

**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 aggregate principal amount of \$71,390,000 on November 14, 2019 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 2.45%.

The attached documentation shows the terms and conditions of the issuances (one issuance was for \$45,390,000 and the other was for \$26,000,000 for an aggregate total of \$71,390,000) and also shows that the rate of 2.45% 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.

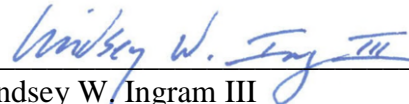
Date: November 25, 2019

Respectfully submitted,

Lindsey W. Ingram III
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Monica H. Braun
Monica.braun@skofirm.com

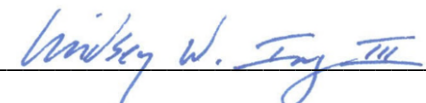
STOLL KEENON OGDEN PLLC
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Lexington, Kentucky 40507-1801
Telephone: (859) 231-3000
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By: 
Lindsey W. Ingram III
Monica H. Braun

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 November 25, 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: November 22, 2019

RE: KAW Debt Financing Interest Rate

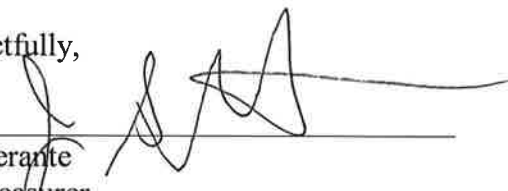
KAW is currently not rated by the credit rating agencies but if it were, it could be rated lower than American Water Capital Corp (AWCC)'s Baa1 (Stable) and A (Stable) from Moody's and Standard and Poor's, respectively based on certain financial metrics outlined below and limited diversification in comparison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

