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December 29, 2015

**HAND DELIVERED**

Jeff Derouen  
Executive Director  
Public Service Commission  
211 Sower Boulevard  
Frankfort, Kentucky 40601

**RECEIVED**

DEC 29 2015

PUBLIC SERVICE  
COMMISSION

*Re: Case No. 2015-00400*

Dear Mr. Derouen:

Enclosed please find an original and ten copies of Kentucky American Water's Responses to Commission Staff's First Set of Data Requests in the above-referenced matter.

Very truly yours,

Stoll Keenon Ogden PLLC

Lindsey W. Ingram III

010311.003026/4472344.1

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

DEC 29 2015

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.

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CASE NO. 2015-00400

CERTIFICATION OF RESPONSES TO INFORMATION REQUESTS

This is to certify that I have supervised the preparation of Kentucky-American Water Company's December 29, 2015 Responses to the Commission Staff's First Request for Information and that the responses are true and accurate to the best of my knowledge, information and belief formed after reasonable inquiry.

Date: 12/28/15

  
\_\_\_\_\_  
Linda Bridwell  
Manager, Rates and Regulation  
Kentucky-American Water Company

**KENTUCKY AMERICAN WATER COMPANY  
CASE NO. 2015-00400  
FIRST DISCOVERY REQUEST OF THE  
PUBLIC SERVICE COMMISSION STAFF**

**Responsible Witness:** Linda C. Bridwell

**Question:**

1. At paragraph 10 of its application, Kentucky-American states that “[a]ll the proceeds from these [long-term debt] financings will be used to refinance short-term debt necessary to (i) fund construction expenditures, and (ii) meet other internal cash requirements.”
  - a. List and describe each construction expenditure for which Kentucky-American intends to use the proceeds of the financings to partially or fully finance. This description should include the project name and the estimated cost of the project.
  - b. Identify and describe the “other internal cash requirements” for which the proceeds will be used.

**Response:**

- a. Kentucky American Water utilizes a combination of short-term debt and equity to provide cash for construction expenditures. Then at an appropriate time, the short-term debt is converted to long-term debt. There are not specific construction expenditures that are tied specifically with the proceeds of the financings. The appropriate level of short-term debt may fluctuate based on a number of factors, including interest rates, anticipated expenditures, and overall market conditions. With that said, KAW has provided a list of the 2015-2017 construction expenditures by year by project with a total project cost that will be financed as described. Please refer to the attachment.
- b. The only other cash requirement funded by the long-term debt financing is the transaction cost of the financing itself.

STRATEGIC CAPITAL EXPENDITURE PLAN  
PROGRAM

Business Unit	Kentucky
Revision Date	August 27, 2015
Description	KY BP 2016-2020 SCEP

