

**KENTUCKY-AMERICAN WATER COMPANY
HISTORICAL CAPITAL STRUCTURE**

AMOUNT (000)

<u>Type of Capital</u>	<u>Dec-06</u> [1]	<u>Mar-07</u> [2]	<u>Jun-07</u> [3]	<u>Sep-07</u> [4]	<u>Dec-07</u> [5]	<u>Mar-08</u> [6]	<u>Jun-08</u> [7]	<u>Sep-08</u> [8]	<u>Dec-08</u> [9]	<u>Average</u> [10]
1) Common Equity	\$72,974.0	\$72,607.0	\$73,641.0	\$75,229.0	\$74,785.0	\$82,974.0	\$91,908.0	\$93,771.0	n/a	\$79,736
2) Preferred Stock	\$1,467.0	\$1,467.0	\$1,467.0	\$1,467.0	\$1,467.0	\$1,467.0	\$1,458.0	\$1,456.0	n/a	\$1,465
3) Long-term Debt	\$81,500.0	\$78,400.0	\$54,400.0	\$54,400.0	\$87,400.0	\$84,300.0	\$84,300.0	\$84,300.0	n/a	\$76,125
4) Short-term Debt	<u>\$3,297.0</u>	<u>\$15,864.0</u>	<u>\$42,271.0</u>	<u>\$42,792.0</u>	<u>\$18,116.0</u>	<u>\$18,261.0</u>	<u>\$13,859.0</u>	<u>\$22,680.0</u>	n/a	\$22,143
5) TOTAL	\$159,238.0	\$168,338.0	\$171,779.0	\$173,888.0	\$181,768.0	\$187,002.0	\$191,525.0	\$202,207.0	n/a	\$179,468

PERCENTAGE

<u>Type of Capital</u>	<u>Dec-06</u>	<u>Mar-07</u>	<u>Jun-07</u>	<u>Sep-07</u>	<u>Dec-07</u>	<u>Mar-08</u>	<u>Jun-08</u>	<u>Sep-08</u>	<u>Dec-08</u>	5 Quarter Average
6) Common Equity	45.83%	43.13%	42.87%	43.26%	41.14%	44.37%	47.99%	46.37%	n/a	44.43%
7) Preferred Stock	0.92%	0.87%	0.85%	0.84%	0.81%	0.78%	0.76%	0.72%	n/a	0.82%
8) Long-term Debt	51.18%	46.57%	31.67%	31.28%	48.08%	45.08%	44.02%	41.69%	n/a	42.42%
9) Short-term Debt	<u>2.07%</u>	<u>9.42%</u>	<u>24.61%</u>	<u>24.61%</u>	<u>9.97%</u>	<u>9.77%</u>	<u>7.24%</u>	<u>11.22%</u>	n/a	12.34%
10) TOTAL	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	n/a	54.75%

Data from Company response to AG-DR-1-126.

**KENTUCKY-AMERICAN WATER COMPANY
WATER UTILITY INDUSTRY COMMON EQUITY RATIOS**

<u>WATER COMPANIES</u>	<u>EQUITY RATIO</u>
American States Water Co. (NYSE-AWR)	48%
American Water Works (NYSE-AWK)	45%
Aqua America, Inc. (NYSE-WTR)	44%
Artesian Resources Corp. (NDQ-ARTNA)	42%
California Water Service Group (NYSE-CWT)	55%
Connecticut Water Service, Inc. (NDQ-CTWS)	49%
Middlesex Water Company (NDQ-MSEX)	47%
Pennichuck Corporation (NDQ-PNNW)	41%
SJW Corporation (NYSE-SJW)	53%
Southwest Water Company (NDQ-SWWC)	45%
York Water Company (NDQ-YORW)	<u>45%</u>
Average	47%
Median	45%

Data, except AWK, from AUS Utility Reports, January 2009. AWK data from S.E.C. 10-Q, 9/30/08.

**KENTUCKY-AMERICAN WATER COMPANY
RATEMAKNG CAPITAL STRUCTURE**

<u>Type of Capital</u>	<u>AMOUNT</u>	<u>PERCENT</u>	<u>COST RATE</u>	<u>WT. AVG. COST RATE</u>
Common Equity	\$129,423,277	42.309%	-	-
Preferred Stock	\$5,953,622	1.946%	7.750%	0.151%
Long-term Debt	\$138,902,482	45.408%	6.870%	3.120%
Short-term Debt	<u>\$31,620,959</u>	<u>10.337%</u>	2.500%	0.258%
Totals	\$305,900,340	100.000%		

Capital amounts and cost rates from Miller Direct, Exhibit MAM-3, p. 1, except for short-term debt.

