

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF:** )  
 )  
**APPLICATION OF KENTUCKY-AMERICAN ) CASE NO. 2021-00019**  
**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 March 12, 2021 Order in this matter, this is to report to the Commission that Kentucky-American Water Company (“KAW”) issued debt in the amount of \$10,000,000 on May 18, 2022 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 4.45% and it matures on June 1, 2032.

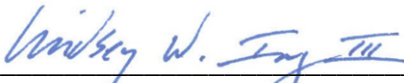
The attached documentation<sup>1</sup> shows the terms and conditions of the issuance and also shows that the rate of 4.45% was the most reasonable under the circumstances at the time of issuance. The attached includes information regarding the advantages derived from KAW’s participation in the AWCC 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.

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<sup>1</sup> When the attached documentation refers to “AWK,” it is referring to American Water Works Company, Inc.

Date: May 27, 2022

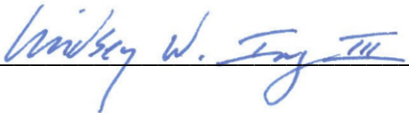
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BY:  \_\_\_\_\_  
Lindsey W. Ingram III  
Attorneys for Kentucky-American Water Company

**CERTIFICATE**

In accordance with 807 KAR 5:001 Section 8(7) and the Commission's March 16, 2020 Order in Case No. 2020-00085, this is to certify that Kentucky-American Water Company's electronic filing was transmitted to the Commission on May 27, 2022 and that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding.

STOLL KEENON OGDEN PLLC

By 

Attorneys for Kentucky-American Water Company



To: Kentucky American Water (KAW)

Date: May 25, 2022


RE: KAW Debt Financing Costs

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. If KAW were to seek financing on its own, it may need to become a SEC registrant for public offerings, with the associated costs, administration, and risks including capital market risk. This separation also could limit access to AWCC's liquidity resources and the loss of the consolidated company's credit support through AWCC.

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.

AWCC could be expected to issue debt at a lower all-in-rate than otherwise feasible for operating subsidiaries on a stand-alone basis, including KAW. AWCC loans the proceeds to the operating subsidiaries as needed on consistent terms than those obtained by AWCC.

Respectfully,



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Nicholas Furia  
Assistant Treasurer

**American Water Capital Corp  
(Kentucky - American Water Company)  
Senior Notes due 2032**

Series	Senior Notes due 2032
Par Amount	\$10M
Obligor / Borrower	American Water Capital Corp.
State of Issuance	Delaware
Use of Proceeds	General Purpose
Security Type	Senior Unsecured
Pricing Date	5/2/2022
Closing Date	5/5/2022
KAW Issuance Date	5/18/2022
Final Bullet Maturity Date	June 1, 2032
Ratings	Baa1/A/NR
Interest Payment Dates	June 1 and December 1 of each year, commencing December 1, 2022
Tax Status	Taxable
Optional Redemption	Make-whole call
Yield	4.45%
CUSIP	03040WBA2
Lead Manager	BofA

Issuance: **\$10,000,000**

**Scenario 1: issued through AWCC**

**Interest Rate**

Benchmark Yield	2.989%
New Issue Spread-Discount	1.461%
New Issue Yield	4.450%
Size/Liquidity Premium	0.000%
<b>New Issue Yield</b>	<b>4.450%</b>

**Issuance Costs**

Underwriter	0.65%	\$	65,000
Legal	0.02%	\$	2,498
Rating Agency	0.15%	\$	14,950
Accounting	0.02%	\$	1,625
Trustee	0.00%	\$	150
Other	0.01%	\$	927
		\$	<b>85,150</b>

**Upfront Rating Agency Costs**

Annual Fees	\$1,410
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**Annual Interest Expense**

Coupon Rate	4.45%
Interest Expense	\$445,000

**Scenario 2: Kentucky American Standalone Issuer (Private Placement)**

**Interest Rate**

Benchmark Yield	2.989%
New Issue Spread-Discount	1.461%
New Issue Yield	4.450%
Size/Liquidity Premium <sup>1</sup>	0.200%
<b>New Issue Yield</b>	<b>4.650%</b>
Increase vs. Scenario 1:	<b>0.20%</b>

**Issuance Costs**

Underwriter	0.65%	\$65,000
Legal <sup>2</sup>	2.00%	200,000
Rating Agency <sup>3</sup>	2.40%	\$240,000
Accounting <sup>4</sup>	1.30%	\$130,000
Trustee	0.12%	\$12,000
Other <sup>5</sup>	1.00%	\$100,000
		<b>\$747,000</b>

Increase vs. Scenario 1: **\$661,850**

**Upfront Rating Agency Costs**

Initial <sup>6</sup>	\$280,000
Annual Fees <sup>6</sup>	\$148,000
	<b>\$428,000</b>

Increase vs. Scenario 1: **\$426,590**

**Annual Interest Expense**

Coupon Rate	4.65%
Interest Expense	\$465,000
Increase vs. Scenario 1:	<b>\$20,000</b>

**Notes:**

Note 1: Kentucky- American would likely incur an additional premium of 20 bps or more.

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 with a issuance fees as follows: (Moody's min fee \$125K & S&P min fee \$115K).

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: If Kentucky -American were a standalone issuer, the subsidiary would likely incur other costs such as investor marketing and other administrative costs.

Note 6: Upfront rating agency cost of \$428K includes initial rating fee of \$130K (S&P) and \$150K (Moody's) and annual surveillance fee of \$83K (S&P) and \$65K (Moody's)