KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2026-00094
COMMISSION'S POST-HEARING REQUEST FOR INFORMATION

Witness: John Watkins

16. Refer to the Mar. 27, 2026 Order in Case No. 2026-00019, page 7, where the Commission noted that Kentucky-American has the continual burden to present sufficient evidence that participating in the American Water Capital Corporation borrowing program is less expensive and more cost-effective than the alternatives.[10] Explain what, if any, benefits of participating in the borrowing program are reflected in the rates requested in this proceeding.

Response:

The benefits of Kentucky-American Water Company's participation in the American Water Capital Corporation ("AWCC") borrowing program are reflected in the cost of debt included in the Company's capital structure and revenue requirement.

Kentucky-American obtains long-term debt financing through AWCC pursuant to the Financial Services Agreement approved by the Commission. Accordingly, the debt costs reflected in this proceeding are based on financing costs obtained through the AWCC borrowing program. AWCC's access to the public debt markets, economies of scale, and ability to spread issuance costs across multiple regulated subsidiaries provide financing benefits to participating utilities.

Recent AWCC financing results demonstrate these benefits. On March 30, 2026, AWCC issued $700 million of 10-year senior unsecured notes at a spread of 87 basis points over U.S. Treasuries. In comparison, utility private placement issuances completed between September 2025 and March 2026 had an average 10-year credit spread of 115 basis points. AWCC's issuance also achieved a lower credit spread than certain contemporaneous secured utility debt issuances, including Elizabethtown Gas at 100 basis points and South Jersey Gas at 95 basis points. Please also see the Ordering Paragraph 5 reports Kentucky-American has submitted in Case No. 2026-00019.

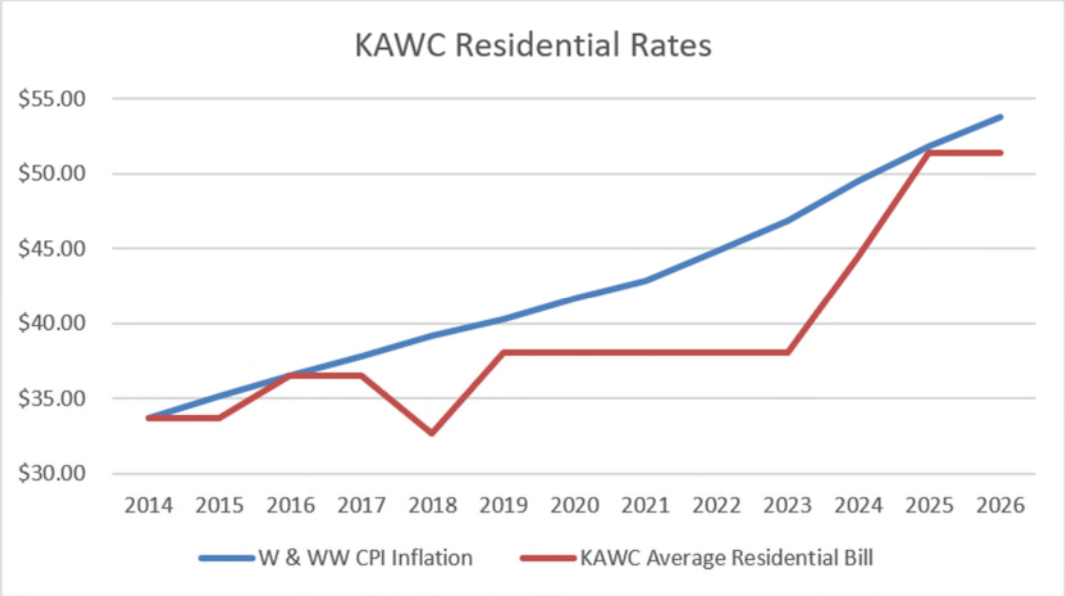
To the extent Kentucky-American's financing needs are funded through AWCC issuances that achieve lower borrowing costs than available alternatives, those lower costs are reflected in the Company's cost of debt and, therefore, in the rates requested in this proceeding. Kentucky-American has not proposed a separate quantified adjustment for participation in the AWCC borrowing program. Rather, the benefits are reflected through the debt costs embedded in the Company's proposed capital structure and weighted average cost of capital.

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[10] Case No. 2026-00019, Mar. 27, 2026 Order at 7.

One such way participation Kentucky-American's participation in the AWCC borrowing program benefits customers is through lower rates. Since 2014, the Company has been able to keep its residential rates lower than if rates were inflated at the rate of water and sewer maintenance related CPI, which is specific to the water and wastewater industry (CITE: Consumer Price Index for All Urban Consumers (CPI-U), Series Id: CUUR0000SEHG01, Not Seasonally Adjusted, Series Title: Water and sewerage maintenance in U.S. city average, all urban consumers, not seasonally adjusted, Area: U.S. city average, Item: Water and sewerage maintenance, Base Period: 1982-84=100). For that CPI information, see ~~KAW_R_PSCHDR_NUM016_103026~~ KAW_R_PSCHDR_NUM016_103026_Attachment.

In 2014, a bill for an average residential KAWC customer using 4,000 gallons per month was $33.69. Applying the annual water and sewer maintenance CPI as a growth factor would increase the 2014 bill to $53.76 in 2026. Under the Company's current rates, the bill for an average residential customer is ~~$53.76~~ $51.35. This is ~~$2.39~~ $2.41 *less* than the inflation referenced above. The graph below further illustrates the Company's ability to maintain rates below inflation.



Because these lower costs are reflected in the Company's cost of debt and results in a revenue requirement that is lower than it otherwise would have been, average bills for residential customers (and all other classes) will also be lower than they otherwise would have been. This results in an enhanced level of affordability for the Company's customers.