

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:)
)
APPLICATION OF KENTUCKY-AMERICAN) CASE NO. 2019-00083
WATER COMPANY FOR ISSUANCE OF)
INDEBTEDNESS AND CONTINUED)
PARTICIPATION WITH AMERICAN WATER)
CAPITAL CORP.)

APPLICATION OF KENTUCKY-AMERICAN WATER COMPANY

Pursuant to KRS 278.300, Kentucky-American Water Company (“Kentucky American Water”) submits this Application for authorization to issue indebtedness and for continued participation in the borrowing program with American Water Capital Corp. (“AWCC”) and states as follows:

1. Kentucky American Water is a corporation organized and existing under the laws of the Commonwealth of Kentucky with its principal office and place of business at 2300 Richmond Road, Lexington, Kentucky 40502. Kentucky American Water can be contacted by e-mail via the e-mail addresses of its counsel set forth below. Kentucky American Water was incorporated on February 27, 1882 and is currently in good standing in the Commonwealth of Kentucky.

2. Kentucky American Water is a wholly-owned subsidiary of American Water Works Company, Inc. (“American Water”) and is engaged in the distribution and sale of water in its Central Division, consisting of Bourbon, Clark, Fayette, Franklin, Harrison, Jessamine, Nicholas, Scott and Woodford Counties; its Northern Division, consisting of Gallatin, Owen and Grant Counties; and its Southern Division, consisting of Rockcastle and Jackson Counties. It

currently owns, operates and maintains potable water production, treatment, storage, transmission and distribution systems for the purpose of furnishing potable water for residential, commercial, industrial and governmental users in its service territory, having an original cost of \$760,167,348 (this number includes construction work in progress but excludes utility plant for wastewater service) as of December 31, 2018.

3. Kentucky American Water also owns, operates and maintains collection, pumping and treatment systems for the purpose of furnishing wastewater service for residential, commercial, industrial and governmental users in its service territory, having an original cost of \$9,605,327 as of December 31, 2018.

4. In Case No. 2000-189, Kentucky American Water obtained Commission approval to participate in a borrowing program that American Water made available to each of its subsidiaries.¹ Under this program, each American Water subsidiary enters into an agreement with AWCC for financial services. AWCC arranges for a syndicated bank credit line to provide for short-term loans and register its own debt securities for sale in the public market by filing shelf registration with the Securities and Exchange Commission. A copy of the Financial Services Agreement entered into is attached as Exhibit No. 1.

5. In Case Nos. 2006-00418,² 2009-00156,³ 2011-00115,⁴ 2012-00393,⁵ and 2015-00400,⁶ the Commission authorized Kentucky American Water's continued participation in the AWCC borrowing program.

¹ *In the Matter of: The Application of Kentucky-American Water Company for Approval of Participation in the Borrowing Program* (July 21, 2000 Order).

² *In the Matter of: Application of Kentucky-American Water Company for Continued Participation with American Water Capital Corp.* (May 8, 2007 Order).

³ *In the Matter of: Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corp.* (May 29, 2009 Order).

⁴ *In the Matter of: Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corp.* (May 26, 2011 Order).

6. The January 19, 2016 Order in Case No. 2015-00400 also authorized Kentucky American Water to issue to AWCC securities in the form of notes or debentures in an aggregate amount of \$12,250,000 from time to time, prior to December 31, 2017, for the purpose of refinancing the short-term debt used to fund various construction expenditures and to meet other internal cash requirements. Pursuant to that authorization, Kentucky American Water now has stock and debt outstanding as shown on the financial exhibit attached as Exhibit No. 2 in accordance with 807 KAR 5:001, Section 12.

7. Kentucky American Water has conveyed certain property, lands and premises described therein to U.S. Bank, National Association (formerly Wachovia Bank, National Association, formerly First Union National Bank, formerly First Fidelity Bank, National Association, formerly First Federal Bank, N.A., Pennsylvania, formerly Fidelity Bank, National Association, and formerly The Fidelity Bank) to secure payment of the bonds and indebtedness therein specified by an Indenture of Mortgage dated as of May 1, 1968; First Supplemental Indenture dated as of December 1, 1970; a Supplement to the First Supplemental Indenture dated as of December 17, 1970; Second Supplemental Indenture dated as of September 1, 1974; Third Supplemental Indenture dated as of November 1, 1977; Fourth Supplemental Indenture dated as of December 1, 1982; Fifth Supplemental Indenture dated as of June 1, 1983; Sixth Supplemental Indenture dated as of August 1, 1985; Seventh Supplemental Indenture dated as of January 1, 1987; Eighth Supplemental Indenture dated as of September 1, 1988; Ninth Supplemental Indenture dated as of October 1, 1989; Tenth Supplemental Indenture dated as of November 1, 1990; Amended and Restated Tenth

⁵ *In the Matter of: Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corp.* (October 29, 2012 Order).