Business Unit	Business Unit No.	Project Title	Total	Est. In-Service Date	U.S. \$		
					Total 2015	Total 2016	Total 2017
<b>RECURRING PROJECTS</b>							
Kentucky	DV	Projects Funded by Others			2,095,296.66	2,500,000.00	2,500,000.00
Kentucky	A	Mains - New			779,926.46	1,265,000.00	753,500.00
Kentucky	B	Mains - Replaced / Restored			4,431,111.84	3,521,000.00	3,470,000.00
Kentucky	C	Mains - Unscheduled			358,526.11	335,000.00	335,000.00
Kentucky	D	Mains - Relocated			1,072,349.10	250,000.00	375,000.00
Kentucky	E	Hydrants, Valves, and Manholes - New			284,233.27	200,100.00	200,100.00
Kentucky	F	Hydrants, Valves, and Manholes - Replaced			683,273.56	352,050.00	352,050.00
Kentucky	G	Services and Laterals - New			927,887.77	679,140.00	679,140.00
Kentucky	H	Services and Laterals - Replaced			537,473.25	452,500.00	452,500.00
Kentucky	J	Meters - New			562,194.10	374,220.00	374,220.00
Kentucky	K	Meters - Replaced			475,281.49	461,850.00	509,050.00
Kentucky	L	ITS Equipment and Systems			131,221.20	213,117.00	361,288.00
Kentucky	M	SCADA Equipment and Systems			223,877.54	260,000.00	250,000.00
Kentucky	N	Security Equipment and Systems			167,872.49	112,350.00	219,082.50
Kentucky	O	Offices and Operations Centers			19,583.57	225,000.00	275,000.00
Kentucky	P	Vehicles			654,597.23	660,060.00	660,000.00
Kentucky	Q	Tools and Equipment			397,248.73	283,060.00	253,000.00
Kentucky	S	Process Plant Facilities and Equipment			2,322,212.04	1,718,000.00	1,411,000.00
Kentucky	S	Engineering Studies			601,459.67	50,000.00	50,000.00
<b>Total Recurring Projects</b>					<b>\$14,630,329.42</b>	<b>11,412,447.00</b>	<b>10,979,930.50</b>
<b>CENTRALLY SPONSORED PROJECTS</b>							
Kentucky	R12-01K3	ITS Equipment and Systems - Centrally Sponsored			1,741,477.95	1,441,132.00	1,410,360.00
<b>Total Centrally Sponsored Projects</b>					<b>1,741,477.95</b>	<b>1,441,132.00</b>	<b>1,410,360.00</b>
<b>INVESTMENT PROJECTS</b>							
Kentucky	I12-020011	New Circle Rd Main Relocation Phase 1	2,718,902.90	8/31/2016	1,943,902.90	775,000.00	0.00
Kentucky	I12-020012	KRS High Service Pumps #12 & 15	1,400,000.00	12/31/2015	1,400,000.00	0.00	0.00
Kentucky	I12-020021	Power Reliability at Remote Sites	1,200,000.00	12/31/2017	0.00	200,000.00	1,000,000.00
Kentucky	I12-020032	RRS Filter Building Replacement	13,150,164.51	5/30/2016	10,825,866.65	2,324,297.86	0.00
Kentucky	I12-020037	KRS1 Chemical Storage and Feed Improvements	2,500,000.00	12/31/2018	0.00	500,000.00	2,000,000.00
Kentucky	I12-020039	Georgetown Bypass and US 25 Area	1,350,000.00	7/30/2018	0.00	250,000.00	1,100,000.00
Kentucky	I12-020040	KRS Valve House Rehabilitation (Phase 2)	950,000.00	12/31/2016	0.00	950,000.00	0.00
Kentucky	I12-020043	Athens Boonesboro Main Extension	1,406,100.00	12/31/2016	355,000.00	1,051,100.00	0.00
Kentucky	I12-020049	KRS - Raw Water Access	1,000,000.00	7/31/2018	0.00	0.00	1,000,000.00
Kentucky	I12-020050	Paving Field Ops and Front Entrance	350,000.00	6/30/2017	0.00	0.00	350,000.00
Kentucky	I12-020051	KRS High Service Pumps Replacement	2,680,000.00	9/30/2017	0.00	1,000,000.00	1,680,000.00
Kentucky	I12-020052	Millersburg Tank Replacement	450,000.00	6/30/2016	0.00	450,000.00	0.00
Kentucky	I12-020055	New Circle Rd Main Relocation Phase 2	775,000.00	8/31/2016	0.00	775,000.00	0.00
Kentucky	I12-020056	KRS Valve House Rehabilitation (Phase 1.B)	900,000.00	3/31/2016	600,000.00	300,000.00	0.00
Kentucky	I12-000001	Post Acquisition BD Capex	120,000.00		0.00	60,000.00	60,000.00
<b>Total Investment Projects</b>					<b>15,124,769.55</b>	<b>8,635,397.86</b>	<b>7,190,000.00</b>
<b>Total Investment and Centrally Sponsored Projects</b>					<b>16,866,247.50</b>	<b>10,076,529.86</b>	<b>8,600,360.00</b>
<b>Contributions</b>					<b>(4,406,690.35)</b>	<b>(2,220,000.00)</b>	<b>(1,860,000.00)</b>
<b>Advances</b>					<b>(1,485,765.60)</b>	<b>(1,550,000.00)</b>	<b>(1,550,000.00)</b>
<b>Total Refunds</b>					<b>1,084,999.99</b>	<b>1,100,000.00</b>	<b>1,100,000.00</b>
					<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Gross minus ITS CS</b>					<b>31,850,395.63</b>	<b>22,547,844.86</b>	<b>20,669,930.50</b>
<b>Net minus ITS CS</b>					<b>31,850,395.63</b>	<b>19,877,844.86</b>	<b>18,359,930.50</b>
<b>Gross plus ITS CS</b>					<b>33,591,873.58</b>	<b>23,988,976.86</b>	<b>22,080,290.50</b>
<b>Net plus ITS CS</b>					<b>(4,807,455.96)</b>	<b>(2,670,000.00)</b>	<b>(2,310,000.00)</b>
					<b>28,784,417.62</b>	<b>21,318,976.86</b>	<b>19,770,290.50</b>