KENTUCKY-AMERICAN WATER COMPANY
DCF GROWTH RATE PARAMETERS
WATER UTILITIES

COMPANY	INTERNAL GROWTH			EXTERNAL GROWTH		
	RETENTION RATIO	EQUITY RETURN	"g"	BOOK VALUE (\$/SHARE)	SHARES OUTST (MILLIONS)	SHARE GROWTH
AWR						
2003	-0.1282	05.6%	-0.72%	13.97	15.21	
2004	0.1524	06.6%	1.01%	15.01	16.75	
2005	0.3182	08.5%	2.70%	15.72	16.80	
2006	0.3158	08.1%	2.56%	16.64	17.05	
2007	0.4074	09.3%	<u>3.79%</u>	<u>17.53</u>	<u>17.23</u>	
AVERAGE GROWTH			1.87%	4.50%		3.17%
2008	0.3197	08.0%	2.56%		18.25	5.92%
2009	0.3829	09.0%	3.45%		19.00	5.01%
2011-2013	0.5040	12.5%	6.30%	2.50%	21.00	4.04%

COMPANY	INTERNAL GROWTH			EXTERNAL GROWTH		
	RETENTION RATIO	EQUITY RETURN	"g"	BOOK VALUE (\$/SHARE)	SHARES OUTST (MILLIONS)	SHARE GROWTH
AWK						
2003	n/a	n/a	n/a	n/a	n/a	
2004	n/a	n/a	n/a	n/a	n/a	
2005	n/a	n/a	n/a	n/a	n/a	
2006	1.0000	n/a	n/a	23.86	160.00	
2007	1.0000	n/a	<u>n/a</u>	<u>28.39</u>	<u>160.00</u>	
AVERAGE GROWTH			n/a	n/a		0.00%
2008	0.6522	04.0%	2.61%		162.00	1.25%
2009	0.3333	04.5%	1.50%		195.00	10.40%
2011-2013	0.3655	05.5%	2.01%	n/a	215.00	6.09%

COMPANY	INTERNAL GROWTH			EXTERNAL GROWTH		
	RETENTION RATIO	EQUITY RETURN	"g"	BOOK VALUE (\$/SHARE)	SHARES OUTST (MILLIONS)	SHARE GROWTH
WTR						
2003	0.3860	10.2%	3.94%	5.34	123.45	
2004	0.4219	10.7%	4.51%	5.89	127.18	
2005	0.4366	11.2%	4.89%	6.30	128.97	
2006	0.3714	10.0%	3.71%	6.96	132.33	
2007	0.3239	09.7%	<u>3.14%</u>	<u>7.32</u>	<u>133.40</u>	
AVERAGE GROWTH			4.04%	10.50%		1.96%
2008	0.3377	10.0%	3.38%		135.25	1.39%
2009	0.3647	11.0%	4.01%		136.00	0.97%
2011-2013	0.4000	11.0%	4.40%	5.00%	139.00	0.83%

KENTUCKY-AMERICAN WATER COMPANY
DCF GROWTH RATE PARAMETERS
WATER UTILITIES

COMPANY	INTERNAL GROWTH			EXTERNAL GROWTH		
CWT	RETENTION RATIO	EQUITY RETURN	"g"	BOOK VALUE (\$/SHARE)	SHARES OUTST (MILLIONS)	SHARE GROWTH
2003	0.0744	07.9%	0.59%	14.44	16.93	
2004	0.2260	09.0%	2.03%	15.66	18.37	
2005	0.2245	09.3%	2.09%	15.79	18.39	
2006	0.1418	06.8%	0.96%	18.15	20.66	
2007	0.2267	08.1%	<u>1.84%</u>	<u>18.5</u>	<u>20.67</u>	
AVERAGE GROWTH			1.50%	6.00%		5.12%
2008	0.4121	10.0%	4.12%		21.00	1.60%
2009	0.4512	11.0%	4.96%		21.50	1.99%
2011-2013	0.5094	12.5%	6.37%	3.00%	23.00	2.16%

