



To: Kentucky American Water (KAW)

Date: September 13, 2023

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,

Nicholas Furia

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Assistant Treasurer

American Water Capital Corp
(Kentucky - American Water Company)
Exchangeable Senior Notes due 2026

Series	Exchangeable Senior Notes due 2026
Par Amount	\$1,035M
Obligor / Borrower	American Water Capital Corp.
State of Issuance	Delaware
Use of Proceeds	General Purpose
Security Type	Senior Unsecured
Pricing Date	6/26/2023
Closing Date	6/27/2023
KAW Issuance Date	9/15/2023
Final Bullet Maturity Date	6/15/2026
Ratings	Baa1/A/NR
Yield	3.625%
Tax Status	Taxable
Last Reported Sale Price of the Common Stock on NYSE on June 26, 2023	\$140.23 per AWK share
Initial Exchange Rate	5.8213 shares of AWK common stock per \$1,000 principal amount of the notes, subject to change
Initial Exchange Price	Approximately \$171.78 per share of AWK common stock, subject to adjustment
Exchange Premium	Approximately 22.5% above the last reported sale price of AWK common stock on the NYSE on June 26, 2023
Settlement Method	Cash up to the aggregate principal amount of the notes to be exchanged and cash, shares of AWK common stock or a combination of cash and shares of AWK common stock, at the Issuer's election, in respect of the remainder, if any, of the Issuer's exchange obligation in excess of the aggregate principal amount of the notes being exchanged
Interest Payment Dates	June 15 and December 15 of each year, commencing December 15, 2023

Issuance: **\$19,000,000**

Scenario 1: AWCC Exchangeable Note

Interest Rate

New Issue Yield	3.625%
New Issue Spread-Discount	0.000%
New Issue Yield	3.625%
Size/Liquidity Premium	0.000%
New Issue Yield	3.625%

Issuance Costs

Underwriter	1.25%	\$	237,500
Legal	0.05%	\$	8,758
Rating Agency	0.14%	\$	27,517
Accounting	0.01%	\$	2,203
Trustee	0.00%	\$	285
Other	0.00%	\$	193
		\$	276,455

Upfront Rating Agency Costs

Annual Fees	\$2,494
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Annual Interest Expense

Coupon Rate	3.625%
Interest Expense	\$688,750

Scenario 2: Kentucky American Standalone Issuer (Private Placement)

Interest Rate

Benchmark Yield	3.775%
New Issue Spread-Discount	1.450%
New Issue Yield	5.225%
Size/Liquidity Premium ¹	0.200%
New Issue Yield	5.425%
<i>Increase vs. Scenario 1:</i>	1.80%

Issuance Costs

Underwriter	0.76%	\$144,875
Legal ²	0.02%	\$199,875
Rating Agency ³	1.34%	\$255,000
Accounting ⁴	0.63%	\$120,000
Trustee ⁵	0.00%	\$12,000
Other ⁵	0.58%	\$109,665
		\$841,415

Increase vs. Scenario 1: **\$564,960**

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	5.43%
Interest Expense	\$1,030,750

Increase vs. Scenario 1: **\$342,000**

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 SEC registration, 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)