REMOVALS RECURRING PROJECTS

Business Unit	Business Unit No.	Project Title	Total 2015	Total 2016	Total 2017
Kentucky	B	Mains - Replaced / Restored	155,850.00	176,050.00	173,500.00
Kentucky	C	Mains - Unscheduled	73,700.00	73,700.00	73,700.00
Kentucky	F	Hydrants, Valves, and Manholes - Replaced	102,966.50	109,135.50	109,135.50
Kentucky	H	Services and Laterals - Replaced	201,500.00	140,275.00	140,275.00
Kentucky	J	Meters - Replaced	121,929.18	60,040.50	66,176.50
Kentucky	O	Vehicles	(60,000.00)	(100,000.00)	(75,000.00)
Kentucky	Q	Process Plant Facilities and Equipment	145,487.50	172,550.00	141,100.00
<b>Total Removals</b>			<b>\$741,433.18</b>	<b>\$631,751.00</b>	<b>\$628,887.00</b>

**KENTUCKY AMERICAN WATER COMPANY  
CASE NO. 2015-00400  
FIRST DISCOVERY REQUEST OF THE  
PUBLIC SERVICE COMMISSION STAFF**

**Responsible Witness:** Linda C. Bridwell

**Question:**

2. Describe Kentucky-American's efforts, if any, to reduce the cost of its long-term debt through the refinancing of existing long-term debt with higher than current market interest rates.

**Response:**

Kentucky-American regularly reviews its portfolio of existing long-term debt obligations, as well as its other capital structure components, to identify opportunities to reduce its financing costs

On December 15, 2015, the Company redeemed 22,500 shares of the preferred stock at 8.47%. The Company plans to refinance the redemption with short-term debt until such time next year when it issues long-term debt at then market interest rates.

In 2019 and 2020, the following three bonds listed below become callable at par. At such time, the Company will evaluate refinancing the bonds if they result in a positive net present value on a matched maturity basis. As for other outstanding bonds, they have substantial make-whole premiums which make them cost prohibitive to refinance at this time.

CUSIP	Maturity Date	Call Date	Interest Rate	Amount Outstanding
69069AAA8	6/1/2039	6/1/2019	6.25%	\$45,390,000
69069AAB6	9/1/2039	12/1/2019	5.63%	\$26,000,000
69069AAC4	6/1/2040	6/1/2020	5.38%	\$26,000,000

**KENTUCKY AMERICAN WATER COMPANY  
CASE NO. 2015-00400  
FIRST DISCOVERY REQUEST OF THE  
PUBLIC SERVICE COMMISSION STAFF**

**Responsible Witness:** Linda C. Bridwell

**Question:**

3. a. Provide all studies, analyses, reports, and reviews that compare Kentucky-American's cost for the proposed financing as a participant in the borrowing program with American Water Capital Corp. with Kentucky-American borrowing directly from third parties.
- b. If no studies have been conducted, explain why Kentucky-American's continued participation is more cost-effective than obtaining the proposed financing from a third party.

**Response:**

- a. No additional studies, analyses, reports or reviews have been formally conducted for the proposed financing comparing as a participant in the borrowing program with American Water Capital Corp. ("AWCC") with Kentucky-American Water ("KAWC") borrowing directly from third parties.

However, KAWC verifies with each debt issuance that AWCC has received reasonable rates that are equal to or slightly better than what is available for taxable utility bonds with the same credit rating. Please refer to the attachment which includes reports that were filed in Case No. 2011-00115 and 2012-00393.