COMPANY	INTERNAL GROWTH			EXTERNAL GROWTH		
CTWS	RETENTION RATIO	EQUITY RETURN	"g"	BOOK VALUE (\$/SHARE)	SHARES OUTST (MILLIONS)	SHARE GROWTH
2003	0.2783	10.9%	3.03%	10.46	7.97	
2004	0.2759	10.6%	2.92%	10.94	8.04	
2005	0.0341	07.5%	0.26%	11.52	8.17	
2006	-0.0617	06.9%	-0.43%	11.60	8.27	
2007	0.1714	08.7%	<u>1.49%</u>	<u>11.95</u>	<u>8.38</u>	
AVERAGE GROWTH			1.46%	4.50%		1.26%
2008	n/a	n/a	n/a		n/a	n/a
2009	n/a	n/a	n/a		n/a	n/a
2011-2013	n/a	n/a	n/a	n/a	n/a	n/a

COMPANY	INTERNAL GROWTH			EXTERNAL GROWTH		
MSEX	RETENTION RATIO	EQUITY RETURN	"g"	BOOK VALUE (\$/SHARE)	SHARES OUTST (MILLIONS)	SHARE GROWTH
2003	-0.0656	07.9%	-0.52%	7.60	10.48	
2004	0.0959	08.5%	0.82%	8.38	11.36	
2005	n/a	08.2%	n/a	8.60	11.58	
2006	0.1707	07.5%	1.28%	9.82	13.17	
2007	0.2069	08.6%	<u>1.78%</u>	<u>10.05</u>	<u>13.25</u>	
AVERAGE GROWTH			0.84%	6.00%		6.04%
2008	n/a	n/a	n/a		n/a	n/a
2009	n/a	n/a	n/a		n/a	n/a
2011-2013	n/a	n/a	n/a	n/a	n/a	n/a

KENTUCKY-AMERICAN WATER COMPANY
DCF GROWTH RATE PARAMETERS
WATER UTILITIES

COMPANY	INTERNAL GROWTH			EXTERNAL GROWTH		
PNNW	RETENTION RATIO	EQUITY RETURN	"g"	BOOK VALUE (\$/SHARE)	SHARES OUTST (MILLIONS)	SHARE GROWTH
2003	-0.0161	06.5%	-0.10%	9.44	3.19	
2004	-0.0833	06.4%	-0.53%	9.37	3.22	
2005	-4.0769	01.0%	-4.08%	10.89	4.19	
2006	-3.7143	01.3%	-4.83%	10.57	4.21	
2007	0.2143	07.9%	<u>1.69%</u>	<u>10.78</u>	<u>4.23</u>	
AVERAGE GROWTH			-1.57%	2.50%		7.31%
2008	n/a	n/a	n/a		n/a	n/a
2009	n/a	n/a	n/a		n/a	n/a
2011-2013	n/a	n/a	n/a	n/a	n/a	n/a

COMPANY	INTERNAL GROWTH			EXTERNAL GROWTH		
SJW	RETENTION RATIO	EQUITY RETURN	"g"	BOOK VALUE (\$/SHARE)	SHARES OUTST (MILLIONS)	SHARE GROWTH
2003	0.4615	10.0%	4.62%	9.11	18.27	
2004	0.4138	08.7%	3.60%	10.11	18.27	
2005	0.5268	10.6%	5.58%	10.72	18.27	
2006	0.5210	09.7%	5.05%	12.48	18.28	
2007	0.4135	08.2%	<u>3.39%</u>	<u>12.90</u>	<u>18.36</u>	
AVERAGE GROWTH			4.45%	8.00%		0.12%
2008	n/a	n/a	n/a		n/a	n/a
2009	n/a	n/a	n/a		n/a	n/a
2011-2013	n/a	n/a	n/a	n/a	n/a	n/a

COMPANY	INTERNAL GROWTH			EXTERNAL GROWTH		
YORW	RETENTION RATIO	EQUITY RETURN	"g"	BOOK VALUE (\$/SHARE)	SHARES OUTST (MILLIONS)	SHARE GROWTH
2003	0.2128	11.4%	2.43%	4.06	9.63	
2004	0.2041	10.0%	2.04%	4.65	10.33	
2005	0.2500	11.6%	2.90%	4.85	10.40	
2006	0.2241	09.3%	2.08%	5.84	11.20	
2007	0.1579	09.5%	<u>1.50%</u>	<u>5.97</u>	<u>11.27</u>	
AVERAGE GROWTH			2.19%	7.50%		4.01%
2008	n/a	n/a	n/a		n/a	n/a
2009	n/a	n/a	n/a		n/a	n/a
2011-2013	n/a	n/a	n/a	n/a	n/a	n/a

Data from Value Line Ratings and Reports, January 23, 2009.

