

**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 principal amount of \$26,000,000 on August 18, 2020 to refinance existing debt 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 is 0.7%.

The attached documentation shows the terms and conditions of the issuance and also shows that the rate of 0.7% 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.

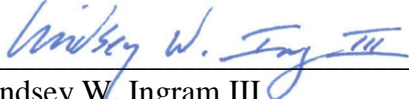
Date: August 31, 2020

Respectfully submitted,

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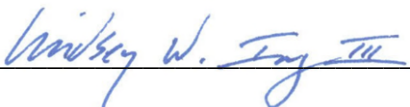
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By:   
Lindsey W. Ingram III  
Monica H. Braun

**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 August 31, 2020; that a paper copy of the filing will be delivered to the Commission in accordance with the Commission's March 16, 2020 Order in Case No. 2020-00085; 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: August 31, 2020

RE: KAW Debt Financing Interest Rate

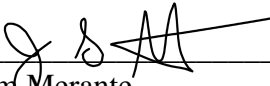
KAW is currently not rated by the credit rating agencies but if it were, it could be rated lower than American Water Capital Corp (AWCC)'s Baa1 (Stable) and A (Stable) from Moody's and Standard and Poor's, respectively based on certain financial metrics outlined below and limited diversification in comparison 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 4.59x compared to KAW's 4.23x and Cash Flow from Operations/Interest Expense at 3.62x compared to KAW's 2.77x. 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 12/31/2019	
	American Water Works Company, Inc.	Kentucky-American Water Company
EBITDA / Interest Expense	4.59x	4.23x
Total Debt/EBITDA	4.95x	4.08x
Cash Flow from Operations/Interest Expense	3.62x	2.77x
Cash Flow from Operations/Debt	16%	16%

AWCC is able to issue debt 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

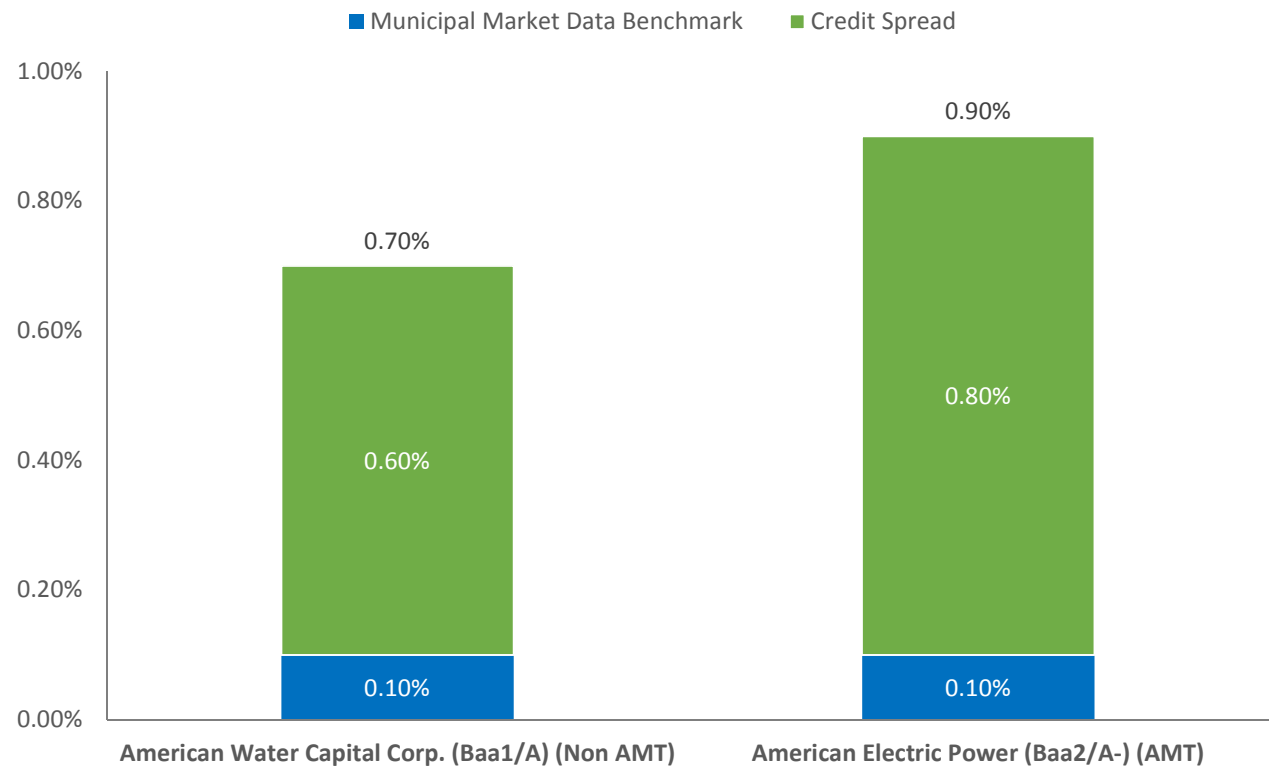
# Term Sheet

**County of Owen, Kentucky  
Water Facilities Refunding Revenue Bonds  
(Kentucky - American Water Company Project)  
Series 2020 (Non-Amt)**