- b. In general, AWCC is able to issue long-term debt on terms more favorable than Kentucky-American could achieve directly from a third party due to AWCC's economies of scale achieved through larger long-term offerings, greater access to capital markets, and geographic diversification. Although KAWC is not currently rated by any of the major rating agencies, these factors all contribute to AWCC having a stronger corporate credit rating (currently A3 (stable outlook) and A (stable outlook) from Moody's and Standard & Poor's, respectively) than KAWC could obtain on its own.

AWCC's economies of scale result in lower long-term debt issuance costs for KAWC when it participates in the AWCC borrowing program. This occurs because AWCC is able to spread the fixed portion of the total issuance costs pro-rata across all participating subsidiaries in contrast to any one subsidiary

incurring all of the costs on its own. Having said that, the Financial Services Agreement between KAW and AWCC (please see Exhibit 1 to KAW's December 2, 2015 Application in this matter) allows KAW the discretion to issue debt directly to a third party lender. KAW would issue third party debt if it were able to secure the financing at a lower all-in cost than it would incur by issuing debt through AWCC.

RECEIVED

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

DEC 01 2011

PUBLIC SERVICE  
COMMISSION

IN THE MATTER OF: )  
 )  
APPLICATION OF KENTUCKY-AMERICAN ) CASE NO. 2011-00115  
WATER COMPANY FOR ISSUANCE )  
OF INDEBTEDNESS AND CONTINUED )  
PARTICIPATION WITH AMERICAN WATER )  
CAPITAL CORP. )

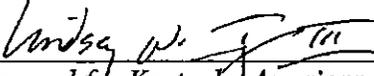
ORDERING PARAGRAPH 4 REPORT

In accordance with Ordering Paragraph 4 of the Commission's May 26, 2011 Order in this matter, this is to report to the Commission that Kentucky American Water ("KAW") issued debt in the amount of \$20,000,000 on November 21, 2011 in accordance with the Commission's May 26, 2011 Order. The debt was issued pursuant to KAW's participation in the American Water Capital Corporation borrowing program. The interest rate is 5.05% and it matures on October 15, 2037.

The attached analysis shows that the rate of 5.05% was the most reasonable at the time of issuance as described in Ordering Paragraph 4 of the May 26, 2011 Order. To explain, the page captioned "Bloomberg Valuation Price" shows Bloomberg's valuation of the debt at issue at an interest rate of 5.071% on November 18, 2011, the last business day before the debt was issued. Further, the page captioned "Secondary Traded Price" shows the interest rate at which the debt that KAW assumed was trading for on the secondary market on November 17, 2011, the last date for which information was available prior to the issuance. That secondary market interest rate was 5.169%. Thus, the rate of 5.05% is the most reasonable under the circumstances that existed at the time of issuance.

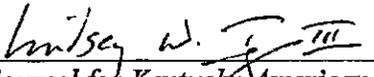
Respectfully submitted,

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Lexington, Kentucky 40507-1801  
Telephone: (859) 231-3000  
[L.Ingram@skofirm.com](mailto:L.Ingram@skofirm.com)

  
\_\_\_\_\_  
*Counsel for Kentucky American Water Company*

**CERTIFICATE**

This is to certify that the original and ten copies of the foregoing have been hand-delivered to the Kentucky Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601 on this 1<sup>st</sup> day of December, 2011.

  
\_\_\_\_\_  
*Counsel for Kentucky American Water Company*

010311.003026/4008008.1

# Bloomberg Valuation Price

BVAL/CLOSE/TRADE/ATM  
AMERICAN WATER WTR 6.593 10/3/120.661/123.443 (5.14/4.97) BVAL

Hi 127.500 ON 9/19/11  
Ave 111.854  
Low 102.662 ON 2/10/11

DATE	PRICE	YIELD	DATE	PRICE	YIELD
F 11/18	121.796	5.071	F 10/28	117.103	5.364
T 11/17	122.228	5.045	T 10/27	115.757	5.451
W 11/16	121.579	5.085	W 10/26	118.588	5.270
T 11/15	121.090	5.114	T 10/25	120.200	5.170
M 11/14	121.344	5.099	M 10/24	114.422	5.539
F 11/11	120.245	5.166	F 10/21	115.281	5.482
T 11/10	120.078	5.177	T 10/20	115.769	5.451
W 11/9	122.454	5.032	W 10/19	116.139	5.427
T 11/8	120.928	5.125	T 10/18	119.442	5.218
M 11/7	122.079	5.055	M 10/17	115.847	5.446
F 11/4	121.604	5.084	F 10/14	114.533	5.532
T 11/3	121.371	5.098	T 10/13	116.370	5.412
W 11/2	122.935	5.004	W 10/12	115.386	5.476
T 11/1	124.026	4.940	T 10/11	116.707	5.391
M 10/31	120.388	5.159	M 10/10	118.706	5.264

