may be issued in whole or in part to AWCC.

Mr. Roach testified that although Petitioner requests authority to receive up to \$21,000,000 in additional common equity through the sale and issuance of additional common stock, Petitioner expects to obtain some or all of the common equity through contributions of additional paid-in capital in order to maintain an appropriate debt-to-equity ratio. To the extent common stock is issued and sold, all of the additional common stock will be sold to American, Petitioner’s parent company.

Mr. Roach set forth Petitioner’s planned timing for the new debt and equity:

Year	Long-Term Debt Refinance (\$)	Long-Term Debt New (\$)	Additional Paid-in Capital (\$)
2012	\$ 7,500,000	42,000,000	\$ 0
2013	22,000,000	1,300,000	11,300,000
2014	24,500,000	5,500,000	5,500,000
2015	25,000,000	34,200,000	4,200,000
TOTAL	\$ 79,000,000	\$ 83,000,000	\$ 21,000,000

Mr. Roach testified that while the timing of the debt issuances will depend on market conditions and other factors, Petitioner currently anticipates they will occur in either May or November of each year.

The proceeds of the financing program will be used to (1) pay or reimburse Petitioner for expenditures made for construction or improvements of, or additions to, its facilities necessary to provide adequate and reliable water and wastewater service to its customers, (2) pay for or

refinance short-term debt incurred to temporarily fund construction expenditures expected to be incurred for the construction or improvements of, or additions to, its facilities, and (3) for other general corporate purposes, including paying the issuance expenses related to the proposed new debt. Mr. Roach testified that during the period of the financing program, Petitioner's construction budget totals \$231,500,000. During the same period, long-term debt in the amount of \$40,400,000 will mature.

Although Indiana-American expects to issue most of the long-term debt authorized in this proceeding through AWCC, Mr. Roach explained it may choose to finance outside of that arrangement in certain cases. For example, Petitioner may be eligible for additional funds from the DWSRF or Wastewater State Revolving Fund programs in the future. As Mr. Roach described, opportunities may also arise for Petitioner to participate in tax-exempt financings through the Indiana Finance Authority or other economic development agencies. In addition, there may be opportunities to issue tax-exempt financing through AWCC. Petitioner seeks Commission authority to engage in these types of low cost, tax-exempt and tax-advantaged debt financings during the period of the financing program.

Mr. Roach also testified regarding the financial effects of the financing program. He presented Petitioner's *pro forma* balance sheet as of July 31, 2012 and Petitioner's *pro forma* income statement for the twelve months ended July 31, 2012, both adjusted for the financing program. These exhibits showed total assets of approximately \$1.18 billion, utility operating income of approximately \$55 million, interest charges of approximately \$21 million and net income of approximately \$34 million.

Mr. Roach presented a table showing the following estimated capitalization ratios of Petitioner, adjusted for the financing program:

<u>As of</u> <u>December 31</u>	<u>Long-Term Debt</u>	<u>Preferred Stock</u>	<u>Common Equity</u>
2012	52 – 57%	0.0%	43.0 – 48.0%
2013	52 – 57%	0.0%	43.0 – 48.0%
2014	51 – 57%	0.0%	43.0 – 49.0%
2015	51 – 57%	0.0%	43.0 – 49.0%

Mr. Roach testified that the capital structure and interest coverage resulting from the proposed financing program are reasonable. He stated that the total capitalization after consummation of the financing program will be less than the fair value of Petitioner's utility property as found by the Commission in the Order in Cause No. 44022, the last time a fair value finding was made.

OUCC Chief Technical Advisor Edward R. Kaufman testified that Petitioner's proposed financing program appears reasonable. Petitioner will continue to maintain a balanced capital structure after issuing its proposed debt and equity, and the interest rate appears reasonable. Mr. Kaufman indicated the OUCC accepts Petitioner's proposed debt issuance, provided that the OUCC does not waive or forego in future rate cases (a) the right to challenge the prudence of any particular transaction made by Petitioner pursuant to the authority granted in this Cause, or (b)

the right to challenge the prudence of any rate base additions made by Petitioner from funds authorized pursuant to the authority granted in this Cause. Mr. Kaufman also recommended that, unless Indiana-American seeks and is granted an extension, any unused borrowing authority approved in this Cause should expire on June 30, 2016. Finally, he recommended the Petitioner be required to notify the Commission and the OUCC within thirty (30) days of issuing any of the authorized debt.

In its Notice of Intent Not to File Rebuttal Testimony, Petitioner indicated its acceptance of the OUCC's additional recommendations.

6. Commission Discussion and Findings. The Commission finds that the proposed financing program outlined herein is advantageous and necessary, in the public interest and in the best interest of Petitioner and its customers.

The long-term debt which Petitioner will have outstanding pursuant to 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 financing program, 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 long-term debt and the issuance and sale of common stock, if any, pursuant to the financing program 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 Petitioner's proposed financing program should be approved and authorized by the Commission, and a Certificate of Authority should be issued to Petitioner authorizing the financing program.

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 financing program described in the Petition filed in this Cause and by the testimony, exhibits and evidence introduced at the hearing in this Cause. In particular, Petitioner is authorized to:

(a) issue long-term debt in an aggregate principal amount not to exceed \$162,000,000;

(b) obtain funding from the DWSRF and other low cost or tax-advantaged government programs and to participate in tax-exempt financings, provided the amount of such new debt in combination with debt described in (a) above does not exceed \$162,000,000;

(c) issue and sell additional common stock for cash to American in an aggregate amount not to exceed \$21,000,000; and

(d) use and apply the cash proceeds arising from the issuance of long-term debt and any additional common stock 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 thirty (30) days after each use of the authority granted herein, Petitioner shall file with the Commission under this Cause, with a copy to the OUCC, explaining the terms and purpose of the financing, indicating whether any new debt will be used for refinancing or to fund new capital projects, and if used to refinance existing debt, describing what outstanding debt is being refinanced and explain how the refinancing will lower Petitioner's overall cost of debt and equity capital.

4. The authority granted in this Order shall expire on the earlier of June 30, 2016 or the effective date of the order in Petitioner's next financing case, to the extent it has not been utilized by that date.

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

ATTERHOLT, BENNETT, LANDIS, MAYS AND ZIEGNER CONCUR:

APPROVED: JAN 09 2013

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


Brenda A. Howe
Secretary to the Commission