

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF KENTUCKY-)	
AMERICAN WATER COMPANY FOR)	CASE NO.
ISSUANCE OF INDEBTEDNESS AND)	2021-00019
CONTINUED PARTICIPATION WITH)	
AMERICAN WATER CAPITAL CORP.)	

ORDER

On January 20, 2021, Kentucky-American Water Company (Kentucky-American) submitted its application requesting Commission authorization to continue its participation in the American Water Capital Corporation (American Water Capital) borrowing program (AWCC Program).

BACKGROUND

Kentucky-American, a Kentucky corporation, that distributes and sells water to approximately 133,526 customers in its Central Division, which consists of Bourbon, Clark, Fayette, Franklin, Harrison, Jessamine, Nicholas, Scott, and Woodford counties; its Northern Division, which consists of Gallatin, Owen, and Grant counties; and its Southern Division, which consists of Rockcastle and Jackson counties.¹ Kentucky-American also owns and operates facilities that treat wastewater for the public for

¹ *Annual Report of Kentucky-American Water Company aka Kentucky American Water for the Calendar Year Ended December 31, 2019* at 54 and Application at 1, paragraph 2.

compensation in Clark, Owen, Bourbon, and Franklin counties, Kentucky.² Kentucky-American is a utility subject to Commission jurisdiction.³

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 the AWCC Program that American Water made available to each of its subsidiaries.⁴ Under the AWCC Program, each American Water subsidiary entered into a financial services agreement (Agreement) with American Water Capital for financial services.⁵ 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.⁶ 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

² *Annual Report of Kentucky-American Water Company aka Ky. Water, Sewer Division to the Public Service Commission for the Calendar Year Ended December 31, 2019* at 9.

³ KRS 278.010(3)(d).

⁴ Case No. 2000-00189, *The Application of Kentucky-American Water Company for Approval of Participation in the Borrowing Program* (Ky. PSC July 21, 2000).

⁵ Application, Exhibit 1, Financial Services Agreement between Kentucky-American and American Water Capital dated June 15, 2000.

⁶ *Id.* at 2, paragraph 4.

those commitments. The liability of each participant in the AWCC 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.

The benefits of Kentucky-American's participation in the AWCC Program was documented in Case No. 2019-00083.⁷ The Commission ordered Kentucky-American to file a report after each completed debt issuance to demonstrate the benefit the AWCC Program provides to Kentucky-American's ratepayers. The reports confirmed that Kentucky-American's participation in the AWCC Program resulted in a combined interest expense savings of approximately \$178,085, as summarized in the table below.

⁷ Case No. 2019-00083, *Electronic Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corp. Pursuant to KRS 278.300* (Ky. PSC June 5, 2019).

Estimated Savings from KAWC's Continued Participation in the
American Water Capital Corporation (AWCC) Borrowing Program

Issuance Date	Principal Amount Issued	AWCC Interest Rate	KAWC Stand Alone Interest Rate	Estimated Savings
05/22/19	\$ 16,000,000	4.15%	4.38%	\$ 32,000
11/14/19	71,390,000	2.45%	2.60%	107,085
08/18/20	<u>26,000,000</u>	0.70%	0.85%	<u>39,000</u>
Totals	<u>\$ 113,390,000</u>			<u>\$ 178,085</u>

Since granting the original authorization in Case No. 2000-00189, the Commission has permitted Kentucky-American to continue to participate in the AWCC Program.⁸ As of December 31, 2020, Kentucky-American reported outstanding short-term debt in the amount of \$50,923,870 payable to American Water Capital.⁹

PROPOSED FINANCING

Kentucky-American requests authorization to issue \$68,000,000 of long-term debt prior to December 31, 2023.¹⁰ Of the new long-term debt, \$35,000,000 will be used to refinance short-term debt that Kentucky-American uses to fund ongoing construction

⁸ 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 Issuance of Indebtedness and Continued Participation with American Water Capital Corp.* (Ky. PSC May 29, 2009); Case No. 2011-00115, *Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corp.* (Ky. PSC May 26, 2011); Case No. 2012-00393, *Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corp.* (Ky. PSC Oct. 29, 2012); Case No. 2015-00400, *Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corp.* (Ky. PSC Jan. 19, 2016); and Case No. 2019-00083, *Electronic Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corp. Pursuant to KRS 278.300* (Ky. PSC June 5, 2019).

⁹ Application at 5, paragraph 9.

¹⁰ *Id.* at 7, paragraph 14.

projects and to replace existing long-term debt that is reaching its maturity date.¹¹ Kentucky-American estimates that the first short-term debt refinance will occur in 2021 and will be approximately \$20,000,000.¹² Kentucky-American projects that there will be two additional short-term debt refinancing issuances that will occur in 2022 and 2023 and that the total combined short-term debt refinancing will not exceed will not exceed \$35,000,000.¹³ In 2023, Kentucky-American expects to issue an additional \$33,000,000 of long-term debt to refinance two existing long-term debt issuances that are scheduled to mature in that year.¹⁴ For Kentucky-American to be able to maintain a reasonable debt-to-equity relationship, American Water Company will make infusions of additional equity when determined that they are necessary.¹⁵

FINDINGS

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

1. Kentucky-American's previous participation in the AWCC Program 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 AWCC Program under the terms of the Agreement is for a lawful object within the corporate purposes of its utility

¹¹ *Id.* at 6, paragraph 11.

¹² *Id.*

¹³ *Id.*

¹⁴ *Id.* at 7, paragraph 13. The two long-term debt issuances are: (1) a 6.960% mortgage bond in the amount of \$7,000,000 due December 1, 2023; and (2) the 0.700% series in the amount of \$26,000,000, which has a mandatory call date of September 1, 2023.

¹⁵ *Id.* at 7, paragraph 12.

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 \$68,000,000 for the purpose of refinancing the short-term debt used to fund various construction project 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 AWCC 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 \$68,000,000 refunding or refinancing.

IT IS THEREFORE ORDERED that:

1. Kentucky-American is authorized to continue participating in the AWCC 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 \$68,000,000 from time to time prior to December 31, 2023, for the purpose of refinancing the short-term debt used to fund various construction projects 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 AWCC Program with all workpapers, calculations, and assumptions used to estimate the savings.

6. Within ten days of receiving an equity infusion from American Water, Kentucky-American shall file a report identifying the amount of the infusion, the debt to equity ratio prior to and after the infusion

7. 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 \$68,000,000 approved herein.

8. Any documents filed pursuant to ordering paragraphs 4, 5, and 6 of this Order shall reference the number of this case and shall be retained in the post-case correspondence file.

9. 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.

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By the Commission

ENTERED
MAR 12 2021 rcs
KENTUCKY PUBLIC
SERVICE COMMISSION

ATTEST:



Executive Director for

Case No. 2021-00019

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