Australia 51.28577 48600 Brazil 5511.5046 4500 Europe 44.20 7330 7500 Germany 49.65 5204 1210 Hong Kong 352 2977 6000

# Secondary Traded Price

TRAC/CLOSE/TRADE/MTM  
 AMERICAN WATER WORKS (5.17/5.17) TRAC  
 Range: 10/31/09 - 10/31/09 Source: Market  
 Page 1/6 Historical Price Table

DATE	PRICE	YIELD	DATE	PRICE	YIELD
F 10/31	119.312	5.225	F 10/28		
T 11/1	119.312	5.225	T 10/27	120.191	5.169
W 11/2	119.312	5.225	W 10/26	121.073	5.115
T 11/3	119.312	5.225	T 10/25	120.000	5.183
F 11/4	119.312	5.225	F 10/24	115.333	5.479
T 11/5	119.312	5.225	T 10/21		
W 11/6	119.312	5.225	W 10/20	112.100	5.695
T 11/7	119.312	5.225	T 10/19	116.602	5.397
F 11/8	119.312	5.225	F 10/18		
T 11/9	119.312	5.225	T 10/17		
W 11/10	119.312	5.225	W 10/14		
T 11/11	119.312	5.225	T 10/13		
F 11/12	119.312	5.225	F 10/12	113.709	5.587
T 11/13	119.312	5.225	T 10/11		
W 11/14	119.312	5.225	W 10/10		
T 11/15	119.312	5.225	T 10/9		
F 11/16	119.312	5.225	F 10/8		
T 11/17	119.312	5.225	T 10/7		
W 11/18	119.312	5.225	W 10/6		
T 11/19	119.312	5.225	T 10/5		
F 11/20	119.312	5.225	F 10/4		
T 11/21	119.312	5.225	T 10/3		
W 11/22	119.312	5.225	W 10/2		
T 11/23	119.312	5.225	T 10/1		
F 11/24	119.312	5.225	F 9/30		
T 11/25	119.312	5.225	T 9/29		
W 11/26	119.312	5.225	W 9/28	113.789	5.582
T 11/27	119.312	5.225	T 9/27		
F 11/28	119.312	5.225	F 9/26	119.491	5.216
T 11/29	119.312	5.225	T 9/25		
W 11/30	119.312	5.225	W 9/24		
T 12/1	119.312	5.225	T 9/23	120.287	5.167
F 12/2	119.312	5.225	F 9/22	120.238	5.170
T 12/3	119.312	5.225	T 9/21		
W 12/4	119.312	5.225	W 9/20	115.221	5.488
T 12/5	119.312	5.225	T 9/19		

HI 122.205 ON 11/15/11  
 LOW 110.082  
 HI 101.250 ON 12/17/10  
 LOW 101.250  
 Copyright 2011, Bloomberg Finance L.P.  
 All rights reserved. SN 315971 H250-1441 21-Nov-11 8:43:28 EST GMT-5:00

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

**IN THE MATTER OF:** )  
 )  
**APPLICATION OF KENTUCKY-AMERICAN ) CASE NO. 2012-00393**  
**WATER COMPANY FOR ISSUANCE OF )**  
**INDEBTEDNESS AND CONTINUED )**  
**PARTICIPATION WITH AMERICAN WATER )**  
**CAPITAL CORP. )**

**ORDERING PARAGRAPH 4 REPORT**

In accordance with Ordering Paragraph 4 of the Commission’s October 29, 2012 Order in this matter, this is to report to the Commission that Kentucky American Water (“KAW”) issued debt in the amount of \$7,859,000 on May 15, 2013 in accordance with the Commission’s October 29, 2012 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 October 15, 2037.