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

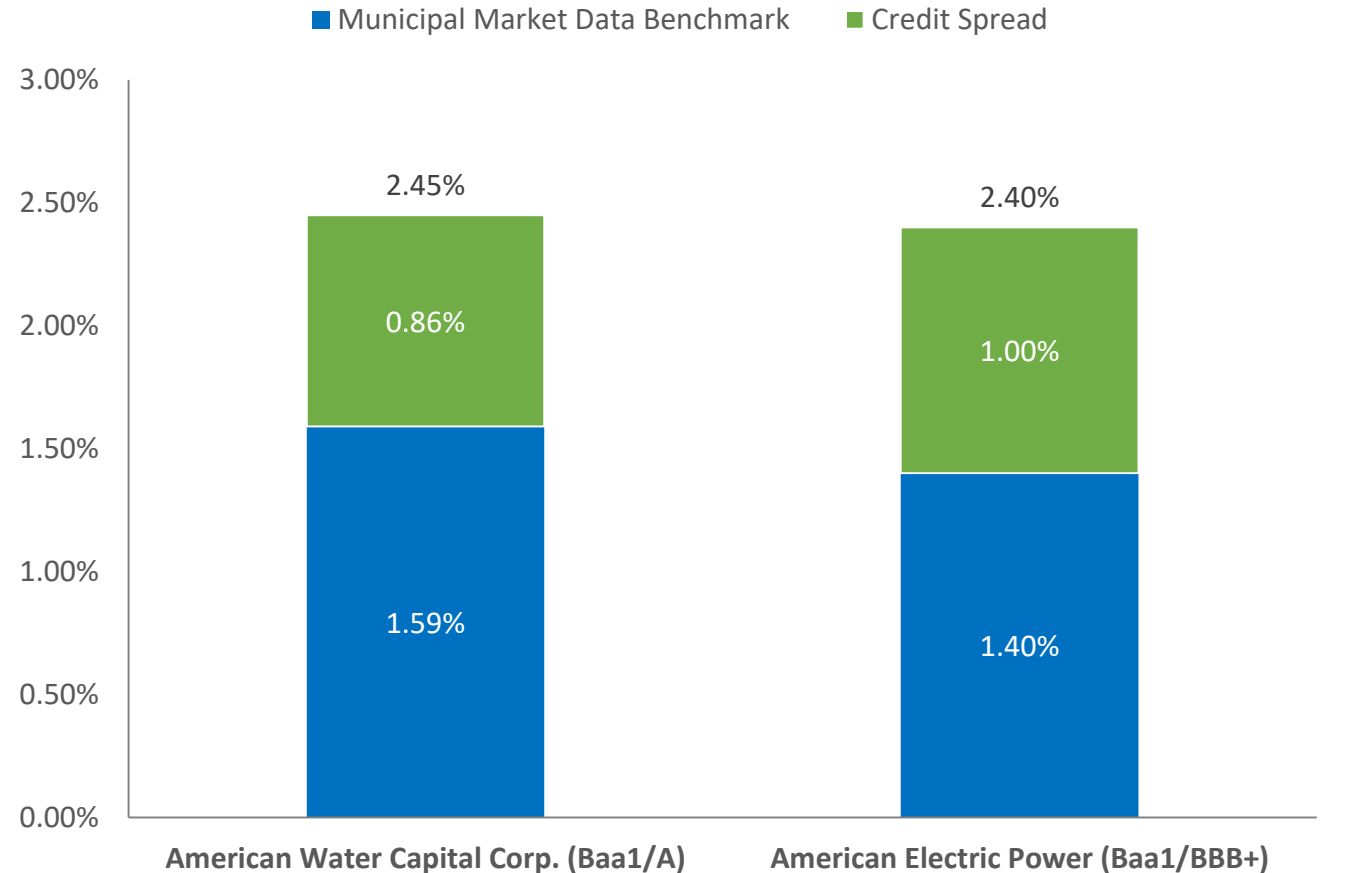
Term Sheet

\$71,390,000
 COUNTY OF OWEN, KENTUCKY
 WATER FACILITIES REFUNDING REVENUE BONDS
 (KENTUCKY-AMERICAN WATER COMPANY PROJECT)
 Series 2019A&B (Non-AMT)

Series:	Series 2019A	Series 2019B
Par Amount:	\$45.390 million	\$26.000 million
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:	November 7, 2019	
Closing Date:	November 14, 2019	
Final Bullet Maturity Date:	June 1, 2039	September 1, 2039
Interest Rate Mode:	Mandatory Put Bond	
Mandatory Tender Date:	October 1, 2029	
Expected Ratings:	Baa1/A/NR	
Interest Payment Dates:	April 1 and October 1 of each year, commencing April 1, 2020	
Denominations:	\$5,000	
Tax Status:	Federally Tax-exempt, Non-AMT	
Optional Redemption:	N/A	
Other Redemption Provisions:	Special Mandatory Redemption on Determination of Taxability	
Yield:	2.45%	2.45%
CUSIP:	69068WAA1	69068WAB9
Lead Manager:	J.P. Morgan	

Comparable Transactions: Recent Utility Tax-Exempt Issuances

American Water Capital Corp. priced at a spread that was 14 bps better than American Electric Power for the same maturity
86 bps vs. 100 bps



Pricing Date: September 24, 2019

Estimated Difference in Interest & Issuance Costs (\$71.39MM issuance)

Issuance: **\$71,390,000**

Scenario 1: AWCC

Interest Rate

Benchmark Yield	1.52%
New Issue Spread	0.93%
New Issue Yield	2.45%
Size/Liquidity/Risk Premium	0.00%
New Issue Yield	2.45%

Issuance Costs

Underwriter	0.50%	\$356,950
Legal	0.41%	\$291,604
Rating Agency	0.18%	\$129,808
Accounting	0.08%	\$60,000
Issuer	0.07%	\$50,000
Other	0.02%	\$14,456
Total	1.26%	\$902,818

Upfront Rating Agency Costs

Annual Fees	\$1,214
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Annual Interest Expense

Coupon Rate	2.45%
Interest Expense	\$1,749,055

Scenario 2: Kentucky American Standalone Issuer

Interest Rate

Benchmark Yield	1.52%
New Issue Spread	0.93%
New Issue Yield	2.45%
Size/Liquidity/Risk Premium ¹	0.15%
New Issue Yield	2.60%
<i>Increase vs. Scenario 1:</i>	0.15%

Issuance Costs

Underwriter	0.50%	\$356,950
Legal	0.41%	\$291,604
Rating Agency	0.18%	\$129,808
Accounting ²	0.14%	\$100,000
Issuer	0.07%	\$50,000
Other	0.02%	\$14,456
Total	1.32%	\$942,818
<i>Increase vs. Scenario 1:</i>	0.06%	\$40,000

Upfront Rating Agency Costs

Initial & Annual Fees ³	\$300,000
<i>Increase vs. Scenario 1:</i>	\$298,786

Annual Interest Expense

Coupon Rate	2.60%
Interest Expense	\$1,856,140
<i>Increase vs. Scenario 1:</i>	\$107,085

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

Note 2: If Kentucky were a standalone issuer, the subsidiary would incur the costs of additional accounting work performed by external auditors.

Note 3: Standalone offering by Kentucky would require a credit rating by a minimum of two agencies. Expenses include initial rating and annual fee for two ratings agencies.