KENTUCKY-AMERICAN WATER COMPANY
DCF GROWTH RATE PARAMETERS
GAS DISTRIBUTION UTILITIES

COMPANY	INTERNAL GROWTH			EXTERNAL GROWTH		
ATG	RETENTION RATIO	EQUITY RETURN	"g"	BOOK VALUE (\$/SHARE)	SHARES OUTST (MILLIONS)	SHARE GROWTH
2003	0.4663	14.0%	6.53%	14.66	64.50	
2004	0.4956	11.0%	5.45%	18.06	76.70	
2005	0.4758	12.9%	6.14%	19.29	77.70	
2006	0.4559	13.2%	6.02%	20.71	77.70	
2007	0.3971	12.7%	<u>5.04%</u>	<u>21.74</u>	<u>76.40</u>	
AVERAGE GROWTH			5.84%	10.50%		4.32%
2008	0.3778	12.0%	4.53%		77.00	0.79%
2009	0.3857	12.5%	4.82%		78.00	1.04%
2011-2013	0.4159	13.5%	5.61%	2.00%	80.00	0.93%

COMPANY	INTERNAL GROWTH			EXTERNAL GROWTH		
GAS	RETENTION RATIO	EQUITY RETURN	"g"	BOOK VALUE (\$/SHARE)	SHARES OUTST (MILLIONS)	SHARE GROWTH
2003	0.1185	12.3%	1.46%	17.13	44.04	
2004	0.1622	13.1%	2.12%	16.99	44.10	
2005	0.1878	12.5%	2.35%	18.36	44.18	
2006	0.3519	14.7%	5.17%	19.43	44.90	
2007	0.3758	14.3%	<u>5.37%</u>	<u>20.58</u>	<u>45.90</u>	
AVERAGE GROWTH			3.30%	4.00%		1.04%
2008	0.1733	11.5%	1.99%		45.00	-1.96%
2009	0.2560	11.5%	2.94%		45.00	-0.99%
2011-2013	0.4609	13.5%	6.22%	4.50%	45.00	-0.40%

COMPANY	INTERNAL GROWTH			EXTERNAL GROWTH		
NI	RETENTION RATIO	EQUITY RETURN	"g"	BOOK VALUE (\$/SHARE)	SHARES OUTST (MILLIONS)	SHARE GROWTH
2003	0.3082	09.4%	2.90%	16.81	262.63	
2004	0.4321	09.0%	3.89%	17.69	270.63	
2005	0.1481	06.0%	0.89%	18.09	272.62	
2006	0.1930	06.3%	1.22%	18.32	273.65	
2007	0.1930	06.1%	<u>1.18%</u>	<u>18.52</u>	<u>274.18</u>	
AVERAGE GROWTH			2.01%	2.00%		1.08%
2008	0.2640	06.5%	1.72%		274.50	0.12%
2009	0.2640	06.5%	1.72%		275.00	0.15%
2011-2013	0.3867	07.5%	2.90%	2.00%	276.50	0.17%

KENTUCKY-AMERICAN WATER COMPANY
DCF GROWTH RATE PARAMETERS
GAS DISTRIBUTION UTILITIES

COMPANY	INTERNAL GROWTH				EXTERNAL GROWTH	
NWN	RETENTION RATIO	EQUITY RETURN	"g"	BOOK VALUE (\$/SHARE)	SHARES OUTST (MILLIONS)	SHARE GROWTH
2003	0.2784	09.0%	2.51%	19.52	25.94	
2004	0.3011	08.9%	2.68%	20.64	27.55	
2005	0.3744	09.9%	3.71%	21.28	27.58	
2006	0.4085	10.9%	4.45%	22.01	27.24	
2007	0.4783	12.5%	<u>5.98%</u>	<u>22.52</u>	<u>26.41</u>	
AVERAGE GROWTH			3.86%	3.50%		0.45%
2008	0.4039	11.5%	4.65%		26.50	0.34%
2009	0.4286	11.5%	4.93%		26.50	0.17%
2011-2013	0.4388	11.0%	4.83%	3.50%	28.00	1.18%