⁶ *In the Matter of: Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corp.* (January 19, 2016 Order).

Supplemental Indenture dated as of November 1, 1990; Eleventh Supplemental Indenture dated as of December 1, 1991; Twelfth Supplemental Indenture dated as of December 1, 1992; Thirteenth Supplemental Indenture dated as of December 1, 1993; Fourteenth Supplemental Indenture dated as of September 1, 1995; Fifteenth Supplemental Indenture dated as of February 1, 1997, and Sixteenth Supplemental Indenture dated as of June 1, 1998. The Indenture of Mortgage and Supplements were attached to Kentucky American Water's Application in Case No. 2006-00418. To the extent necessary, Kentucky American Water requests that such documents be incorporated by reference pursuant to 807 KAR 5:001, Section 18(2)(b) and 807 KAR 5:001, Section 12(2)(d).

8. AWCC is a wholly-owned subsidiary of American Water and is a corporation organized under the laws of the state of Delaware. On November 21, 2006, a \$700 million Commercial Paper ("CP") Program with a committed revolving credit facility backstop of \$800 million, (collectively, the "Working Capital Facility") was approved and implemented. On December 18, 2008, an additional \$40 million was committed to this line, bringing the total available line to \$840 million. Currently, AWCC has an unsecured revolving credit facility of \$2.25 billion that expires in March 2023. In March 2018, AWCC and its lenders amended and restated the credit agreement with respect to AWCC's revolving credit facility to increase the maximum commitments under the facility from \$1.75 billion to \$2.25 billion, and to extend the expiration date of the facility from June 2020 to March 2023. All other terms, conditions and covenants with respect to the existing facility remained unchanged. Subject to satisfying certain conditions, the credit agreement also permits AWCC to increase the maximum commitment under the facility by up to an aggregate of \$500 million, and to request extensions of its expiration date for up to two, one-year periods. The maximum aggregate outstanding amount of

AWCC's CP program, which is backed by the revolving credit facility, was increased from \$1.60 billion to \$2.10 billion in March 2018. The Working Capital Facility is used by AWCC to fund the working capital needs of its regulated Business Partners, Parent Company, and the American Water Works Service Company. As of December 31, 2018, AWCC had no outstanding borrowings under the revolving credit facility, and had \$954 million of commercial paper outstanding and \$81 million in outstanding letters of credit. \$150 million of the committed revolving credit facility is available for letters of credit. It has obtained funds from a syndicated bank credit line for short-term loans and from its own debt securities, all with the support of American Water Works Company, Inc. A copy of the Certificate of Incorporation of AWCC is attached as Exhibit No. 3.

9. As Exhibit No. 2 shows, as of December 31, 2018, Kentucky American Water had outstanding short-term debt in the amount of \$18,410,169 payable to AWCC and eleven long-term debt issues: (1) 6.960% series in the amount of \$7,000,000 due December 1, 2023; (2) 7.150% series in the amount of \$7,500,000 due February 1, 2027; (3) 6.990% series in the amount of \$9,000,000 due June 1, 2028; (4) 6.593% series in the amount of \$47,000,000 due October 15, 2037; (5) 6.250% series in the amount of \$45,390,000 due June 1, 2039; (6) 5.625% series in the amount of \$26,000,000 due September 1, 2039; (7) 5.375% series in the amount of \$26,000,000 due June 1, 2040; (8) 5.050% series in the amount of \$20,000,000 due October 15, 2037; (9) 4.000% series in the amount of \$7,859,000 due October 15, 2037; (10) 4.00% series in the amount of \$5,000,000 due June 15, 2046; and (11) 3.75% series in the amount of \$5,000,000 due September 1, 2047.

10. It is anticipated that Kentucky American Water will require one new permanent long-term debt financing before the end of 2019. This is planned to occur in May 2019 by the

issuance of \$16,000,000 of new long-term debt. The proceeds from this financing will be used to refinance short-term debt necessary to (i) fund construction expenditures, and (ii) meet other internal cash requirements.

11. The long-term debt issuance discussed above will be required to reduce short-term debt at the time of its issuance. In order to continue to maintain a reasonable relationship of long-term debt to common equity, Kentucky American Water anticipates infusion of additional equity (via paid-in-capital rather than issuance of additional shares) of \$6,000,000 in 2019 and 4,000,000 during 2020-2021 by its parent company, American Water Works Company, Inc.

