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SEP 18 2017

PUBLIC SERVICE
COMMISSION

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September 18, 2017

HAND DELIVERED

Mr. John S. Lyons
Acting Executive Director
Kentucky Public Service Commission
211 Sower Blvd
Frankfort, KY 40601

Re: Case No. 2015-00400

Dear Mr. Lyons:

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
010311.003026/4703050.1

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

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IN THE MATTER OF:)
)
APPLICATION OF KENTUCKY-AMERICAN) CASE NO. 2015-00400
WATER COMPANY FOR ISSUANCE OF)
INDEBTEDNESS AND CONTINUED)
PARTICIPATION WITH AMERICAN WATER)
CAPITAL CORP.)

SEP 18 2017
PUBLIC SERVICE
COMMISSION

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 September 13, 2017 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 3.75% and it matures on September 1, 2047.

The attached documentation shows that the rate of 3.75% 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 shows U.S. Treasury rate for a 30-year term and includes information regarding recent utility issuances. In sum, the attached shows the rate of 3.75% to be the most reasonable under the circumstances that existed at the time of issuance.

Date: September 18, 2017

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
L.Ingram@skofirm.com

Attorneys for Kentucky-American Water Company



AMERICAN WATER

Charles Witherspoon
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To: Kentucky American Water (KAW)
Date: September 13, 2017
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.

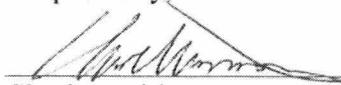
As shown in the credit metrics below, American Water Works Company (AWK) has stronger coverage ratios than that of KAW with ratios such as EBITDA/Interest at 5.02x compared to KAW's 4.58x. In addition, AWCC enjoys the benefit of size (economy of scale), diversification, and greater access to a broader base of investors through larger capital markets' offerings. Additionally, AWCC has a support agreement with AWK, which serves as a functional equivalent of a guarantee, pursuant to which AWK has agreed to pay any principal or interest that AWCC fails to pay on a timely basis.

	As of 12/31/2016	
	American Water Works Company, Inc.	Kentucky-American Water Company
EBITDA / Interest Expense	5.02x	4.58x
Total Debt/EBITDA	4.41x	4.07x
Total Debt / Total Capitalization	57.9%	54.5%
Cash Flow from Operations/Interest Expense	3.93x	3.08x
Cash Flow from Operations/Debt	17.8%	16.5%

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 September 1, 2047
Tax Type:	Taxable
Trade Date:	September 13, 2017
Settlement Date:	September 13, 2017
Maturity Date:	September 1, 2047
Benchmark Treasury:	UST 3.00% due February 15, 2047
Benchmark Treasury Yield:	2.837%
Spread to Benchmark Treasury:	+93bps
Yield to Maturity:	3.767%
Coupon:	3.750%
Price	99.693%
Redemption Provisions:	Adjusted Treasury Rate +15bps for the 2047
CUSIP / ISIN:	03040WAR6 / US03040WAR60
Book Runners:	J.P. Morgan Securities LLC; U.S. Bancorp Investments, Inc.; Wells Fargo Securities, LLC; MUFG Securities Americas Inc.
Co-Managers:	Mizuho Securities USA LLC; PNC Capital Markets LLC; Regions Securities LLC; Merrill Lynch, Pierce, Fenner & Smith Inc; RBC Capital Markets LLC; TD Securities (USA) LLC; BB&T Capital Markets; Santander Investment Securities; Castle Oak Securities, L.P.; C.L. King & Associates, Inc.; Drexel Hamilton, LLC; Loop Capital Markets LLC; MFR Securities, Inc.; Samuel A. Ramirez & Company, Inc.; Siebert Cisneros Shank & Co., LLC; The Williams Capital Group, L.P.
Trustee for Lender	Wells Fargo Bank
Use of Proceeds	To make repayments of commercial paper, capital expenditures, and for general corporate purposes.

Comparable Transactions: Recent Utility New Issuances

Issue Date	Issuer	Ratings (Moody's / S&P)	Maturity Date	Size (\$MM)	Coupon	Spread to Treasury
9/13/2017	Kentucky American Water	Not Rated	9/1/2047	\$ 5	3.750%	93
30-Year Issuance Comparables						
3/31/2017	Oklahoma Gas & Electric Co.	A1 / A-	4/1/2047	\$ 300	4.150%	100
6/8/2017	Consolidated Edison Co. of New York Inc.	A2/A-	6/15/2047	\$ 500	3.875%	80
Average Comparable 30-Year Issuances				\$ 400	4.01%	90

U.S. Treasury Benchmark Yield



AWCC Bond Description – 30 Year; 3.75% Coupon

AWK 3 3/4 09/01/47 \$↑99.586 +.178 97.0 bp vs T 3.00 05/15/2047	
As of 14 Aug Vol 2.5MM Source TRAC	
AWK 3 3/4 09/01/47 Corp	Settings
94 Notes	95 Buy 96 Sell
29 Bond Description	20 Issuer Description
Pages 1) Bond Info 2) Addtl Info 3) Covenants 4) Guarantors 5) Bond Ratings 6) Identifiers 7) Exchanges 8) Inv Parties 9) Fees, Restrict 10) Schedules 11) Coupons Quick Links 12) ALLQ Pricing 13) QRD Quote Recap 14) TDH Trade Hist 15) CACS Corp Action 16) CF Prospectus 17) CN Sec News 18) HDS Holders 19) VPRD Underly Info 66) Send Bond	Issuer Information Name AMERICAN WATER CAPITAL C Industry Utilities Security Information Mkt Iss Global Country US Currency USD Rank Sr Unsecured Series Coupon 3.750000 Type Fixed Cpn Freq S/A Day Cnt 30/360 Iss Price 99.69300 Maturity 09/01/2047 MAKE WHOLE @15.000000 until 03/01/47/ CALL 03... Iss Sprd +93.00bp vs T 3 02/15/47 Calc Type (1) STREET CONVENTION Pricing Date 08/07/2017 Interest Accrual Date 08/10/2017 1st Settle Date 08/10/2017 1st Coupon Date 03/01/2018
	Identifiers ID Number A06729500 CUSIP 03040WAR6 ISIN US03040WAR60 Bond Ratings Moody's A3 S&P A Composite A- Issuance & Trading Amt Issued/Outstanding USD 750,000.00 (M) / USD 750,000.00 (M) Min Piece/Increment 1,000.00 / 1,000.00 Par Amount 1,000.00 Book Runner JOINT LEADS Reporting TRACE
Australia 61 2 9777 8600 Brazil 5511 2595 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2017 Bloomberg Finance L.P. SN 316971 6687-4176-1 15-Aug-17 10:23:02 EDT GMT-4:00	