COMPANY	INTERNAL GROWTH				EXTERNAL GROWTH	
PNY	RETENTION RATIO	EQUITY RETURN	"g"	BOOK VALUE (\$/SHARE)	SHARES OUTST (MILLIONS)	SHARE GROWTH
2003	0.2613	11.8%	3.08%	9.36	67.31	
2004	0.3307	11.1%	3.67%	11.15	76.67	
2005	0.3106	11.5%	3.57%	11.53	76.70	
2006	0.2520	11.0%	2.77%	11.83	74.61	
2007	0.2929	11.9%	<u>3.49%</u>	<u>11.99</u>	<u>73.23</u>	
AVERAGE GROWTH			3.32%	6.50%		2.13%
2008	0.3355	12.5%	4.19%		73.50	0.37%
2009	0.3313	12.5%	4.14%		73.50	0.18%
2011-2013	0.4195	13.5%	5.66%	4.50%	73.00	-0.06%

COMPANY	INTERNAL GROWTH				EXTERNAL GROWTH	
SJI	RETENTION RATIO	EQUITY RETURN	"g"	BOOK VALUE (\$/SHARE)	SHARES OUTST (MILLIONS)	SHARE GROWTH
2003	0.4307	11.6%	5.00%	11.26	26.46	
2004	0.4810	12.5%	6.01%	12.41	27.76	
2005	0.4971	12.4%	6.16%	13.50	28.98	
2006	0.6260	16.3%	10.20%	15.11	29.33	
2007	0.5167	12.8%	<u>6.61%</u>	<u>16.25</u>	<u>29.61</u>	
AVERAGE GROWTH			6.80%	12.50%		2.85%
2008	0.5174	13.5%	6.98%		30.00	1.32%
2009	0.5200	14.5%	7.54%		31.00	2.32%
2011-2013	0.5667	16.0%	9.07%	4.50%	32.00	1.56%

KENTUCKY-AMERICAN WATER COMPANY
DCF GROWTH RATE PARAMETERS
GAS DISTRIBUTION UTILITIES

<u>COMPANY</u>	<u>INTERNAL GROWTH</u>			<u>EXTERNAL GROWTH</u>		
<u>SWX</u>	<u>RETENTION RATIO</u>	<u>EQUITY RETURN</u>	<u>"g"</u>	<u>BOOK VALUE (\$/SHARE)</u>	<u>SHARES OUTST (MILLIONS)</u>	<u>SHARE GROWTH</u>
2003	0.2743	06.1%	1.67%	18.42	34.23	
2004	0.5060	08.3%	4.20%	19.18	36.79	
2005	0.3440	06.4%	2.20%	19.10	39.33	
2006	0.5859	08.9%	5.21%	21.58	41.77	
2007	0.5590	08.5%	<u>4.75%</u>	<u>22.98</u>	<u>42.81</u>	
AVERAGE GROWTH			3.61%	3.50%		5.75%
2008	0.4857	07.5%	3.64%		44.00	2.78%
2009	0.5300	08.0%	4.24%		45.00	2.53%
2011-2013	0.5760	09.5%	5.47%	4.00%	48.00	2.31%

<u>COMPANY</u>	<u>INTERNAL GROWTH</u>			<u>EXTERNAL GROWTH</u>		
<u>WGL</u>	<u>RETENTION RATIO</u>	<u>EQUITY RETURN</u>	<u>"g"</u>	<u>BOOK VALUE (\$/SHARE)</u>	<u>SHARES OUTST (MILLIONS)</u>	<u>SHARE GROWTH</u>
2003	0.4435	14.0%	6.21%	16.25	48.63	
2004	0.3434	11.7%	4.02%	16.95	48.67	
2005	0.3744	12.0%	4.49%	17.80	48.65	
2006	0.3093	10.2%	3.15%	18.28	48.89	
2007	0.3476	10.4%	<u>3.62%</u>	<u>19.83</u>	<u>49.45</u>	
AVERAGE GROWTH			4.30%	3.50%		0.42%
2008	0.3906	11.6%	4.53%		49.61	0.32%
2009	0.4000	11.5%	4.60%		49.65	0.20%
2011-2013	0.3882	10.5%	4.08%	5.00%	50.00	0.22%