The attached documentation shows that the rate of 4.00% was the most reasonable at the time of issuance. The page captioned “Bloomberg Valuation Price” shows Bloomberg’s valuation of the debt at issue at an interest rate of 4.385% on May 15, 2013. Further, the page captioned “Secondary Traded Price” shows the interest rate at which the debt that KAW assumed was trading for on the secondary market on May 15, 2013. That secondary market interest rate was 4.525%. During the last two calendar years, AWCC has only issued one external borrowing and it was at a coupon rate of 4.3%. Finally, the attached also includes information regarding recent utility issuances and the advantages derived from KAW’s participation in the AWCC borrowing program which ensure that KAW receives the lowest available rate for its borrowings.

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: May 21, 2013

Respectfully submitted,

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

By:



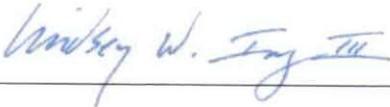
Lindsey W. Ingram III  
[L.Ingram@skofirm.com](mailto:L.Ingram@skofirm.com)

Attorneys for Kentucky-American Water Company

**CERTIFICATE**

In accordance with Ordering Paragraph No. 10 of the Commission's August 31, 2012 Order, this is to certify that Kentucky-American Water Company's May 21, 2013 electronic filing is a true and accurate copy of the documents to be filed in paper medium; that the electronic filing has been transmitted to the Commission on May 21, 2013; that no party to this case has been excused from participation by electronic means; and that an original and one copy of the filing will be delivered to the Commission on May 22, 2013.

STOLL KEENON OGDEN PLLC

By 

Attorneys for Kentucky-American Water Company



AMERICAN WATER

William D Rogers  
Vice President and Treasurer  
1025 Laurel Oak Road  
Voorhees, NJ 08043  
william.rogers@amwater.com  
(856) 309-4572

To: Kentucky American Water (KAW)  
Date: May 15, 2013  
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 Baa2 (positive outlook) and BBB+ (positive outlook) 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 4x compared to KAW's 3x. 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 12/31/2012*	
	American Water Works Company, Inc.	Kentucky-American Water Company
EBITDA/Interest Expense	3.97x	2.92x
Total Debt/EBITDA	4.28x	5.20x
Total Debt/Total Capitalization	55.7%	55.3%
Cash Flow from Operations/Interest Expense	2.90x	2.12x
Cash Flow from Operations/Debt	17.1%	13.9%

\* Source: AWK and KAW's 10K

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,

  
 William D Rogers  
 Vice President and Treasurer



## Term Sheet

<b>Lender:</b>	<b>American Water Capital Corp.</b>
Lender's Credit Rating	Baa2 (positive outlook) / BBB+ (positive outlook)
<b>Borrower:</b>	<b>Kentucky American Water</b>
Borrower's Credit Rating	Not Rated
Amount	\$7,859,000
Security:	Unsecured
Tax Type:	Taxable
Issuance Date:	May 15, 2013
Maturity Date:	October 15, 2037
U.S. Treasury Rate:	2.81%
Credit Spread to U.S. Treasury:	1.19%
<b>Coupon</b>	<b>4.00%</b>
Issuance Costs	None
Redemption Provisions:	Make-whole call at T+25 bps
CUSIP:	03040W AC9
Trustee for Lender	Wells Fargo Bank
Use of Proceeds	To reduce short-term debt and fund capital expenditures

