



To: Kentucky American Water (KAW)

Date: September 8, 2023

RE: KAW Tax Exempt 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,

Nicholas Furia

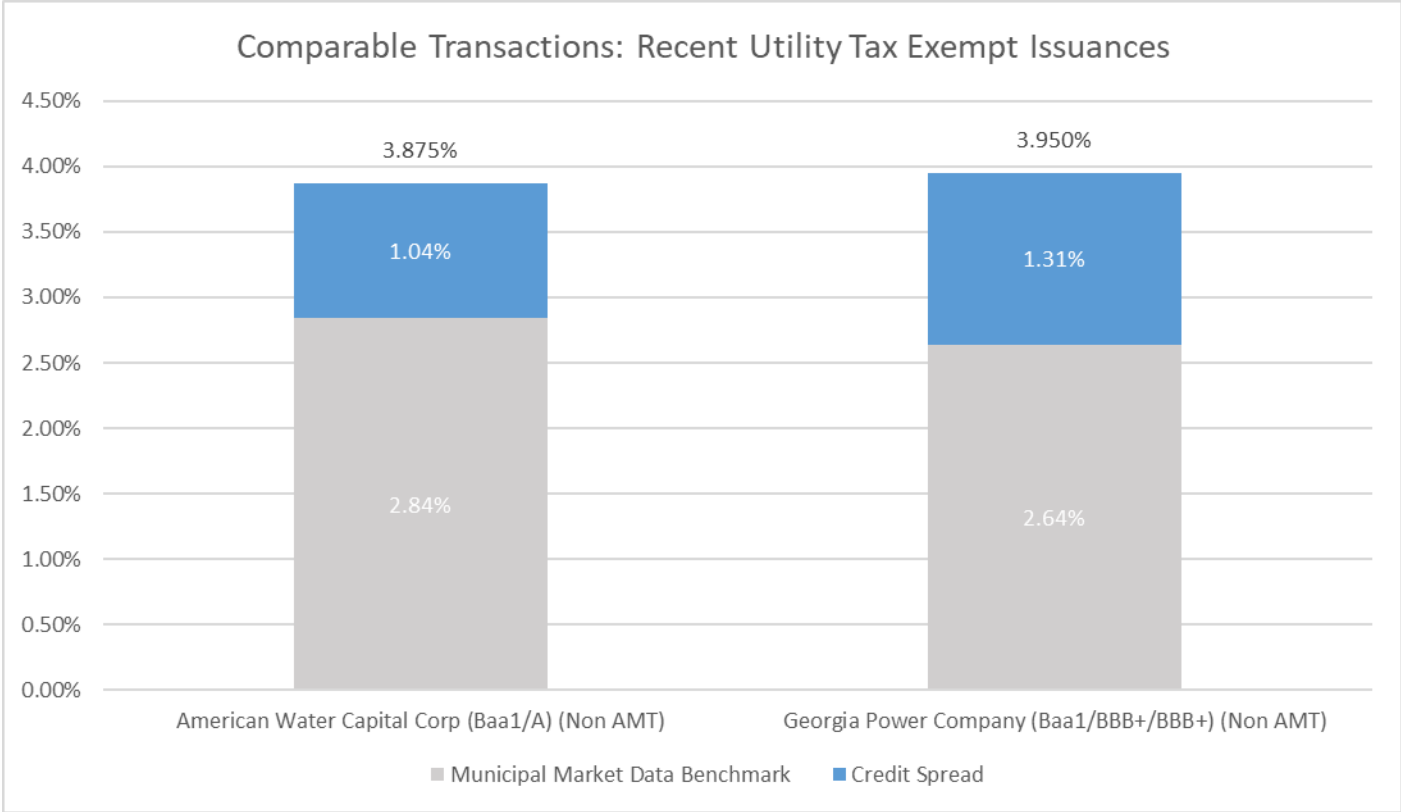
Nicholas Furia
Assistant Treasurer

Term Sheet:

County of Owen, Kentucky Water Facilities Refunding Revenue Bonds (Kentucky - American Water Company Project) Series 2020 (Non-AMT)
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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	8/9/2023
Closing Date	9/1/2023
Final Bullet Maturity Date	June 1, 2040
Interest Rate Mode	Manadatory Put Bond
Mandatory Tender Date	September 1, 2028
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 Manadatory Redemption on Determination of Taxability
Yield	3.875%

Comparable Transaction:



Estimated Difference in Interest & Issuance Costs:

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

Scenario 1: Tax Exempt issued through AWCC

Interest Rate

New Issue Yield	2.840%
New Issue Spread-Discount	1.035%
New Issue Yield	3.875%
Size/Liquidity Premium	0.000%
New Issue Yield	3.875%

Issuance Costs

Underwriter	0.56%	\$	145,068
Legal	0.37%	\$	96,744
Rating Agency	0.03%	\$	7,558
Accounting	0.14%	\$	36,279
Trustee	0.00%	\$	500
Other	0.01%	\$	1,625
		\$	287,774

Upfront Rating Agency Costs

Annual Fees	\$2,494
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Annual Interest Expense

Coupon Rate	3.875%
Interest Expense	\$1,007,500

Scenario 2: Kentucky American Standalone Issuer

Interest Rate

Benchmark Yield	2.840%
New Issue Spread-Discount	1.035%
New Issue Yield	3.875%
Size/Liquidity Premium ¹	0.200%
New Issue Yield	4.075%
Increase vs. Scenario 1:	0.20%

Issuance Costs

Underwriter	0.56%	\$145,068
Legal ²	0.37%	\$96,744
Rating Agency ³	0.98%	\$255,000
Accounting ⁴	0.46%	\$120,000
Trustee	0.00%	\$500
Other ⁵	0.12%	\$30,375
		\$647,687

Increase vs. Scenario 1: **\$359,913**

Upfront Rating Agency Costs

Initial ⁶	\$310,000
Annual Fees ⁶	\$159,500
	\$469,500

Increase vs. Scenario 1: **\$467,006**

Annual Interest Expense

Coupon Rate	4.08%
Interest Expense	\$1,059,500

Increase vs. Scenario 1: **\$52,000**

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 \$130K & S&P min fee \$125K).

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 \$469.5K includes initial rating fee of \$165K (S&P) and \$145K (Moody's) and annual surveillance fee of \$88K (S&P) and \$71.5K (Moody's)