

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

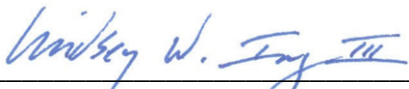
**IN THE MATTER OF:** )  
 )  
**APPLICATION OF KENTUCKY-AMERICAN ) CASE NO. 2024-00018**  
**WATER COMPANY FOR ISSUANCE OF )**  
**INDEBTEDNESS AND CONTINUED )**  
**PARTICIPATION WITH AMERICAN WATER )**  
**CAPITAL CORP. )**

**ORDERING PARAGRAPH 4 REPORT**

In accordance with Ordering Paragraph 4 of the Commission’s March 25, 2024 Order in this matter, this is to report to the Commission that Kentucky-American Water Company (“KAW”) issued debt in the total amount of \$28 million on May 15, 2024 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. Detailed terms of the issuances are in the attached documentation along with a description of how AWCC obtains the most favorable debt pricing possible.

Date: June 14, 2024

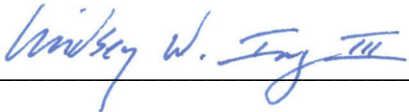
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BY:   
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Lindsey W. Ingram III  
Attorneys for Kentucky-American Water Company

**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 14, 2024 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

**American Water Capital Corp  
(Kentucky - American Water Company)  
Senior Unsecured Notes due 2034**

Series	Senior Unsecured Notes due 2034
Par Amount	\$700M
Obligor / Borrower	American Water Capital Corp.
State of Issuance	Delaware
Use of Proceeds	Lends funds to AWK and Regulated Buisnesses; repayment of AWCC indebtedness, including commerical paper; and genral corporate purposes
Security Type	Senior Unsecured
Pricing Date	2/20/2024
Closing Date	2/23/2024
KAW Issuance Date	5/15/2024
Final Bullet Maturity Date	3/1/2034
Ratings	Baa1/A/NR
Yield	5.150%
Tax Status	Taxable
Interest Payment Dates	March 1 and September 1 of each year, commencing September 1, 2024

**Kentucky - American Water Company  
Promissory Notes due 2034**

Borrower	Kentucky American Water Company
Lender	American Water Capital Corp.
Offering	Promissory Note
Principal Amount	\$14M
Tenor	10-years
Maturity Date	3/1/2034
Coupon	5.150%
Price	100%
Interest Payment Dates	March 1 and September 1 of each year, commencing September 1, 2024

**American Water Capital Corp  
(Kentucky - American Water Company)  
Senior Unsecured Notes due 2054**

Series	Senior Unsecured Notes due 2054
Par Amount	\$700M
Obligor / Borrower	American Water Capital Corp.
State of Issuance	Delaware
Use of Proceeds	Lends funds to AWK and Regulated Buisnesses; repayment of AWCC indebtedness, including commerical paper; and genral corporate purposes
Security Type	Senior Unsecured
Pricing Date	2/20/2024
Closing Date	2/23/2024
KAW Issuance Date	5/15/2024
Final Bullet Maturity Date	3/1/2054
Ratings	Baa1/A/NR
Yield	5.450%
Tax Status	Taxable
Interest Payment Dates	March 1 and September 1 of each year, commencing September 1, 2024

**Kentucky - American Water Company  
Promissory Notes due 2054**

Borrower	Kentucky American Water Company
Lender	American Water Capital Corp.
Offering	Promissory Note
Principal Amount	\$14M
Tenor	30-years
Maturity Date	3/1/2054
Coupon	5.450%
Price	100%
Interest Payment Dates	March 1 and September 1 of each year, commencing September 1, 2024

Issuance: **\$28,000,000**

**Scenario 1: AWCC Sr. Unsecured Note**

**Interest Rate**

New Issue Yield	4.357%
New Issue Spread-Discount	0.944%
New Issue Yield	5.300%
Size/Liquidity Premium	0.000%
<b>New Issue Yield</b>	<b>5.300%</b>

**Issuance Costs**

Underwriter	0.76%	\$	213,500
Legal	0.01%	\$	3,473
Rating Agency	0.16%	\$	44,380
Accounting	0.01%	\$	2,600
Trustee	0.00%	\$	480
Other	0.02%	\$	4,759
		\$	<b>269,192</b>

**Upfront Rating Agency Costs**

Annual Fees	\$2,674
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**Annual Interest Expense**