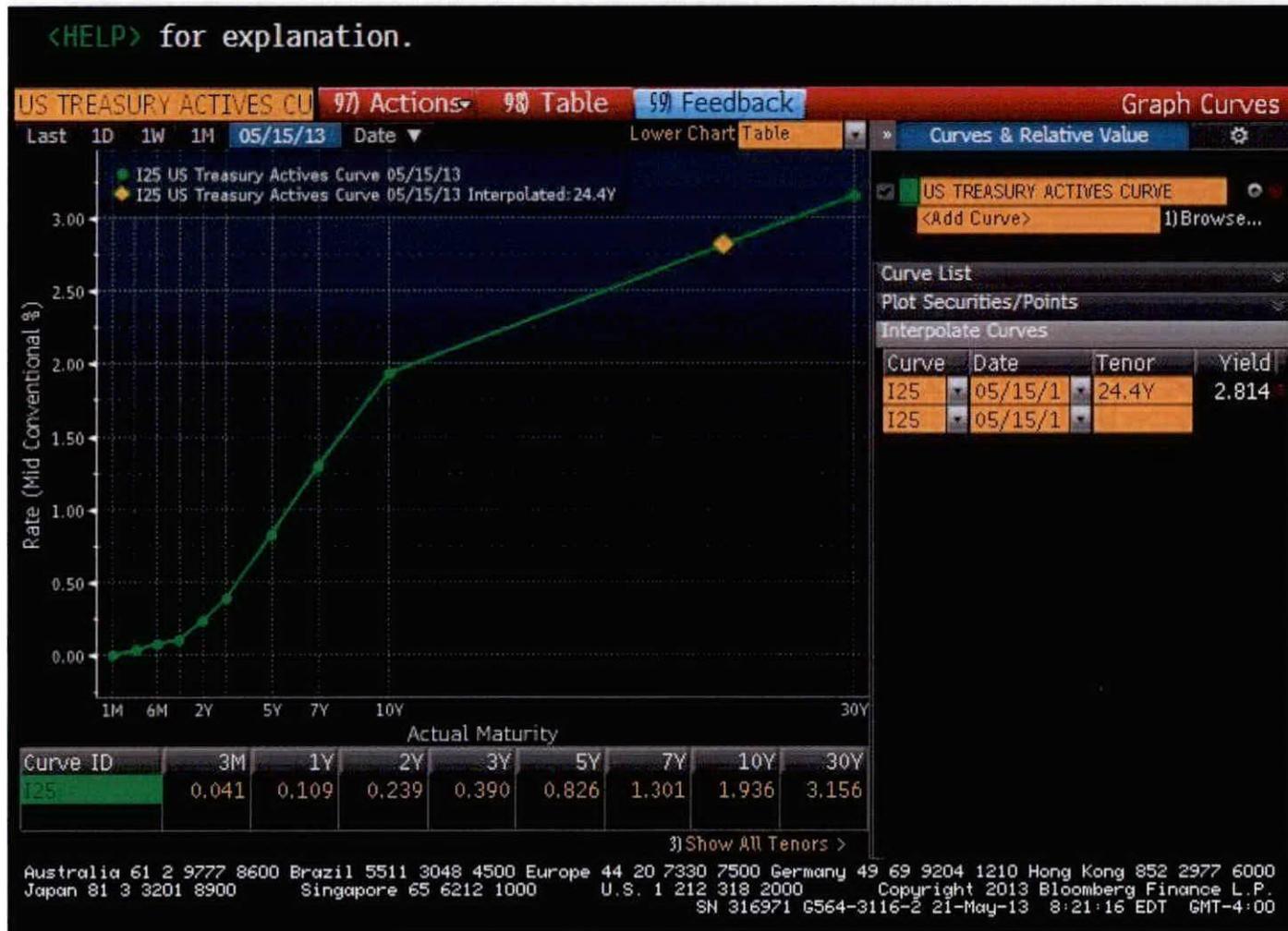


## Comparable Transactions: Recent Utility New Issuances

Issue Date	Issuer	Ratings (Moody's / S&P)	Tenor (years)	Amount (\$ in millions)	Coupon	Spread to Treasury
5/15/2013	Kentucky American Water	Not Rated	24.4	\$7.859	4.00%	1.19%
<b>10-year Issuances</b>						
3/13/2013	Indiana Michigan Power	Baa2/BBB+	10	\$250	3.20%	1.20%
3/11/2013	Kansas City Power & Light	Baa2/BBB	10	\$300	3.15%	1.10%
2/25/2013	Spectra Energy Capital	Baa2/BBB	10	\$650	3.30%	1.44%
<b>Average 10-year Issuances</b>			<b>10</b>	<b>\$400</b>	<b>3.22%</b>	<b>1.25%</b>
<b>30-year Issuances</b>						
2/21/2013	Kinder Morgan Energy Partners	Baa2/BBB	30	\$400	5.00%	1.85%
12/12/2012	<b>American Water Capital Corp</b>	<b>Baa2/BBB+</b>	<b>30</b>	<b>\$300</b>	<b>4.30%</b>	<b>1.42%</b>
12/3/2012	Plains All American Pipeline	Baa2/BBB	30	\$350	4.30%	1.50%
<b>Average 30-year Issuances</b>			<b>30</b>	<b>\$350</b>	<b>4.53%</b>	<b>1.59%</b>



# U.S. Treasury Rates





## Secondary Trading Levels

<HELP> for explanation, <MENU> for similar functions.