12. In addition to the long-term debt issuance planned for 2019, as noted above, Kentucky American Water may also refinance up to three existing long-term debt issuances during the 2019-2021 period. These three issuances are the (1) 6.250% series in the amount of \$45,390,000 due June 1, 2039; (2) the 5.625% series in the amount of \$26,000,000 due September 1, 2039; and (3) the 5.375% series in the amount of \$26,000,000 due June 1, 2040. These three issues total \$97,390,000. The 6.25% series is callable starting June 1, 2019, the 5.625% series is callable starting September 1, 2019, and the 5.375% series is callable starting June 1, 2020. The decision of whether to call and refinance each of these debt issues will depend on market interest rates during the time each issuance is callable.

13. The amount of the new long-term debt planned for 2019, \$16,000,000, when added to the amount of long-term debt that may be refinanced, \$97,390,000, results in a total long-term debt approval request of \$113,390,000.

14. The maturity of the long-term issuance 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. The interest rate will be determined

by market conditions at the time of issuance. The interest will be payable on the same dates as AWCC must pay its corresponding interest payment on the borrowings from which the proceeds of the loans to Kentucky American Water will be derived. This is expected to be monthly, quarterly or semiannually and is subject to final negotiation. The securities evidencing the long-term indebtedness will be at market or lower than market all-in cost. Similarly, the security will have similar terms with that issued by AWCC.

15. Kentucky American Water seeks 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 2021 at less cost than would be otherwise available and so that it may be assured of a readily available source of funds. The requested continued participation will allow Kentucky American Water to meet its long-term debt needs (through December 2021) totaling \$113,390,000, of which \$16,000,000 represents an addition to long-term debt, and \$97,390,000 designated for refinancing, as described above.

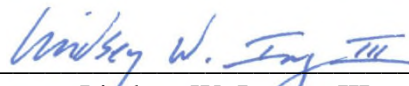
16. Kentucky American Water's participation in the AWCC borrowing program does not preclude it from either borrowing from or obtaining financial services from any third party that can offer a better competitive rate.

17. Kentucky American Water's continued participation with AWCC is for a lawful object within the corporate purposes of Kentucky American Water. Its participation is necessary and appropriate for and consistent with the proper performance by Kentucky American Water of its services and will not impair its ability to perform services and is reasonably necessary and appropriate for such purposes.

WHEREFORE, Kentucky American Water requests that the Commission, pursuant to the authority contained in KRS 278.300, authorize Kentucky American Water to continue its participation in the AWCC borrowing program so that the long-term financing needs consisting of both new long-term debt and the refinancing of existing long-term debt as described in this Application can be met.

Date: March 8, 2019

Lindsey W. Ingram III
L.Ingram@skofirm.com
Monica H. Braun
Monica.Braun@skofirm.com
STOLL KEENON OGDEN PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-1801
Telephone: (859) 231-3000
Fax: (859) 259-3503

BY: 
Lindsey W. Ingram III
Attorneys for Kentucky-American Water Company

COMMONWEALTH OF KENTUCKY)

COUNTY OF FAYETTE)

After having been duly sworn, Nick O. Rowe states that he is President of Kentucky-American Water Company, that he has knowledge of the matters set forth in this Application, that he has been designated by Kentucky-American Water Company to sign and file the Application on its behalf, and that he has read the Application and that the statements contained in it are true.



NICK O. ROWE

Subscribed and sworn to before me by Nick O. Rowe this the 7 day of March, 2019.

My Commission expires: 8/6/2022


NOTARY PUBLIC, STATE AT LARGE, KY.

FINANCIAL SERVICES AGREEMENT

THIS AGREEMENT, dated as of June 15, 2000, by and between Kentucky-American Water Company (the "Company") and American Water Capital Corp. ("AWCC").

B A C K G R O U N D

The Company currently performs its own financial services.

However, the Company has determined that it can obtain these services more efficiently through the consolidation of certain necessary management and staff functions with those performed for other entities that may enter into agreement with AWCC substantially similar to this one ("Co-Participants").

AWCC is dedicated to performing such consolidated functions.

Accordingly, the parties have determined to enter into this Agreement for the provision of financial services by AWCC to the Company and for the proper determination and allocation of the costs of providing such services.

Therefore, the parties agree as follows:

A G R E E M E N T

1. Services. AWCC will provide, either directly or through arrangements with third parties for the benefit of the Company, such financial services as the Company and AWCC may from time to time agree, including but not limited to those more fully described in Appendix I attached to this Agreement.

