

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY-	)	
AMERICAN WATER COMPANY FOR ISSUANCE	)	CASE NO.
OF INDEBTEDNESS AND CONTINUED	)	2024-00018
PARTICIPATION WITH AMERICAN WATER	)	
CAPITAL CORP.	)	

ORDER

On January 31, 2024, Kentucky-American Water Company (Kentucky-American), pursuant to KRS 278.300 and 807 KAR 5:001, filed an application seeking Commission authority to issue indebtedness in an aggregate principal amount, not to exceed \$60,000,000 through December 31, 2025. Additionally, Kentucky-American requested for continued participation in the borrowing program with American Water Capital Corporation (AWCC). There are no intervenors in this proceeding. This case now stands submitted for a decision based on the evidentiary record.

LEGAL STANDARD

KRS 278.300 requires Commission authorization before a utility may “issue any securities or evidences of indebtedness, or assume any obligation or liability in respect to the securities or evidences of indebtedness of any other person.” KRS 278.300(3) establishes the legal standard and clarifies the scope of Commission review, stating:

The Commission shall not approve any issue or assumption unless, after investigation of the purposes and uses of the proposed issue and proceeds thereof, or of the proposed assumption of obligation or liability, the commission finds that the issue or assumption is for some lawful object within the corporate purposes of the utility, is necessary or appropriate

for or consistent with the proper performance by the utility of its service to the public and will not impair its ability to perform that service, and is reasonably necessary and appropriate for such purpose.

KRS 278.300(8) establishes that KRS 278.300 does not apply if the proposed issuance of securities or indebtedness is payable at periods of not more than two years from the issuance date and any renewals of such notes do not exceed six years from the initial issuance date.

### BACKGROUND

Kentucky-American is requesting up to \$60,000,000 of permanent long-term debt financings comprised of two separate financings by December 31, 2025.<sup>1</sup> Kentucky-American stated that all of the proceeds from these financings will be used to refinance or replace short-term debt necessary to fund construction expenditures and meet other internal cash requirements.<sup>2</sup> The first financing is planned to occur in 2024 with the issuance of up to \$28,000,000 of new long-term debt and the second financing is planned to occur in 2025 for \$32,000,000 with a cumulative amount not to exceed \$60,000,000.<sup>3</sup>

As of December 31, 2023, Kentucky-American has an outstanding short-term debt in the amount of \$23,096,359 payable to AWCC and 14 long-term debt issues totaling \$251,749,000.<sup>4</sup> Additionally, Kentucky-American stated that in order to continue to maintain a reasonable balance of long-term debt to common equity it anticipates capital

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<sup>1</sup> Application at 7.

<sup>2</sup> Application at 6-7.

<sup>3</sup> Application at 7.

<sup>4</sup> Application, Exhibit 2 at 3-4.

infusions of additional equity, which will be paid-in-capital rather than issuance of additional shares, from its parent company American Water Works Company, Inc.<sup>5</sup>

Kentucky-American noted that the maturity of the long-term issuances will not be more than 50 years from the nominal date of issue, with the expectation that the maturity date may be anywhere from three years to 35 years, depending upon market conditions.<sup>6</sup> Additionally, Kentucky-American stated that the interest rate will be determined by market conditions at the time of issuance and the interest payable will be on the same dates as the other financings to AWCC.<sup>7</sup>

In connection with the new long-term debt, Kentucky-American has requested approval for continued participation in the borrowing program with AWCC and for authority to enter into contracts, including one or more loan agreements, so that it may obtain the funding it needs prior to December 31, 2025, at less cost than would be otherwise available and so that it may be assured of a readily available source of funds.<sup>8</sup> Additionally, Kentucky-American noted that participation in the AWCC borrowing program does not preclude Kentucky-American from either borrowing from or obtaining financial services from any third party that can offer a better competitive rate.<sup>9</sup>

#### DISCUSSION AND FINDINGS

Having considered the evidence of the record and being otherwise sufficiently advised, the Commission finds that Kentucky-American's request to issue indebtedness

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<sup>5</sup> Application at 7.

<sup>6</sup> Application at 7.

<sup>7</sup> Application at 7.

<sup>8</sup> Application at 7-8.

<sup>9</sup> Application at 8.

in an aggregate principal amount, not to exceed \$60,000,000, through December 31, 2025, is in accordance with KRS 278.300 for the following reasons. First, the request to issue indebtedness for the refinancing or replacement of short-term debt is for lawful objects within the corporate purposes of Kentucky-American. The lawful object of the utility's purposes is to provide adequate, efficient, and reasonable service at fair, just and reasonable rates. The issuance of indebtedness for the purpose of refinancing or replacing short-term debt meets the lawful object of the utility's purposes because it will be used to fund construction expenditures and meet other internal cash requirements. Second, the issuance of indebtedness is necessary and appropriate for, and consistent with, the proper performance by the utility of its service to the public and will not impair Kentucky-American's ability to perform that service considering Kentucky-American is strengthening its financial position. Third, the issuance of indebtedness is reasonably necessary and appropriate for Kentucky-American to meet its statutory duty to provide adequate, efficient and reasonable service because it provides additional savings through flexible financing options considering Kentucky-American participates in a corporate borrowing program which has been shown to reduce financing costs. Therefore, the Commission finds that the proposed issuance of indebtedness in an aggregate amount of \$60,000,000 for the purpose of refinancing or replacing short-term debt necessary to fund construction expenditures and meet other internal cash requirements should be

approved. The Commission also notes that it will defer its review and reasonableness of Kentucky-American's capital structure in its currently pending rate case.<sup>10</sup>

Additionally, the Commission finds that Kentucky-American's previous participation in the AWCC Program has resulted in a reduction to the cost of Kentucky-American's short-term and long-term debt and its continued participation should result in similar reductions. Kentucky-American's continued participation in the AWCC Program under the terms of the Agreement is for lawful object within the corporate purposes of its utility operation because continued participation will provide greater flexibility and has the potential for more cost-effective financing options. However, the Commission notes that Kentucky-American has the ongoing burden to present sufficient evidence to the Commission that participating in the AWCC program is cheaper and more cost-effective than the alternatives.

IT IS THEREFORE ORDERED that:

1. Kentucky-American is authorized to issue indebtedness in an aggregate principal amount, not to exceed \$60,000,000, through December 31, 2025.
2. Kentucky-American is authorized to continue participating in the AWCC Program.
3. The proceeds from the transaction authorized in this Order shall be used only for the lawful purposes set out in the application.

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<sup>10</sup> Case No. 2023-00191, *Electronic Application of Kentucky-American Water Company for An Adjustment of Rates, A Certificate of Public Convenience and Necessity for Installation of Advanced Metering Infrastructure, Approval of Regulatory and Accounting Treatments, and Tariff Revisions* (filed July 7, 2023)

4. Kentucky-American shall, within 30 days from the date of issuance, file with the Commission a written statement setting forth the date or dates of issuance of the debt authorized, the date of maturity, the price paid, the proceeds of such issuance, the interest rate, and all fees and expenses, including underwriting discounts or commissions or other compensation, involved in the issuance and distribution. Kentucky-American shall also file documentation showing the quotes that it relied upon to determine the lowest interest rate.

5. Kentucky-American shall agree only to terms and prices that are consistent with the parameters set forth in its application.

6. Any documents filed pursuant to ordering paragraph 4 of this Order shall reference this case number and shall be retained in the post-case correspondence.

7. This case is closed and removed from the Commission's docket.

PUBLIC SERVICE COMMISSION

  
Chairman

  
Vice Chairman

  
Commissioner

ATTEST:

  
Executive Director



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