

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2026-00019
COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION

Witness: Melissa Schwarzell

1. Refer to the Application, page 6, paragraph 12. Explain the frequency and amounts of equity infusions that Kentucky-American plans to receive from American Water Capital Corporation (AWCC).

Response:

Equity infusions are planned for March 2026 in the amount of \$35 million and March 2027 for \$15 million. Equity infusions are received from American Water Works Company, Inc. (AWK).

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2. Refer to the Application, page 6, paragraph 11. Refer also to the Commission's final Order in Case No. 2025-00122.2 Explain how the proposed financing, and the indicated equity infusions would impact Kentucky-American's capital structure.

Response:

Kentucky-American's equity is increased temporarily until long-term debt is issued in May and September 2026 and March and September 2027. The Company is projecting to maintain an average Equity ratio of approximately 52% in 2026 and 2027.

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3. Provide Kentucky-American's anticipated capital structure once the proposed financing has been completed and any equity infusions have been made.

Response:

Once the proposed financing and equity infusions have been made, the anticipated 13-month average Capital Structure as of December 2027 is:

Capital Structure	Ratio
Long-term Debt	46.7%
Equity	52.3%
Short-term Debt	0.7%
Preferred Stock	0.3%
Total Capitalization	100.0%

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4. Refer to the Application, page 7, paragraph 11.
 - a. Identify the major construction projects for which short-term debt is currently being used.
 - b. For each project, provide a brief description and the amount of short-term debt attributable to that project.
 - c. From the projects listed in response to Item 4(a), identify which projects currently utilize short-term debt that Kentucky-American expects to refinance with the proposed indebtedness.

Response:

- a. Kentucky-American Water (“KAWC”) utilizes short-term debt, in part, to temporarily fund construction expenditures. As the short-term debt balance grows through the normal course of business operations, it is ultimately refinanced with proceeds from a combination of long-term debt issuances and equity infusions, with the objective of maintaining the Company’s target capitalization ratios. There are no specific construction expenditures tied to specific proceeds from KAWC financings. The appropriate level of short-term debt may fluctuate based on several factors, including internally generated funds, operating and maintenance expenditures, and overall market conditions. The inability to tie specific funding sources to specific assets notwithstanding, KAWC has provided a list of the January 2026 construction projects in progress, with a total project cost that will be financed as described above. These are found in KAW_PSCDR1_NUM004_030426_Attachment.
- b. Financing by project is as described in part a. Please see columns C and E of attachment to part a for brief project descriptions.
- c. All projects identified in response to 4a above will be refinanced with a combination of long-term debt and equity.

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5. Refer to the Application, Exhibit 1. Confirm that the cost-allocation methodology under the Financial Services Agreement has not changed since the Commission's most recent approval in Case No. 2024-00018. If unable to confirm, explain the changes.

Response:

The cost-allocation methodology under the Financial Services Agreement has not changed since the Commission's most recent approval in Case No. 2024-00018.

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6. Refer to the Application, page 7, paragraph 13. Clarify whether replacement of the \$26.5 million in maturing debt discussed in paragraph 13 is included within the \$100 million aggregate requested financing authority, or in addition to it.

Response:

The \$26.5 million in maturing debt is included within the \$100 million request.

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7. Refer to the Application, pages 7–8, paragraph 15, which states that interest rates charged by AWCC shall be at market rates, determined by market conditions at the time of issuance of each series, and that the securities evidencing the long-term indebtedness will be at market or lower than market all-in cost.
- a. Confirm whether Kentucky-American or AWCC have set parameters such that the issuance of the proposed financing(s) would be contingent upon reasonable market rates. If confirmed, identify and explain each parameter and explain how Kentucky-American or AWCC will determine if the applicable market rates are reasonable.
 - b. Explain why it may be in the best interest of Kentucky-American for AWCC to enter into one or more swaps, hedges, or other derivative agreements or arrangements with respect to long-term debt.
 - c. If financial market interest rates are rising, explain whether these types of arrangements help secure relative lower long-term rates as well as help mitigate interest rate fluctuations.
 - d. Explain whether AWCC utilizes private placement for its long-term debt and if so, compare and contrast utilizing private placement debt versus using the public markets.
 - e. In the future, if interest rates fall after Kentucky-American has issued long-term debt, explain whether the long-term debt would be refinanced to cost effectively lock in the lower interest rates and how much of a decline in interest rates would trigger such a refinancing.

Response:

- a. A public bond offering is priced through a market-driven, investor-feedback process. Because underwriters must attract real buyers in an open, competitive market, the resulting yield represents a reasonable, fair market rate for the issuer's credit risk at the time of issuance.
- b. Hedging interest rate risk helps stabilize borrowing costs by averaging interest rates over time, rather than being fully exposed to the rate at a single moment i.e. when a bond is priced. When an organization uses tools such as interest rate swaps, caps, or collars, it effectively spreads its exposure across a longer period, which smooths out the impact of rate volatility

- c. The objective of hedging interest rate risk is less about achieving the lowest possible rate and more about smoothing out short-term rate volatility, creating a stable, averaged cost of borrowing over time.
- d. 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 of 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.
- e. AWCC periodically evaluates opportunities for refinancings. The evaluation includes the provisions of the debt, including 'no call' and 'make-whole call premiums.' If there are opportunities to reduce the overall cost of debt, not just coupon rate, the debt will be refinanced. Due to the complexity of the analysis needed to evaluate such opportunities, AWCC does not have a predetermined decline in interest rates that would trigger a refinancing.

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8. Refer to the Application, page 8, paragraph 17.
 - a. Should a third-party offer better competitive financing rates, explain whether Kentucky-American could borrow from or obtain financial services from that third party as opposed through AWCC for up to 100 percent of the proposed financing.
 - b. Explain how the third-party financing would be secured.
 - c. If Kentucky-American were to borrow from a third party, explain whether Kentucky-American anticipates it would seek private placement debt or financial institution or bank debt.

Response:

- a. The Financial Services Agreement with AWCC contains a non-exclusivity provision allowing Kentucky-American to borrow from or obtain financial services from a third party for some or all of its debt and financial servicing needs.
- b. Consistent with the "Financing Justifications" filed with the Commission after every Kentucky-American debt issuance, the rates obtained via AWCC are the most favorable. AWCC is and has been Kentucky-American's lowest cost source of debt financing. As such, Kentucky-American does not have a plan in place for how financing from a third party would be secured. If, somehow, AWCC could not provide the most favorable rate, Kentucky-American would develop such a plan.
- c. See the response to part b above. If Kentucky-American were no longer able to or did not want to access lower cost debt from AWCC, its options would be limited to the higher cost options described in the question.