2. Costs. In consideration of the provision of the services contemplated by paragraph 1, the Company agrees to pay AWCC a portion of the costs and appropriate overhead incurred by AWCC in providing those services, as follows. The costs incurred by AWCC in connection with its bank credit lines and short-term public borrowings will be divided among the Co-Participants in proportion to the maximum principal amount that each Co-Participant requests be made available to it during the course of a year. The costs incurred by AWCC in connection with each long-term borrowing by AWCC will be divided among each Co-Participant in proportion to the principal amount of that borrowing that is loaned to that Co-Participant. AWCC's overhead will be allocated among the Co-Participants in the same proportion as each Co-Participant's long-term and maximum, requested short-term borrowings and investments in a calendar year bear to all of the long and maximum short-term borrowings and investments by all Co-Participants during the same year.

3. Statements. AWCC will prepare and deliver to the Company monthly statements of the services provided by AWCC and amounts payable to AWCC, giving effect to

all the provisions of this Agreement. The Company shall pay the net amount shown on its statement within thirty (30) days after the billing date.

4. Inspection. Upon reasonable notice, AWCC will make available to the Company for its inspection AWCC's books, records, bills, accounts and any other documents which describe or support the costs allocated to the Company under this Agreement.

5. Obligations Not Joint. AWCC and the Company expressly agree: (a) that the obligations of the Company and each Co-Participant to AWCC are several and not joint; (b) that the Company will not be responsible to any Co-Participant, to AWCC or to any assignee or creditor of AWCC for any payment in excess of payments due by the Company to AWCC under this Agreement or a Note in the form attached to this Agreement; and (c) that no Co-Participant will be responsible to the Company, to any other Co-Participant, to AWCC or to any assignee or creditor of AWCC for any payment in excess of payments due by that Co-Participant to AWCC under any agreement substantially similar to this Agreement or under any Note attached to that other agreement. AWCC covenants and agrees that it will require, as a condition to its entering into any such other agreement with a Co-Participant, that such other agreement contains the same provision as that contained in the immediately preceding sentence.

6. Notes. The Company's borrowings under this Agreement will be evidenced by one or more promissory notes in the form of Exhibit A or Exhibit B attached to this Agreement.

7. Non-Exclusivity. Nothing in this Agreement prohibits or restricts the Company from borrowing from third parties, or obtaining services described in this Agreement from third parties, whenever and on whatever terms it deems appropriate.

8. Effectiveness. This Agreement shall be effective as of June 15, 2000, provided that, if prior approval by the regulatory commission of any jurisdiction is required before this Agreement may become effective as to the Company, or before AWCC may provide a particular service hereunder to the Company, this Agreement shall not be effective as to the Company or as to that service, as the case may be, unless and until the required approval has been obtained. Unless and until this Agreement becomes effective as to the Company in whole or in part, the Company shall not be entitled to the benefits of, nor shall it have any rights or duties under, this Agreement. This Agreement may be amended or rescinded only by written instrument signed by the Company and AWCC.

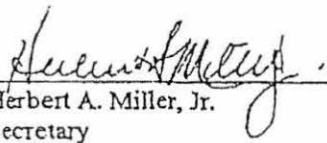
9. Termination. The Company may terminate its participation in this Agreement by giving ten (10) days prior written notice of such termination to AWCC; and (b) AWCC may terminate this Agreement by giving ninety (90) days prior written notice of such termination to the Company. Termination of this Agreement will not affect: (a) the Company's obligations under any Promissory Notes; (b) any party's obligations with respect to any amounts owing under Sections 2 and 3 of this Agreement (including such amounts attributable to obligations of any terminating party under any Promissory Notes that remain outstanding after this Agreement is terminated as to that party); or (c) AWCC's obligations to repay any investments made by a Company pursuant to Appendix I.

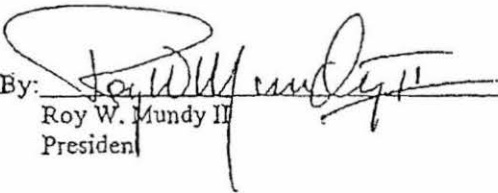
10. Copies. This Agreement may be executed by the parties in one or more copies and each executed copy shall be considered an original.

In witness of the foregoing, each of the Company and AWCC has caused its respective corporate seal to be affixed to this Agreement and has caused this Agreement to be signed on its behalf by its duly authorized officers.