<u>COMPANY</u>	<u>INTERNAL GROWTH</u>			<u>EXTERNAL GROWTH</u>		
<u>CPK</u>	<u>RETENTION RATIO</u>	<u>EQUITY RETURN</u>	<u>"g"</u>	<u>BOOK VALUE (\$/SHARE)</u>	<u>SHARES OUTST (MILLIONS)</u>	<u>SHARE GROWTH</u>
2003	0.3750	13.8%	5.18%	12.89	5.66	
2004	0.3171	12.2%	3.87%	13.60	5.73	
2005	0.3559	12.3%	4.38%	14.41	5.88	
2006	0.3256	09.5%	3.09%	16.62	6.69	
2007	0.3918	11.1%	<u>4.35%</u>	<u>17.64</u>	<u>6.78</u>	
AVERAGE GROWTH			4.17%	6.00%		4.62%
2008	0.3939	n/a	n/a		n/a	n/a
2009	n/a	n/a	n/a		n/a	n/a
2011-2013	n/a	n/a	n/a	n/a	n/a	n/a

Data from Value Line Ratings & Reports, December 12, 2008.

KENTUCKY-AMERICAN WATER COMPANY

**DCF GROWTH RATES
WATER UTILITIES**

<u>COMPANY</u>	<u>br</u>	+	<u>sv=g*(1-(1/(M/B)))</u>	=	<u>g</u>
AWR	5.50%	+	3.50% (1 - (1/ 1.72)))	=	6.96%
AWK	6.00%	+	2.00% (1 - (1/ 0.72)))	=	5.21%
WTR	5.75%	+	1.00% (1 - (1/ 2.60)))	=	6.37%
CWT	5.50%	+	2.50% (1 - (1/ 2.26)))	=	6.90%
CTWS	5.00%	+	1.00% (1 - (1/ 1.94)))	=	5.48%
MSEX	5.00%	+	3.00% (1 - (1/ 1.67)))	=	6.20%
PNNW	4.00%	+	5.00% (1 - (1/ 1.81)))	=	6.25%
SJW	7.00%	+	0.00% (1 - (1/ 2.12)))	=	7.00%
YORW	5.00%	+	2.00% (1 - (1/ 1.99)))	=	5.99%

Average Market-to-Book Ratio = 1.87

AWR = American States Water
AWK = American Water Works
WTR = Aqua America
CWT = California Water
CTWS = Connecticut Water Services
MSEX = Middlesex Water
PNNW = Pennichuck Water
SJW = SJW Corp.
YORW = York Water Company

g*= expected growth in number of shares outstanding

KENTUCKY-AMERICAN WATER COMPANY

GROWTH RATE COMPARISON
WATER UTILITIES

COMPANY	DCF	Value Line Projected			IBES	Value Line Historic			IBES & VL	5-yr Compound Hist.		
	Growth	EPS	DPS	BVPS	EPS	EPS	DPS	BVPS	AVGS.	EPS	DPS	BVPS
AWR	6.96%	11.00%	5.00%	2.50%	4.00%	1.50%	1.50%	4.50%	4.29%	13.51%	2.59%	5.66%
AWK	5.21%	n/a	n/a	n/a	9.88%	n/a	n/a	n/a	9.88%	n/a	n/a	n/a
WTR	6.37%	6.00%	5.50%	5.00%	7.00%	7.00%	7.50%	10.50%	6.93%	6.20%	7.82%	7.31%
CWT	6.90%	11.00%	2.00%	3.00%	8.00%	4.50%	0.50%	6.00%	5.00%	10.46%	0.88%	5.53%
CTWS	5.48%	n/a	n/a	n/a	n/a	-4.00%	1.50%	4.50%	0.67%	-2.25%	5.79%	3.39%
MSEX	6.20%	n/a	n/a	n/a	8.00%	5.00%	2.00%	6.00%	5.25%	9.26%	1.50%	7.24%
PNNW	6.25%	n/a	n/a	n/a	n/a	-20.50%	3.00%	2.50%	-5.00%	6.51%	2.13%	3.37%
SJW	7.00%	n/a	n/a	n/a	n/a	9.50%	5.50%	8.00%	7.67%	4.97%	5.63%	9.09%
YORW	<u>5.99%</u>	<u>n/a</u>	<u>n/a</u>	<u>n/a</u>	<u>8.00%</u>	<u>6.50%</u>	<u>n/a</u>	<u>7.50%</u>	<u>7.33%</u>	<u>4.94%</u>	<u>6.72%</u>	<u>8.02%</u>
		9.33%	4.17%	3.50%		1.19%	3.07%	6.19%		6.70%	4.13%	6.20%
AVERAGES	6.26%		5.67%		7.48%		3.48%		4.67%		5.68%	