NYSE/CLOSE/TRADE/YTM Page 1/6 Historical Price Table

AMERICAN WATER AWK 6.593 10/37 130.553/130.553 (4.514/4.514) TRAC

Range 05/29/2012 - 05/20/2013

Source TRAC High 135.416 on 5/ 3/13  
 Period Daily Avg 128.484  
 Market Trade Low 118.684 on 8/21/12

DATE	Price	YIELD	DATE	Price	YIELD	DATE	Price	YIELD
F 5/20	130.553	4.514	F 5/ 3	H 135.416	4.249	F 4/12		
F 5/17	130.291	4.529	T 5/ 2	134.586	4.294	T 4/11		
T 5/16	131.734	4.448	W 5/ 1			W 4/10		
W 5/15	130.358	4.525	T 4/30			T 4/ 9	133.275	4.368
T 5/14			M 4/29	134.715	4.287	M 4/ 8		
M 5/13			F 4/26			F 4/ 5		
F 5/10			T 4/25			T 4/ 4		
T 5/ 9			W 4/24	132.568	4.405	W 4/ 3	130.836	4.503
W 5/ 8			T 4/23	133.719	4.342	T 4/ 2		
T 5/ 7			M 4/22			M 4/ 1		
M 5/ 6			F 4/19			F 3/29		
			T 4/18			T 3/28		
			W 4/17	133.673	4.345	W 3/27		
			T 4/16	132.413	4.414	T 3/26	129.023	4.606
			M 4/15			M 3/25	128.788	4.620

Australia 61 2 9777 8600 Brazil 5511 3048 4500 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 2013 Bloomberg Finance L.P.  
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# Bloomberg Valuation Price

<HELP> for explanation.

NYSE/CLOSE/TRADE/YTM			Page 1/6			Historical Price Table			
AMERICAN WATER AWK 6.593 10/37 131.859/133.272 (4.441/4.363) BVAL									
Range		05/21/2012	-	05/21/2013	Source	BVAL	High	136.401	on 4/18/13
					Period	Daily	Avg	129.924	
					Market	Trade	Low	122.965	on 10/25/12
DATE	Price	YIELD	DATE	Price	YIELD	DATE	Price	YIELD	
F			F 5/ 3	135.536	4.243	F 4/12	134.193	4.317	
T			T 5/ 2	134.948	4.274	T 4/11	134.137	4.321	
W			W 5/ 1	134.856	4.279	W 4/10	134.242	4.315	
T 5/21	132.566	4.402	T 4/30	134.826	4.281	T 4/ 9	134.366	4.309	
M 5/20	132.680	4.395	M 4/29	134.492	4.299	M 4/ 8	132.356	4.418	
F 5/17	132.877	4.385	F 4/26	133.996	4.326	F 4/ 5	131.887	4.444	
T 5/16	133.379	4.357	T 4/25	131.097	4.486	T 4/ 4	131.853	4.446	
W 5/15	132.882	4.385	W 4/24	130.971	4.493	W 4/ 3	131.383	4.472	
T 5/14	132.923	4.383	T 4/23	135.721	4.234	T 4/ 2	130.926	4.498	
M 5/13	133.116	4.372	M 4/22	135.888	4.226	M 4/ 1	130.925	4.498	
F 5/10	134.267	4.310	F 4/19	135.861	4.227	F 3/29			
T 5/ 9	135.431	4.247	T 4/18	H 136.401	4.199	T 3/28	130.780	4.507	
W 5/ 8	135.495	4.244	W 4/17	135.106	4.268	W 3/27	130.805	4.505	
T 5/ 7	135.604	4.239	T 4/16	135.094	4.269	T 3/26	130.310	4.533	
M 5/ 6	135.500	4.244	M 4/15	134.415	4.305	M 3/25	130.482	4.524	
Australia 61 2 9777 8600 Brazil 5511 3048 4500 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 2013 Bloomberg Finance L.P. SN 316971 6564-3116-2 21-May-13 7:54:41 EDT GMT-4:00									