

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY-)	
AMERICAN WATER COMPANY FOR ISSUANCE)	CASE NO.
OF INDEBTEDNESS AND CONTINUED)	2019-00083
PARTICIPATION WITH AMERICAN WATER)	
CAPITAL CORP. PURSUANT TO KRS 278.300)	

ORDER

On March 8, 2019, Kentucky-American Water Company (Kentucky-American) filed an application for authorization to continue its participation in the American Water Capital Corporation (American Water Capital) borrowing program.

BACKGROUND

Kentucky-American, a Kentucky corporation, owns and operates facilities that treat and distribute water to the public for compensation in Bourbon, Clark, Fayette, Franklin, Gallatin, Grant, Harrison, Jackson, Jessamine, Nicholas, Owen, Rockcastle, Scott, and Woodford counties, Kentucky.¹ Kentucky-American provides wholesale water service to Harrison County Water Association, Jessamine-South Elkhorn Water District, and the cities of Georgetown, Midway, North Middletown, Nicholasville, Versailles, and Winchester.² Kentucky-American also owns and operates facilities that treat wastewater

¹ Application, paragraph 2.

² *Annual Report of Kentucky-American Water Company aka Kentucky American Water for the Calendar Year Ended December 31, 2017* at 61.

for the public for compensation in Clark, Owen, and Bourbon Counties, Kentucky.³ Kentucky-American is a utility subject to Commission jurisdiction.⁴

American Water Works Company (American Water), a Delaware corporation whose operating subsidiaries provide water, wastewater, and other water resource management services in 29 states and Canada, owns all outstanding shares of Kentucky-American stock. American Water Capital is a wholly owned subsidiary of American Water and is a corporation organized under the laws of Delaware.

In Case No. 2000-00189, the Commission approved Kentucky-American's request to participate in a borrowing program that American Water made available to each of its subsidiaries and to issue securities in the amount of \$41,500,000.⁵ Under this program, each American Water subsidiary entered into a financial services agreement (Agreement) with American Water Capital for financial services. American Water Capital arranges for a syndicated bank credit line to provide for short-term loans and register its own debt securities for sale in the public market by filing shelf registration with the Securities and Exchange Commission. Each participant provides American Water Capital with an estimate of its future borrowing requirements. American Water Capital then arranges borrowing commitments and programs to meet those commitments. The liability of each

³ *Annual Report of Kentucky-American Water Company aka Ky. Water, Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2017 at 25.*

⁴ KRS 278.010(3)(d).

⁵ Case No. 2000-00189, *The Application of Kentucky-American Water Company for Approval of Participation in the Borrowing Program* (Ky. PSC July 21, 2000).

participant in the program is limited to its individual debt. All loans to the program participants are unsecured.

According to Kentucky-American, pooling the borrowing requirements of American Water and its subsidiaries results in lower capital costs. Because the issuance costs associated with debt instruments generally remain constant regardless of the size of the issuance, the pooling of long-term debt requirements produces a reduced pro rata share of issuance costs for the program participants. Kentucky-American asserted that larger sized debt issuances in the public market would produce more favorable terms because lenders of larger loans are able to share their risk with others.

Since granting the original authorization in Case No. 2000-00189, the Commission has permitted Kentucky-American to continue to participate in the American Water Capital borrowing program.⁶ As of December 31, 2018, Kentucky-American reported outstanding short-term debt in the amount of \$18,410,169 payable to American Water Capital.⁷

PROPOSED FINANCING

Kentucky-American requests authorization to issue \$113,390,000 of long-term debt prior to December 31, 2021. Kentucky-American plans to issue long-term debt of \$16,000,000 in May 2019 to refinance short-term debt that was used to fund various construction expenditures and to meet other internal cash requirements.⁸ During the

⁶ Case No. 2006-00418, *Application of Kentucky-American Water Company for Continued Participation with American Water Capital Corp.* (Ky. PSC May 8, 2007); Case No. 2009-00156, *Application of Kentucky-American Water Company for Continued Participation with American Water Capital Corp.* (Ky. PSC May 29, 2009); Case No. 2011-00115, *Application of Kentucky-American Water Company for Continued Participation with American Water Capital Corp.* (Ky. PSC May 26, 2011); Case No. 2012-00393, *Application of Kentucky-American Water Company for Continued Participation with American Water Capital Corp.* (Ky. PSC May 8, 2012); and Case No. 2015-00400, *Application of Kentucky-American Water Company for Continued Participation with American Water Capital Corp.* (Ky. PSC Jan. 19, 2016).

