

**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.)

ORDERING PARAGRAPH 5 REPORT

In accordance with Ordering Paragraph 5 of the Commission’s April 23, 2019 Order in this matter, this is to report to the Commission that Kentucky-American Water Company (“KAW”) issued debt in the amount of \$16,000,000 on May 22, 2019 in accordance with the Commission’s Order. The debt was issued pursuant to KAW’s participation in the American Water Capital Corporation (“AWCC”) borrowing program. The coupon interest rate for the issuance is 4.150% and it matures on June 2, 2049.

The attached documentation shows the terms and conditions of the issuance and also shows that the rate of 4.150% was the most reasonable under the circumstances at the time of issuance. The attached includes information regarding recent utility issuances and the advantages derived from KAW’s participation in the AWCC borrowing program, which ensures that KAW receives the lowest available rate for its borrowings. Finally, the attached includes an analysis of the savings realized by virtue of KAW’s participation in the AWCC borrowing program.

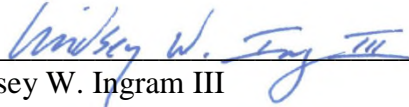
Date: June 13, 2019

Respectfully submitted,

Lindsey W. Ingram III
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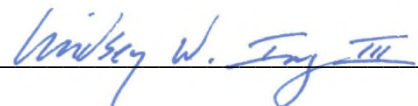
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By: 
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Monica H. Braun

CERTIFICATE

This certifies that Kentucky-American Water Company's electronic filing is a true and accurate copy of the documents to be filed in paper medium; that the electronic filing has been transmitted to the Commission on June 13 2019; that a paper copy of the filing will be delivered to the Commission within two business days of the electronic filing; and that no party has been excused from participation by electronic means.

STOLL KEENON OGDEN PLLC

By: 

Attorneys for Kentucky-American Water Company



AMERICAN WATER

To: Kentucky American Water (KAW)

Date: June 13, 2019

RE: KAW Debt Financing Interest Rate

KAW is currently not rated by the credit rating agencies but if it were, it could be rated lower than American Water Capital Corp (AWCC)'s Baa1 (Stable) and A (Stable) from Moody's and Standard and Poor's, respectively based on certain financial metrics outlined below and limited diversification in comparison to AWCC.

As shown in the credit metrics below, American Water Works Company (AWK) has stronger coverage ratios than that of KAW with ratios such as EBITDA/Interest at 4.87x compared to KAW's 4.33x and Cash Flow from Operations/Interest Expense at 3.96x compared to KAW's 3.08x. In addition, AWCC enjoys the benefit of size (economy of scale), diversification, and greater access to a broader base of investors through larger capital markets' offerings. Additionally, AWCC has a support agreement with AWK, which serves as a functional equivalent of a guarantee, pursuant to which AWK has agreed to pay any principal or interest that AWCC fails to pay on a timely basis.

	As of 12/31/2018	
	American Water Works Company, Inc.	Kentucky-American Water Company
EBITDA / Interest Expense	4.87x	4.33x
Total Debt/EBITDA	5.05x	4.31x
Total Debt / Total Capitalization	59.5%	54.5%
Cash Flow from Operations/Interest Expense	3.96x	3.08x
Cash Flow from Operations/Debt	16.1%	16.5%

It should also be noted that as a result of aggregating the financing needs of all the operating subsidiaries, AWCC is able to issue larger amounts and obtain lower issuance costs as a percentage of total debt issuance. Furthermore, the fixed portion of the issuance costs may be spread over a number of operating subsidiaries which otherwise would have been borne in its entirety by one entity.

Therefore, AWCC is able to issue debt more cost efficiently at a lower all-in-rate than otherwise feasible for operating subsidiaries on a stand-alone basis, including KAW. AWCC then loans the proceeds to the operating subsidiaries as needed at the same or better terms (including maturity and interest rates) than those obtained by AWCC.

Respectfully,



Jim Merante
VP, Treasurer

Term Sheet

Lender:	American Water Capital Corp.
Lender's Credit Rating (Moody's / S&P)	Baa1 (stable outlook) / A (stable outlook)
Borrower:	Kentucky American Water
Borrower's Credit Rating	Not Rated
Amount:	\$16,000,000
Tax Type:	Taxable
AWCC Trade Date:	May 6, 2019
Settlement Date:	May 13, 2019 (T+5)
KY Issue Date:	May 22, 2019
Maturity Date:	June 1, 2049
Benchmark Treasury:	UST 3.375% due November 15, 2048
Benchmark Treasury Yield:	2.901%
Spread to Benchmark Treasury:	+128bps
Yield to Maturity:	4.181%
Coupon:	4.150%
Price	99.470%
Redemption Provisions:	Adjusted Treasury Rate +20bps
CUSIP	03040WAV7
Book Runners:	J.P. Morgan Securities LLC; U.S. Bancorp Investments, Inc.; Wells Fargo Securities, LLC; PNC Capital Markets LLC; RBC Capital Markets, LLC
Co-Managers:	Mizuho Securities USA LLC; TD Securities (USA), LLC ; Merrill Lynch, Pierce, Fenner & Smith Inc.; MUFG Securities Americas Inc., ; BB&T Capital Markets; Regions Securities LLC ; BNY Mellon Capital Markets, LLC ; Cabrera Capital Markets LLC; Loop Capital Markets LLC
Trustee for Lender	Wells Fargo Bank
Use of Proceeds	To make repayments of commercial paper, capital expenditures, and for general corporate purposes.