Coupon Rate	5.300%
Interest Expense	\$1,484,000

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

**Interest Rate**

Benchmark Yield	4.357%
New Issue Spread-Discount	0.944%
New Issue Yield	5.300%
Size/Liquidity Premium <sup>1</sup>	0.200%
<b>New Issue Yield</b>	<b>5.500%</b>
Increase vs. Scenario 1:	<b>0.20%</b>

**Issuance Costs**

Underwriter	0.76%	\$213,500
Legal <sup>2</sup>	0.62%	\$173,664
Rating Agency <sup>3</sup>	0.96%	\$270,000
Accounting <sup>4</sup>	0.46%	\$130,000
Trustee	0.00%	\$24,000
Other <sup>5</sup>	0.94%	\$262,944
		<b>\$1,074,108</b>
Increase vs. Scenario 1:		<b>\$804,916</b>

**Upfront Rating Agency Costs**

Initial <sup>6</sup>	\$342,500
Annual Fees <sup>6</sup>	\$171,000
	<b>\$513,500</b>
Increase vs. Scenario 1:	<b>\$510,826</b>

**Annual Interest Expense**

Coupon Rate	5.50%
Interest Expense	\$1,540,000
Increase vs. Scenario 1:	<b>\$56,000</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 \$135K & S&P min. fee \$135K).

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 \$513.5K includes initial rating fee of \$157.5K (Moody's) and \$185K (S&P) and annual surveillance fee of \$77K (Moody's) and \$94K (S&P)

To: Kentucky American Water (KAW)

Date: May 15, 2024

RE: American Water Capital Corp. Capital Markets Strategy

As approved by the Commission, Kentucky American Water (the “Company” or “Kentucky-American”) primarily utilizes the services of American Water Capital Corp. (“AWCC”) to fulfill its debt capital raising needs. AWCC has a consortium of banking partners, including some of the largest global institutions, that it regularly engages with to raise capital to support its investment needs. These banking partners are experts in debt and equity capital markets with extensive experience executing financing transactions. AWCC leverages this expertise to raise capital at the lowest cost possible. Through the guidance of these banking partners, AWCC primarily utilizes the Public markets, rather than private transactions with banks or bond investors, which allow for access to a larger number of investors with diverse portfolios. AWCC has access to the public market given that it is rated by Moody’s and S&P and the consolidated financing need of American Water surpasses the index eligibility threshold (>\$300M). The Public market access results in AWCC being able to achieve a lower interest rate versus the private market alternatives.

Unlike the private markets that require the solicitation of individual lending partners for quotes, ‘quotes’ in the Public markets are received on the day of execution. Before officially ‘launching’ the transaction, AWCC, working with its banking partners, starts the ‘marketing’ phase of the transaction. During this phase, a release is made to the Public market outlining AWCC’s intention to raise capital. The announcement will inform potential investors of the instrument type, tenor, size, and initial pricing thoughts (estimates). The banking partners will communicate with potential investors to garner interest and fill an order book. The goal of the marketing phase is to build orders in excess of the desired amount of capital to be raised. As the order book begins to build, AWCC and its banking partners hold discussions regarding current market conditions, strength of the orders/investors, and viable pricing options given the demand received from investors. At the time of launch, final sizing and pricing is conveyed to investors and an ultimate order book is compiled. The magnitude to which the order book exceeds the amount of capital to be raised, or is oversubscribed, will determine how much leverage AWCC has to put downward pressure on final pricing. Pricing is a product of three parts: benchmark yield (treasuries), credit spread, and new issue concession. New issue concession is the additional yield over the current trading price of existing bonds paid to investors to purchase the new instrument. The process followed in the Public markets as described above ensures the best possible pricing.

In 2024, Kentucky-American needed to raise \$28 million of debt capital to support its capital investment requirements. This amount is below what is considered an ‘index eligible’ transaction and would therefore limit Kentucky-American’s options for raising the needed capital in the private markets. As the attached analysis shows, in addition to having to pay for all of the associated Issuance Costs and Upfront Rating Agency costs, it is expected that at least a 20 basis point premium would be required by investors in the private markets, due to the small size and resulting



limited liquidity in the bonds. This further demonstrates the benefits of the lending relationship Kentucky-American and its customers enjoy with AWCC.

As described above, Public debt market process provides for an efficient way to issue debt capital and 'quotes' received during the marketing phase of the process should service as sufficient evidence that Kentucky-American received the lowest possible interest rate that could be achieved.

Respectfully,

Nicholas Furia

Assistant Treasurer

American Water Works Service Company, Inc.