⁷ Application, paragraph 9.

⁸ Application, paragraph 10.

2019–2021 period, Kentucky-American may issue an additional \$97,390,000 of long-term debt to refinance three existing long-term debt issuances.⁹ To maintain a reasonable relationship between long-term debt and common equity, Kentucky-American expects infusions of additional equity from American Water in the form of paid-in capital in the amounts of \$6,000,000 in 2019 and \$4,000,000 in 2020-2021.

FINDINGS

Having reviewed the evidence of record and being otherwise sufficiently advised, the Commission finds that:

1. Kentucky-American’s previous participation in the borrowing program with American Water Capital has resulted in a reduction to the cost of Kentucky-American’s short-term and long-term debt. Its continued participation should result in similar reductions.

2. Kentucky-American’s continued participation in the borrowing program with American Water Capital under the terms of the Agreement is for a lawful object within the corporate purposes of its utility operation, is necessary and appropriate for and consistent with the proper performance of the utility’s service to the public and will not impair its ability to perform that service, and is reasonable, necessary, and appropriate for such purposes.

3. Kentucky-American’s proposed issuance of securities in the form of notes or debentures in an aggregate amount of \$113,390,000 for the purpose of refinancing the

⁹ Application, paragraph 12. The three issuances are: (1) 6.250% Series in the amount of \$45,390,000 that is callable starting June 1, 2019; (2) 5.65% Series in the amount of \$26,000,000 that is callable starting September 1, 2019; and (3) 5.375% Series in the amount of \$26,000,000 that is callable starting June 1, 2020.

short-term debt used to fund various construction project, to meet other internal cash requirements, and to refinance existing long-term debt is necessary and appropriate for and consistent with the proper performance of the utility's service to the public and will not impair its ability to perform that service, and is reasonable, necessary, and appropriate for such purposes and should be approved.

4. The specific terms and conditions of each issuance under the borrowing program set forth in the Agreement are not known at this time. Therefore, Kentucky-American should be required to advise the Commission in writing of the terms and conditions of each issuance covered by the borrowing program.

5. Kentucky-American should obtain Commission approval prior to the issuance of any security or long-term evidence of indebtedness not specifically set forth in its application and included in the \$113,390,000 million refunding or refinancing.

IT IS THEREFORE ORDERED that:

1. Kentucky-American is authorized to continue participating in the American Water Capital borrowing program under the terms of the June 15, 2000, Agreement.

2. Kentucky-American is authorized to issue to American Water Capital securities in the form of notes or debentures in an aggregate amount of \$113,390,000 from time to time prior to December 31, 2021, for the purpose of refinancing the short-term debt used to fund various construction projects, to meet other internal cash requirements, and to refinance existing long-term debt.

3. Kentucky-American shall obtain an interest rate from American Water Capital that is no greater than the lowest available rate to Kentucky-American or the average rate available on bonds issued by American Water Capital.

4. At least 15 days prior to Kentucky-American's issuance of any notes or debentures that have been authorized herein, Kentucky-American shall notify the Commission in writing of the proposed issuance. In this notice, Kentucky-American's President and Treasurer shall certify under oath the amount of the issuance and that the debt issuance does not exceed the total amount authorized in this Order.

5. For all securities or evidences of indebtedness that have a term exceeding two years and that are issued under the Agreement's borrowing program, Kentucky-American shall file with the Commission within ten days of the completion of the issuance a report setting forth the total principal amount of the issuance, the actual annual interest rate, the terms and conditions of the securities issued, an analysis showing that the interest rate was the most reasonable under the circumstances at the time of the issuance, and the estimated savings realized from participating in the American Water Capital borrowing program with all workpapers, calculations, and assumptions used to estimate the savings.

6. Kentucky-American shall obtain Commission approval prior to the issuance of any security or long-term evidences of indebtedness not specifically set forth in its application and included in the \$113,390,000 approved herein.

7. Any documents filed pursuant to ordering paragraphs 4 and 5 of this Order shall reference the number of this case and shall be retained in the post-case correspondence file.

8. This case is closed and removed from the Commission's Docket.

Nothing contained herein shall be deemed a warranty or finding of value of securities or financing authorized herein on the part of the Commonwealth of Kentucky or any agency thereof.

By the Commission

ENTERED
APR 23 2019
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:


Executive Director

Case No. 2019-00083

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