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November 22, 2016

HAND DELIVERED

Talina R. Matthews
Executive Director
Kentucky Public Service Commission
211 Sower Blvd
Frankfort, KY 40601

RECEIVED

NOV 22 2016

PUBLIC SERVICE
COMMISSION

Re: *Kentucky American Water, Case No. 2015-00400*

Dear Ms. Matthews:

Enclosed please find an original and six copies of Kentucky American Water's Ordering Paragraph 4 Report in the above-referenced matter.

Very truly yours,

Stoll Keenon Ogden PLLC

A handwritten signature in blue ink that reads "Lindsey W. Ingram III".

Lindsey W. Ingram III

Enclosure

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

IN THE MATTER OF:)
)
APPLICATION OF KENTUCKY-AMERICAN)
WATER COMPANY FOR ISSUANCE OF)
INDEBTEDNESS AND CONTINUED)
PARTICIPATION WITH AMERICAN WATER)
CAPITAL CORP.)

CASE NO. 2015-00400

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ORDERING PARAGRAPH 4 REPORT

In accordance with Ordering Paragraph 4 of the Commission’s January 19, 2016 Order in this matter, this is to report to the Commission that Kentucky American Water (“KAW”) issued debt in the amount of \$5,000,000 on November 14, 2016 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. The interest rate for the issuance is 4.00% and it matures on December 1, 2046.

The attached documentation shows that the rate of 4.00% was the most reasonable at the time of issuance. It demonstrates the advantages and reasonableness of KAW’s participation in the AWCC borrowing program which ensures that KAW receives the lowest available rate for its borrowings. It also shows U.S. Treasury rates for various borrowing terms including a 30-year term. Finally, it also includes information regarding recent utility issuances. In sum, the attached shows the rate of 4.00% to be the most reasonable under the circumstances that existed at the time of issuance.

Date: November 22, 2016

Respectfully submitted,

STOLL KEENON OGDEN PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-1 801
Telephone: (859) 231-3000

By:



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



AMERICAN WATER

Charles Witherspoon
Assistant Treasurer
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To: Kentucky American Water (KAW)
Date: November 17, 2016
RE: KAW Debt Financing Interest Rate

KAW is currently not rated by the credit rating agencies but if it were, it is likely that KAW would be rated lower than American Water Capital Corp (AWCC)'s A3 (Stable) and A (Stable) from Moody's and Standard and Poor's, respectively.

As shown in the credit metrics below, American Water Works Company (AWK) has stronger coverage ratios than that of KAW with ratios such as EBITDA/Interest at 4.92x compared to KAW's 4.25x. In addition, AWCC enjoys the benefit of size (economy of scale), diversification, and greater access to a broader base of investors through larger capital markets' offerings.

	As of 12/31/2015 (1)	
	American Water Works Company, Inc.	Kentucky-American Water Company
EBITDA / Interest Expense	4.92x	4.25x
Total Debt/EBITDA	4.33x	4.39x
Total Debt / Total Capitalization	56.5%	56.7%
Cash Flow from Operations/Interest Expense	3.83x	3.01x
Cash Flow from Operations/Debt	18.0%	16.1%

Notes: (1) Source from Audited Annual Reports.

It should also be noted that as a result of aggregating the financing needs of all the operating subsidiaries, AWCC is able to issue larger amounts and obtain lower underwriting fee as a percentage of total debt issuance. Furthermore, the fixed portion of the issuance costs may be spread over a number of operating subsidiaries which otherwise would have been borne in its entirety by one entity.

Therefore, AWCC is able to issue debt more cost efficiently at a lower all-in-rate than otherwise feasible for operating subsidiaries on a stand-alone basis, including KAW. AWCC then loans the proceeds to the operating subsidiaries as needed at the same or better terms (including maturity and interest rates) than those obtained by AWCC.

Respectfully,

Charles Witherspoon
Assistant Treasurer

Term Sheet

Lender:	American Water Capital Corp.
Lender's Credit Rating (Moody's / S&P)	A3 (stable outlook) / A (stable outlook)
Borrower:	Kentucky American Water
Borrower's Credit Rating	Not Rated
Amount:	\$5,000,000
Tenor:	30 Years due December 1, 2046
Tax Type:	Taxable
Issue Date:	November 14, 2016
Settlement Date:	November 17, 2016
Maturity Date:	December 1, 2046
Benchmark Treasury:	UST 2.25% due August 15, 2046
Benchmark Treasury Yield:	2.998%
Spread to Benchmark Treasury:	+105bps
Yield to Maturity:	4.048%
Coupon:	4.00%
Price	99.168%
Redemption Provisions:	Adjusted Treasury Rate +20bps for the 2046 Notes
CUSIP / ISIN:	03040WAP0 / US03040WAP05
Book Runners:	BofA Merrill Lynch, Mizuho Securities, RBC Capital Markets, TD Securities, Regions Securities LLC
Co-Managers:	BB&T Capital Markets, Academy Securities, Blaylock Beal Van, LLC, Loop Capital Markets, Multi-Bank Securities
Trustee for Lender	Wells Fargo Bank
Use of Proceeds	To reduce short-term debt and fund capital expenditures

Comparable Transactions: Recent Utility New Issuances

Issue Date	Issuer	Ratings (Moody's / S&P)	Maturity Date	Amount (\$ in Thousands)	Coupon	Spread to Treasury
11/14/2016	Kentucky American Water	Not Rated	12/1/2046	\$ 5,000	4.00%	105
30-Year Issuance Comparables						
11/10/2016	Virginia Electric & Power Co	A2 / A	11/15/2046	\$ 500,000	4.00%	110
11/2/2015	Pacific Gas & Electric Co	A3 / BBB+	3/15/2046	\$ 450,000	4.25%	120
Average 30-Year Issuances				\$ 475,000	4.13%	115

U.S. Treasury Rates

