

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)	2026-00019
PARTICIPATION WITH AMERICAN WATER)	
CAPITAL CORP.)	

ORDER

On January 30, 2026, 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 \$100,000,000 through December 31, 2027.¹ Additionally, Kentucky-American requested continued participation in the borrowing program with American Water Capital Corporation (AWCC).² Kentucky-American responded to one request for information from Commission Staff (Staff) on March 4, 2026.³ 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

¹ Kentucky-American’s Application (Application) (filed Jan. 30, 2026).

² Application at 8.

³ Kentucky-American’s Response to Commission Staff’s First Request for Information (Staff’s First Request) (filed Mar. 4, 2026).

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 \$100,000,000 of permanent long-term debt financings comprised of four separate financing events by December 31, 2027.⁴ Kentucky-American stated that all the proceeds from these financings will be used to refinance or replace short-term debt necessary to fund construction expenditures, assist with acquisitions, and meet other internal cash requirements.⁵ The first financing is planned to occur in May 2026 with an issuance of up to \$50,000,000 of new long-term debt; the second financing is planned to occur in September 2026 with an issuance of up to \$15,000,000 of new long-term debt; the third financing is planned to occur in March

⁴ Application at 6.

⁵ Application at 7.

2027 with an issuance of up to \$25,000,000 of new long-term debt; and the fourth financing is planned to occur in September 2027 with an issuance of up to \$10,000,000 of new long-term debt with the cumulative amount not to exceed \$100,000,000.⁶ Kentucky-American stated that approximately \$26.5 million of the requested authority may be used to refinance existing long-term debt that will mature in 2026 and 2027, and clarified that this refinancing authority is included within, and not in addition to, the total \$100,000,000 financing request.⁷

As of December 31, 2025, Kentucky-American has an outstanding short-term debt balance in the amount of \$14,300,921 payable to AWCC and 18 long-term debt obligations totaling \$313,749,000.⁸ Additionally, Kentucky-American stated that in order to continue to maintain a reasonable relationship of long-term debt to common equity, it anticipates capital infusions of additional equity from its parent company, AWCC, which will be paid-in-capital rather than issuance of additional shares.⁹ Kentucky-American stated that these equity infusions were planned for March 2026 in the amount of \$35,000,000 and March 2027 in the amount of \$15,000,000.¹⁰ Kentucky-American further stated that, after the proposed financings and equity infusions, its anticipated 13-month average capital structure as of December 31, 2027, is as follows:¹¹

⁶ Application at 6.

⁷ Kentucky-American's Response to Staff's First Request, Item 6.

⁸ Application, Exhibit 2 at 3-4.

⁹ Application at 12.

¹⁰ Kentucky-American's Response to Staff's First Request, Item 1.

¹¹ Kentucky-American's Response to Staff's First Request, Item 3.

Kentucky American Water Company
Capital Structure

Class of Capital	December 31, 2027
Short-Term Debt	0.7%
Long-Term Debt	46.7%
Preferred Stock	0.3%
Common Equity	52.3%
Total	100.00%

Kentucky-American noted the maturity of the long-term issuances via AWCC 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 to 35 years, depending upon market conditions.¹² Additionally, Kentucky-American stated that the interest rates for the long-term issuances will be determined by market conditions at the time of issuance of each series, and the interest payable will be on the same dates as AWCC must pay its corresponding interest payments.¹³ Kentucky-American also stated that, in connection with the issuance of long-term debt, it may be in its best interest to enter into one or more swaps, hedges, or other derivative agreements or arrangements with respect to such long-term debt.¹⁴ Kentucky-American explained hedging arrangements may help

¹² Application at 7.

¹³ Application at 8.

¹⁴ Application at 7.

stabilize borrowing costs by averaging interest rates over time and mitigating exposure to short-term market volatility.¹⁵

With respect to the new long-term debt issuances proposed herein, Kentucky-American has requested approval for its continued participation in the AWCC borrowing program 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, 2027, at less cost than would be otherwise available and so that it may be assured of a readily available source of funds.¹⁶ Additionally, Kentucky-American noted that its participation in the AWCC borrowing program does not preclude it from either borrowing or obtaining financial services from any third party that can offer a better competitive rate.¹⁷

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 in an aggregate principal amount, not to exceed \$100,000,000, through December 31, 2027, is in accordance with KRS 278.300. First, the request to issue indebtedness for the refinancing or replacement of short-term debt is for a lawful object within the corporate purposes of Kentucky-American. The lawful object of the utility's purpose is to provide safe, adequate, and reliable services 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 purpose because it will be used to fund construction expenditures,

¹⁵ Kentucky-American's Response to Staff's First Request, Item 7(b).

¹⁶ Application at 8.

¹⁷ Application at 8.

assist in Kentucky-American's ventures to acquire water and wastewater systems in the Commonwealth of Kentucky, 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, because the proposed indebtedness will allow Kentucky-American to refinance or replace maturing debt obligations and assist in funding capital projects, therefore strengthening Kentucky-American's financial position, while still allowing it to maintain a reasonably balanced ratio of debt and equity. 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 as Kentucky-American participates in a corporate borrowing program which has been shown to reduce financing costs.

For the reasons stated above, the Commission finds that the proposed issuance of indebtedness in an aggregate amount of \$100,000,000 for the purpose of refinancing or replacing short-term debt necessary to fund construction expenditures, acquisitions, and meet other internal cash requirements should be approved. The Commission expects Kentucky-American to adhere to its financing plan, as explained herein, to the fullest extent possible. To the extent that Kentucky-American deviates from its financing plan, for either its anticipated long-term debt issuances or equity infusions, Kentucky-American shall file notice to the Commission explaining any deviation.

Additionally, the Commission finds that Kentucky-American's request to enter into interest rate hedging arrangements in connection with the issuance of long-term debt is

approved, as these arrangements help mitigate Kentucky-American's exposure to interest rate volatility and help stabilize borrowing costs, rather than being fully exposed to any single interest rate at a single point in time.

Finally, 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 will provide greater flexibility and has the potential for more cost-effective financing options. However, the Commission notes that Kentucky-American has the continual burden to present sufficient evidence to the Commission that participating in the AWCC program is less expensive 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 \$100,000,000, through December 31, 2027.
2. Kentucky-American is authorized to continue participating in the AWCC program.
3. Kentucky-American is authorized to enter into interest rate hedging arrangements in connection with the issuance of long-term debt.
4. The proceeds from the transaction authorized in this Order shall be used only for the lawful purposes set out in the application.
5. 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.

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

7. Should Kentucky-American's operations necessitate any deviation from the financing plan discussed herein, Kentucky-American shall file a notice of deviation including an explanation of any event which necessitated the deviation.

8. Any documents filed pursuant to ordering paragraph 5 and 7 of this Order shall reference this case number and shall be retained in the post-case correspondence.

9. Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky, or any agency thereof.

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

PUBLIC SERVICE COMMISSION



Chairman



Commissioner



Commissioner

ATTEST:



Executive Director



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