Comparable Transactions: Recent Utility New Issuances

Trade Date	Issuer	Ratings		Tenor	Size		Coupon
		(Moody's / S&P)			(\$MM)		
5/6/2019	American Water Capital Corp.	Baa1 / A		6/1/2049	\$	550 *	4.150%
<u>Power & Utility Recent Issuances</u>							
2/26/2019	Arizona Public Service	A2 / A-		3/1/2049	\$	300	4.250%
3/4/2019	Appalachian Power Company	Baa1 / A-		3/1/2049	\$	400	4.500%
4/28/2019	AEP Texas	Baa1 / A-		5/1/2049	\$	300	4.150%
5/6/2019	Consolidated Edison	A3 / A-		5/15/2049	\$	700	4.125%
Average Comparable 30-Year Issuances:					\$	425	4.256%
*Note: 1) Kentucky received \$16MM of the \$550MM issuance by AWCC on 5/22/19.							

Estimated Difference in Interest & Issuance Costs (\$16MM issuance)

Scenario 1: AWCC			
Interest Rate			
Benchmark Yield	2.90%		
New Issue Spread	1.28%		
New Issue Yield	4.18%		
Size/Liquidity/Risk Premium	0%		
New Issue Yield	4.18%		
Issuance Costs			
Underwriting	0.875%	\$140,000	
Ratings Agencies	0.136%	\$21,680	
SEC	0.013%	\$2,000	
Trustee & Acceptance	0.002%	\$378	
Accounting	0.009%	\$1,455	
Legal	0.009%	\$1,500	
Publishing & Distribution	0.001%	\$149	
Investor's Counsel, Marketing, etc.	0.000%	\$0	
Total	1.04%	\$167,161	
Upfront Rating Agency Costs			
Annual Fees		\$1,214	
Annual Interest Expense			
Coupon Rate ¹	4.15%		
Interest Expense		\$668,800	

Scenario 2: Kentucky Subsidiary (SEC-Registered)			
Interest Rate			
Benchmark Yield	2.90%		
New Issue Spread	1.28%		
New Issue Yield	4.18%		
Size/Liquidity/Risk Premium ²	0.20%		
New Issue Yield	4.38%		
<i>Increase vs. Scenario 1:</i>		0.20%	
Issuance Costs			
Underwriting	0.875%	\$140,000	
Ratings Agencies	0.136%	\$21,680	
SEC	0.013%	\$2,000	
Trustee & Acceptance ³	0.163%	\$26,000	
Accounting ³	0.625%	\$100,000	
Legal ³	0.625%	\$100,000	
Publishing & Distribution ³	0.069%	\$11,000	
Investor's Counsel, Marketing, etc.	0.000%	\$0	
Total	2.50%	\$400,680	
<i>Increase vs. Scenario 1:</i>	1.46%	\$233,519	
Upfront Rating Agency Costs			
Initial & Annual Fees ⁴		\$300,000	
<i>Increase vs. Scenario 1:</i>		\$298,786	
Annual Interest Expense			
Coupon Rate	4.38%		
Interest Expense		\$700,800	
<i>Increase vs. Scenario 1:</i>		\$32,000	

Scenario 3: Kentucky Subsidiary (Private Placement)			
Interest Rate			
Benchmark Yield	2.90%		
New Issue Spread	1.28%		
New Issue Yield	4.18%		
Size/Liquidity/Risk Premium ⁵	0.20%		
New Issue Yield	4.38%		
<i>Increase vs. Scenario 1:</i>		0.20%	
Issuance Costs			
Placement ⁶	1.563%	\$250,000	
Ratings Agencies ⁷	0.068%	\$10,840	
SEC	0.000%	\$0	
Trustee & Acceptance ³	0.163%	\$26,000	
Accounting ³	0.625%	\$100,000	
Legal ³	0.625%	\$100,000	
Publishing & Distribution ³	0.031%	\$5,000	
Investor's Counsel, Marketing, etc. ⁸	0.625%	\$100,000	
Total	3.70%	\$591,840	
<i>Increase vs. Scenario 1:</i>	2.65%	\$424,679	
Upfront Rating Agency Costs			
Initial & Annual Fees ⁷		\$140,000	
<i>Increase vs. Scenario 1:</i>		\$138,786	
Annual Interest Expense			
Coupon Rate	4.38%		
Interest Expense		\$700,800	
<i>Increase vs. Scenario 1:</i>		\$32,000	

Note 1: Bond was sold at a discount resulting in a coupon of 4.15% and a yield of 4.18%. The amortization of the discount has been included in the interest expense.

Note 2: In the public market an issuance amount of \$16M is well below market-standard and a sub-index size premium is required.

Note 3: If Kentucky were a standalone issuer, the subsidiary would incur the total expense instead of a portion of the cost spread across all subsidiaries.

Note 4: Public offering would require a credit rating by a minimum of two agencies. Expenses includes initial rating and annual fee for two ratings agencies.

Note 5: The inherent illiquidity of Private Placement offerings results in new issue spreads that are approximately 20 bps higher than comparable public offerings.

Note 6: In private placement market, placement agent fees are negotiated as flat dollar amounts at a higher percentage of the offering than for large deals.

Note 7: A private placement offering would require a minimum of one credit rating.

Note 8: Private Placement deals require additional expenses to cover investor's counsel fees, marketing and additional due diligence required by investors.