ATTEST:

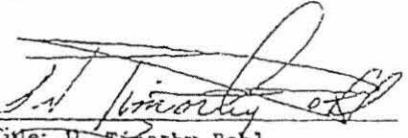
KENTUCKY-AMERICAN WATER COMPANY

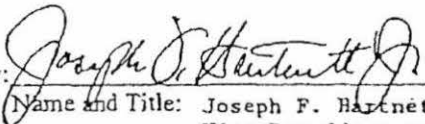
By: 
Herbert A. Miller, Jr.
Secretary

By: 
Roy W. Mundy II
President

ATTEST:

AMERICAN WATER CAPITAL CORP.

By: 
Title: W. Timothy Pohl
Vice President and Secretary

By: 
Name and Title: Joseph F. Harnett, Jr.
Vice President and Treasurer

APPENDIX I

DESCRIPTION OF FINANCIAL SERVICES

Set forth below is a list of the services which AWCC agrees to provide to the Company upon its request pursuant to the Agreement to which this Appendix is attached.

1. Short-Term Loans. AWCC will provide Short-Term Loans to the Company pursuant to the terms set forth in the promissory notes to be issued by the Company to AWCC, each substantially in the form attached to this Agreement as Exhibit A.

2. Long-Term Borrowings. AWCC will provide loans other than Short-Term Loans to the Company pursuant to the terms set forth in the promissory notes to be issued by the Company to AWCC, each substantially in the form attached hereto as Exhibit B.

3. Cash Management. Cash not required by the Company to pay its daily disbursements or to pay when due the principal of and interest on, the Company's borrowings from AWCC other than Short-Term Loans will be used by AWCC first to reduce the outstanding principal balance of the Company's Short-Term Loans owing to AWCC and any excess will be deemed to be invested with AWCC and will earn a daily rate of interest that is equal to the interest income earned by AWCC on those funds. Upon the request of that Company, AWCC shall execute one or more promissory notes in favor of the Company, in form and substance substantially similar to the Promissory Note attached as Exhibit A to the Agreement as evidence of such investment.

EXHIBIT A
PROMISSORY NOTE
FOR SHORT-TERM LOANS

§ _____, 2000

FOR VALUE RECEIVED, [NAME OF COMPANY], a _____ corporation (herein "Borrower") hereby promises to pay ON DEMAND to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at Voorhees, New Jersey or such other place as Lender may from time to time designate, the principal sum of _____ dollars (\$ _____) (the "Maximum Principal Sum"), or such lesser amount as shall equal the aggregate unpaid principal amount of the loans made by Lender to Borrower (other than loans evidenced by a promissory note under which the principal amount is due and payable in one or more scheduled installments more than one year after the date of its issue), together with interest thereon from the date hereof until paid in full. Interest will be charged on the unpaid outstanding principal balance of this Note at a rate per annum equal to Lender's actual cost of funds to make such loan, such rate to change as Lender's actual cost of funds changes. Interest on borrowings shall be due and payable on the first business day of each month, commencing with the first business day of the month after the month in which this Note is executed. In the absence of manifest error, the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

Borrower may borrow, repay and reborrow hereunder in amounts which do not, in the aggregate outstanding at any time, exceed the Maximum Principal Sum.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of

Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of the parties hereto.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day
and year first written above.

[BORROWER]

By: _____
Name and Title:

EXHIBIT B
PROMISSORY NOTE
FOR LONG-TERM BORROWINGS

§ _____, 2000

FOR VALUE RECEIVED, [NAME OF COMPANY], a _____ corporation (herein "Borrower") hereby promises to pay to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at _____ or such other place as Lender may from time to time designate, the principal sum of _____ dollars (\$ _____), together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

[BORROWER]

By: _____
Name and Title:

**FINANCIAL STATEMENT
OF
KENTUCKY-AMERICAN WATER COMPANY**

(as of December 31, 2018 except where noted)

(1) The amount and kinds of stock of the Applicant authorized are as follows:

Preference Stock, par value \$100 per share:

8.47% Series	45,000 Shares
Unclassified	85,000 Shares

Common Stock, no par value	2,000,000 Shares
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(2) The amounts and kinds of stock of the Applicant issued and outstanding as of December 31, 2018 are as follows:

Preference Stock, par value \$100 per share:

8.47% Series	22,500 Shares
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Common Stock, no par value	1,567,391 Shares
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(3) The Preference Stock is cumulative as to dividends. If dividends on the Preference Stock shall be in arrears and such arrears shall aggregate an amount equal to or in excess of eight (8) quarterly dividends upon such stock, the number of directors then constituting the Board of Directors shall be increased by one (1) and the holders of the Preference Stock voting separately as a class shall be entitled to elect the one (1) additional director.