Series	2020 (Non-AMT)
Par Amount	\$26M
Conduit Municipal Issuer	County of Owen, Kentucky
Obligor / Borrower	American Water Capital Corp.
State of Issuance	Kentucky
Use of Proceeds	Refunding
Security Type	Senior Unsecured
Pricing Date	8/12/2020
Closing Date	8/18/2020
Final Bullet Maturity Date	June 1, 2040
Interest Rate Mode	Mandatory Put Bond
Mandatory Tender Date	September 1, 2023
Ratings	Baa1/A/NR
Interest Payment Dates	March 1 and September 1 of each year, commencing March 1, 2021
Denominations	\$5k
Tax Status	Federally, Tax Exempt, Non-AMT
Optional Redemption	N/A
Other Redemption Provisions	Special Mandatory Redemption on Determination of Taxability
Yield	0.70%
CUSIP	69068WAC7
Lead Manager	Wells Fargo Securities

# Comparable Transactions: Recent Utility Tax-Exempt Issuances

American Water Capital Corp.  
priced at a spread that was 20  
bps better than American  
Electric Power for the same  
maturity  
*70 bps vs. 90bps*



Pricing Date: August 12, 2020

## Estimated Difference in Interest & Issuance Costs (\$26.0MM issuance)

Issuance: **\$26,000,000**

### Scenario 1: issued through AWCC

#### Interest Rate

Benchmark Yield	0.10%
New Issue Spread	0.60%
New Issue Yield	0.70%
Size/Liquidity/Risk Premium	0.00%
<b>New Issue Yield</b>	<b>0.70%</b>

#### Issuance Costs

Underwriter	0.51%	\$	133,239
Legal	0.55%	\$	143,333
Rating Agency	0.37%	\$	96,667
Accounting	0.17%	\$	45,000
Other	0.18%	\$	47,116
<b>Total<sup>5</sup></b>	<b>1.79%</b>		<b>\$465,355</b>

#### Upfront Rating Agency Costs

Annual Fees	\$1,452
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#### Annual Interest Expense

Coupon Rate	0.70%
Interest Expense	\$182,000

### Scenario 2: Kentucky American Standalone Issuer (SEC Registered)

#### Interest Rate

Benchmark Yield	0.10%
New Issue Spread	0.60%
New Issue Yield	0.70%
Size/Liquidity/Risk Premium <sup>1</sup>	0.15%
<b>New Issue Yield</b>	<b>0.85%</b>
<i>Increase vs. Scenario 1:</i>	<b>0.15%</b>

#### Issuance Costs

Underwriter	0.51%	\$133,239
Legal <sup>2</sup>	0.79%	205,000
First Time Issuer Rating Agency Costs <sup>3</sup>	0.85%	\$220,000
Accounting <sup>4</sup>	0.38%	\$100,000
Other	0.18%	\$47,116
<b>Total</b>	<b>2.71%</b>	<b>\$705,355</b>
<i>Increase vs. Scenario 1:</i>	<b>0.92%</b>	<b>\$240,000</b>

#### Upfront Rating Agency Costs

Initial & Annual Fees <sup>3</sup>	\$362,000
<i>Increase vs. Scenario 1:</i>	<b>\$360,548</b>

#### Annual Interest Expense

Coupon Rate	0.85%
Interest Expense	\$221,000
<i>Increase vs. Scenario 1:</i>	<b>\$39,000</b>

#### Notes:

Note 1: With an assumed credit rating one notch lower, Kentucky- American would likely incur an additional risk premium of approximately 15 bps.

Note 2: If Kentucky -American were a standalone issuer, the subsidiary would incur the total Legal expense instead of a portion of the cost spread across all issuing subsidiaries.

Note 3: Standalone offering by Kentucky -American would require a credit rating by two agencies. Expenses include initial rating, annual fee and issuance rating from two ratings agencies.

Note 4: If Kentucky -American were a standalone issuer, the subsidiary would incur the costs of additional accounting work performed by external auditors.

Note 5: Some expenses are estimated such as Legal, Trustee, and other debt issuance costs.