

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.)

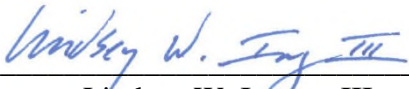
ORDERING PARAGRAPH 5 REPORT

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 \$13,000,000 on May 24, 2021 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 3.25% and it matures on June 1, 2051.

The attached documentation shows the terms and conditions of the issuance and also shows that the rate of 3.25% 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.

Date: June 3, 2021

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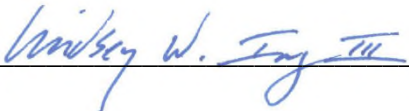
BY: 

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 June 3, 2021; that there are currently no parties that the Commission has excused from participation by electronic means in this proceeding; and that a physical copy of the filing will be submitted to the Commission once the State of Emergency has ceased.

STOLL KEENON OGDEN PLLC

By 

Attorneys for Kentucky-American Water Company



AMERICAN WATER

To: Kentucky American Water (KAW)

Date: June 3, 2021

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 at the same or better terms than those obtained by AWCC.

Respectfully,

Jim Merante
VP, Treasurer

American Water Capital Corp
(Kentucky - American Water Company)
Senior Notes due 2051

Series	Senior Notes due 2051
Par Amount	\$13M
Obligor / Borrower	American Water Capital Corp.
State of Issuance	Delaware
Use of Proceeds	General Purpose
Security Type	Senior Unsecured
Pricing Date	5/10/2021
Closing Date	5/14/2021
KAW Issuance Date	5/24/2021
Final Bullet Maturity Date	June 1, 2051
Ratings	Baa1/A/NR
Interest Payment Dates	June 1 and December 1 of each year, commencing December 1, 2021
Tax Status	Taxable
Optional Redemption	Make-whole call
Yield	3.25%
CUSIP	03040WAZ8
Lead Manager	JP Morgan

Issuance: **\$13,000,000**

Scenario 1: issued through AWCC

Interest Rate

Benchmark Yield	2.33%
New Issue Spread	0.92%
New Issue Yield	3.25%
Size/Liquidity/Risk Premium	0.00%
New Issue Yield	3.25%

Issuance Costs

Underwriter	0.88%	\$	113,750
Legal	0.00%	\$	402
Rating Agency	0.15%	\$	19,045
Accounting	0.01%	\$	1,400
Other	0.02%	\$	2,589
Total⁵	1.06%		\$137,186

Upfront Rating Agency Costs

Annual Fees	\$1,214
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Annual Interest Expense

Coupon Rate	3.25%
Interest Expense	\$422,500

Scenario 2: Kentucky American Standalone Issuer (SEC Registered)

Interest Rate

Benchmark Yield	2.33%
New Issue Spread	0.92%
New Issue Yield	3.25%
Size/Liquidity/Risk Premium ¹	0.15%
New Issue Yield	3.40%
<i>Increase vs. Scenario 1:</i>	0.15%

Issuance Costs

Underwriter	0.88%	\$113,750
Legal ²	0.47%	60,531
First Time Issuer Rating Agency Costs ³	1.69%	\$220,000
Accounting ⁴	0.46%	\$59,250
Other	0.02%	\$2,589
Total	3.51%	\$456,120
<i>Increase vs. Scenario 1:</i>	2.45%	\$318,934

Upfront Rating Agency Costs

Initial & Annual Fees ³	\$337,000
<i>Increase vs. Scenario 1:</i>	\$335,786

Annual Interest Expense

Coupon Rate	3.40%
Interest Expense	\$441,350
<i>Increase vs. Scenario 1:</i>	\$18,850

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.