The shares of the 8.47% Preference Stock may be redeemed at any time, or from time to time, on or after December 1, 2001 at the option of the Company, in whole or in part, upon payment of a redemption price equal to the sum of \$100 per share plus a premium equal to the Make-Whole Premium as defined in the Articles of Incorporation.

At any time during the period of twelve (12) consecutive calendar months beginning on December 1, 2011 and ending November 30, 2012, both dates inclusive, and during each like period of twelve (12) consecutive calendar months thereafter so long as any shares of the 8.47% Series remain outstanding,

the Company may at its option redeem up to and including, but not exceeding, four thousand five hundred (4,500) shares of the 8.47% Series at a redemption price equal to the sum of \$100 per share.

All then outstanding shares of the 8.47% Series shall be redeemed by the Company on December 1, 2036 at a redemption price equal to the sum of \$100 per share.

(4) The following are the only mortgages on the property of the Applicant:

General Mortgage Indenture dated as of May 1, 1968, executed by the Applicant to The Fidelity Bank (now US Bank), as Trustee, and supplemental indentures thereto dated as of December 1, 1970 (as supplemented on December 17, 1970); September 1, 1974; November 1, 1977; December 1, 1982; June 1, 1983; August 1, 1985; January 1, 1987; September 1, 1988; October 1, 1989; November 1, 1990; December 1, 1991; December 1, 1992; December 1, 1993; September 1, 1995; February 1, 1997, and June 1, 1998.

The Indenture of Mortgage provides for the issue of General Mortgage Bonds which together with all other long-term debt cannot exceed 65% of Applicant's total capitalization, which percentage is 50% as of December 31, 2018. The amount of indebtedness actually secured by a lien on all the property owned or hereafter acquired by the Company is \$23,500,000. There are no sinking fund provisions associated with the General Mortgage Bonds.

(5) At December 31, 2018, \$23,500,000 in General Mortgage Bonds were issued and outstanding.

General Mortgage Bonds:

Principal amount authorized by Indenture:

No maximum limit of bonds fixed

Name of utility issuing bonds:

All bonds were issued by Kentucky-American Water Company

Principal amount issued and outstanding:

<u>GMB:</u>	<u>Issued</u>	<u>Outstanding</u>
6.96% Series	\$ 7,000,000	\$ 7,000,000
7.15% Series	7,500,000	7,500,000
6.99% Series	9,000,000	9,000,000

Date of issue (nominal date):

6.96% Series	December 1, 1993
7.15% Series	February 1, 1997
6.99% Series	June 1, 1998

Rate of interest:

6.96% Series	6.96%
7.15% Series	7.15%
6.99% Series	6.99%

Date of maturity:

6.96% Series	December 1, 2023
7.15% Series	February 1, 2027
6.99% Series	June 1, 2028

Security: All outstanding General Mortgage Bonds are secured by the lien of the General Mortgage Indenture upon all property of the Company.

Interest paid during the 12 months ended December 31, 2018

6.96% Series	\$ 487,200.00
7.15% Series	536,250.00
6.99% Series	629,100.00

(6) Notes are payable to AWCC, bear interest as listed below.

<u>Payee</u>	<u>Date of Issue</u>	<u>Interest Rate*</u>	<u>12/31/18 Amount Outstanding</u>	<u>Maturity Date</u>	<u>Interest paid 12 months ended 12/31/2018</u>
AWCC	January 1, 2005	Variable	\$18,410,169	Revolver	\$277,041

* Interest rate is based on weighted average of commercial paper rates

<u>Payee</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>12/31/2018 Amount Outstanding</u>	<u>Maturity Date</u>	<u>Interest paid 12 mos. ended 12/31/2018</u>
AWCC	Oct 22, 2007	6.593%	\$47,000,000	Oct 15, 2037	\$3,098,710
AWCC	June 23, 2009	6.250%	45,390,000	June 1, 2039	2,836,875
AWCC	Sept 10, 2009	5.625%	26,000,000	Sept 1, 2039	1,462,500
AWCC	June 24, 2010	5.375%	26,000,000	June 1, 2040	1,397,500
AWCC	Nov 21, 2011	5.050%	20,000,000	Oct 15, 2037	1,010,000
AWCC	May 15, 2013	4.000%	7,859,000	Oct 15, 2037	314,360
AWCC	June 15, 2016	4.000%	5,000,000	June 15, 2046	200,000
AWCC	Sept 13, 2017	3.750%	5,000,000	Sept 1, 2047	187,500

(7) Indebtedness other than identified on this exhibit does not exist.

(8) Dividends were paid by the Applicant during the five fiscal years as follows:

Common Stock

<u>12 Months Ended December 31,</u>	<u>Annual Rate per Share</u>	<u>Number of Shares Outstanding</u>	<u>Amount</u>
2014	7.56	1,567,391	\$11,849,476
2015	7.20	1,567,391	11,285,215
2016	7.81	1,567,391	12,241,324
2017	9.21	1,567,391	14,435,671
2018	7.75	1,567,391	12,147,280

Preference Stock, 8.47% Series

<u>12 Months Ended December 31,</u>	<u>Annual Rate per Share</u>	<u>Number of Shares Outstanding</u>	<u>Amount</u>
2014	8.47	45,000	\$381,150
2015	8.47	22,500 *	365,269
2016	8.47	22,500	190,575
2017	8.47	22,500	190,575
2018	8.47	22,500	190,575

* 22,500 shares were redeemed on December 15, 2015

(9) Applicant's Balance Sheet as of December 31, 2018 and a statement of Applicant's earnings and expenses for the twelve months ended on such date are shown on Schedule 1 and Schedule 2, respectively, which are attached hereto.

STATEMENT OF BALANCE SHEET
KENTUCKY - AMERICAN WATER
(\$ IN THOUSANDS)
UNAUDITED

	December 31, 2018	December 31, 2017
ASSETS		
Utility Plant in Service	754,582	724,951
Construction Work in Progress	15,191	12,491
Utility Plant Accumulated Depreciation/Amortization	(162,471)	(148,346)
Total Utility Plant Adjustments	194	202
Utility property net of accumulated depreciation	607,495	589,298
Nonutility property net of accumulated depreciation	250	250
Total Property Plant and Equipment	607,745	589,548
Cash and Cash Equivalents	602	(535)
Restricted funds-current	-	-
Accounts receivable net	5,545	6,317
Unbilled Revenues	4,169	4,561
Materials and supplies	844	815
Current portion of deferred tax asset	-	-
Assets of discontinued operations	-	-
Other Current Assets	425	367
Total Current Assets	11,585	11,525
Regulatory assets	13,818	12,464
Operating lease right-of-use assets	-	-
Other investments	-	-
Restricted Funds - Long-term	-	-
Goodwill	-	-
Intangible assets	-	-
Other Long Term Assets	78	63
Total Regulatory & Other L/T Assets	13,896	12,527
Total Assets	633,226	613,599
CAPITAL & LIABILITIES		
Common Stock	36,569	36,569
Paid in Capital	94,164	94,131
Retained Earnings	75,187	67,984
Accumulated other comprehensive income	-	-
Treasury stock	-	-
Total Stockholders' equity	205,920	198,683
Preferred Stock without mandatory redemption requirements	-	-
Noncontrolling Interest	6	6
Total Equity	205,926	198,690
Long term debt	205,696	205,694
Redeemable preferred stock at redemption value	2,250	2,250
Total Long-term debt	207,946	207,944
Total Capitalization	413,872	406,634
Short Term Debt	18,410	8,273
Current Portion of Long-term Debt	-	-
Current portion of redeemable stock at redemption value	-	-
Accounts Payable	4,108	3,548
Accrued Liabilities	2,655	3,455
Taxes Accrued	5,685	2,137
Interest Accrued	2,152	2,146
Liabilities of Discontinued Operations	-	-
Other current liabilities	4,582	2,820
Total Current Liabilities	37,593	22,377
Customer Advances for Construction	10,023	11,761
Deferred Income Taxes	44,287	46,510
Deferred Investment tax credits	293	372
Regulatory liability	56,869	58,756
Accrued Pension	(1,169)	(1,606)
Accrued postretirement benefit expense	343	745
Operating lease liabilities	-	-
Other Deferred Credits	87	373
Regulatory & Other Long Term Liabilities	110,733	116,913
Contributions in aid of construction	71,028	67,676
Total Capital and Liabilities	633,226	613,599

INCOME STATEMENT
KENTUCKY - AMERICAN WATER
(\$ IN THOUSANDS)
UNAUDITED

	Twelve Months Ended December 31,	
	2018	2017
<u>OPERATING REVENUES</u>		
Water revenues	89,637	95,144
Sewer revenues	552	528
Other operating revenues	2,570	2,641
Market-Based revenues	-	-
Management revenues	-	-
Operating revenues	92,759	98,313
<u>OPERATIONS & MAINTENANCE EXPENSE</u>		
Purchased water	348	278
Fuel and Power	3,989	4,133
Chemicals	1,860	1,720
Waste disposal	451	530
Total production costs	6,648	6,662
Salaries & Wages	7,234	6,863
Pensions	387	703
Group insurances	1,470	1,473
Other benefits	556	530
Total employee related	9,648	9,569
Service Company costs	9,805	9,057
Contracted services	1,087	865
Building maintenance and services	783	651
Telecommunication expenses	283	248
Postage printing and stationery	27	74
Office supplies & expenses	284	276
Advertising & marketing expenses	6	5
Employee related expense travel & entertainment	169	362
Miscellaneous expenses	528	1,533
Rents	65	20
Transportation	450	395
Operating supplies & services	3,682	4,431
Uncollectible Accounts Exp	1,068	682
Customer accounting other	1,233	1,116
Regulatory expense	289	290
Insurance other than group	657	533
Maintenance service & supplies	2,072	2,152
Total operation and maintenance	35,104	34,492
Depreciation	14,216	13,672
Amortization	269	264
Removal costs	2,259	2,199
Depreciation and Amortization	16,744	16,135
General taxes	7,924	6,134
Loss (gain) on sale of assets	(1,960)	(6,533)
Impairment charges	-	-
Total operating expenses net	57,811	50,227
Operating income (loss)	34,947	48,086
<u>OTHER INCOME (EXPENSE)</u>		
Interest Income	-	(4)
Interest on long-term debt	12,352	12,220
Interest on Short-Term Bank Debt	277	155
Other Interest Expense	1	0
Interest net	12,631	12,372
Nonoperating benefit costs, net	(484)	-
Allowance for other funds used during construction	762	628
Allowance for borrowed funds used during construction	384	259
Amortization of debt expense	119	111
Other Net	(0)	(31)
Total other income (expenses)	(11,121)	(11,627)
Income (loss) before income taxes	23,827	36,459
Provision for income taxes	4,475	15,347
Income (loss) from continuing operations	19,351	21,112
Income (loss) from discontinued operations - net of tax	-	-
Net income (loss)	19,351	21,112
Preferred dividend declared	-	-
Net income attributable to non-controlling interest	-	-
Net income available to common stockholders	19,351	21,112
Common dividends	12,147	14,436
Current Year Retained Earnings	7,204	6,676

CERTIFICATE OF INCORPORATION
OF
AMERICAN WATER CAPITAL CORP.

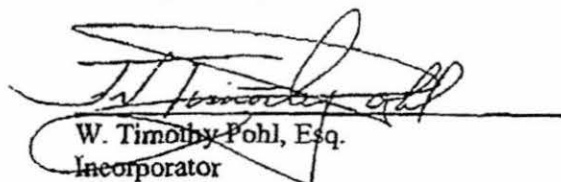
The undersigned, for the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, does hereby state as follows:

1. Name. The name of the Corporation is American Water Capital Corp. (the "Company")
2. Registered Office and Agent. The address of the Company's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.
3. Purpose. The purposes for which the Company is formed are to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware and to possess and exercise all of the powers and privileges granted by such law and any other law of Delaware.
4. Authorized Capital. The total number of shares of stock which the Company shall have authority to issue is 10,000 shares, all of which shall be Common Stock of the par value of \$1.00 per share.
5. Incorporator. The name and mailing address of the incorporator are as follows: W. Timothy Pohl, 1025 Laurel Oak Road, P.O. Box 1770, Voorhees, NJ 08043.
6. Term. The Company is to have perpetual existence.
7. Bylaws. The board of directors of the Company shall have the power to adopt, amend or repeal the bylaws of the Company, except as otherwise specifically provided therein.
8. Elections of Directors. Elections of directors need not be by written ballot unless the bylaws of the Company shall so provide.
9. Limitation on Liability. The directors of the Company shall be entitled to the benefits of all limitations on the liability of directors generally that are now or hereafter become available under the General Corporation Law of Delaware, including, without limitation, as permitted by the provisions of

paragraphs (7) of subsection (b) of § 102 of the Delaware General Corporation Law, as the same may be amended and supplemented. Any repeal or modification of this Section 9 shall be prospective only, and shall not affect, to the detriment of any director, any limitation on the personal liability of a director of the Company existing at the time of such repeal or modification.

10. Right to Amend. Subject to the provisions of this Certificate, the Company reserves the right to amend any provision contained in this Certificate of Incorporation and in any certificate amendatory hereof in the manner now or hereafter prescribed by law, and all rights conferred on stockholders or others hereunder are subject to such reservation.

IN WITNESS WHEREOF, the undersigned, being the incorporator hereinbefore named, as hereunto set his hand, this 11 day of May, 2000.


W. Timothy Pohl, Esq.
Incorporator