Zack's growth rates: AWR-12%, AWK-8.3%, WTR-8%, CWT-8.4%, CTWS-n/a, MSEX-8%, PNNW-n/a, SJW-13.5%, YORW-8%,
Zack's average earnings growth = 9.3%.

KENTUCKY-AMERICAN WATER COMPANY

**DCF GROWTH RATES
GAS DISTRIBUTION UTILITIES**

<u>COMPANY</u>	<u>br</u>	+	<u>sv=g*(1-(1/(M/B)))</u>	=	<u>g</u>
ATG	4.50%	+	1.00% (1 - (1/ 1.34)))	=	4.75%
GAS	4.75%	+	0.00% (1 - (1/ 1.66)))	=	4.75%
NI	2.00%	+	0.50% (1 - (1/ 0.59)))	=	1.65%
NWN	5.25%	+	0.75% (1 - (1/ 1.84)))	=	5.59%
PNY	5.50%	+	0.50% (1 - (1/ 2.36)))	=	5.79%
SJI	6.50%	+	2.00% (1 - (1/ 2.14)))	=	7.57%
SWX	5.25%	+	3.50% (1 - (1/ 1.05)))	=	5.43%
WGL	4.50%	+	0.25% (1 - (1/ 1.51)))	=	4.58%
CPK	5.00%	+	2.50% (1 - (1/ 1.73)))	=	6.06%

Average Market-to-Book Ratio = 1.58

ATG = AGL Resources
GAS = NICOR
NI = NiSource
NWN = Northwest Natrual Gas
PNY = Piedmont Natural Gas
SJI = South Jersey Industries
SWX = Southwest Gas
WGL = WGL Holdings
CPK = Chesapeake Utilities Corp.

g*= expected growth in number of shares outstanding

KENTUCKY-AMERICAN WATER COMPANY

**GROWTH RATE COMPARISON
GAS DISTRIBUTION UTILITIES**

COMPANY	DCF Growth	Value Line Projected			IBES EPS	Value Line Historic			IBES & VL AVGS.	5-yr Compound Hist.		
		EPS	DPS	BVPS		EPS	DPS	BVPS		EPS	DPS	BVPS
ATG	4.75%	3.00%	4.00%	2.00%	4.25%	15.00%	4.00%	10.50%	6.11%	5.36%	8.64%	9.04%
GAS	4.75%	4.00%	0.00%	4.50%	2.85%	-1.50%	1.00%	4.00%	2.12%	1.29%	0.00%	3.91%
NI	1.65%	5.00%	1.50%	2.00%	1.60%	-5.50%	-2.50%	2.00%	0.59%	-4.70%	-3.51%	2.21%
NWN	5.59%	7.00%	5.50%	3.50%	4.75%	6.50%	2.00%	3.50%	4.68%	7.70%	3.66%	3.91%
PNY	5.79%	7.50%	4.00%	4.50%	7.13%	6.00%	4.50%	6.50%	5.73%	6.91%	4.67%	6.13%
SJI	7.57%	6.00%	5.50%	4.50%	7.50%	12.50%	4.50%	12.50%	7.57%	10.92%	7.31%	9.03%
SWX	5.43%	6.50%	4.00%	4.00%	6.00%	6.00%	0.00%	3.50%	4.29%	9.14%	1.88%	4.81%
WGL	4.58%	3.50%	2.50%	5.00%	4.00%	5.00%	1.50%	3.50%	3.57%	0.26%	2.10%	5.32%
CPK	6.06%	n/a	n/a	n/a	5.10%	8.00%	1.50%	6.00%	5.15%	2.38%	1.76%	8.16%
		5.31%	3.38%	3.75%		5.78%	1.83%	5.78%		4.36%	2.94%	5.84%
AVERAGES	5.13%		4.15%		4.80%		4.46%		4.42%		4.38%	

Zack's growth rates: ATG-4.0%, GAS-6.5%, NI-2.5%, NWN-6.8%, PNY-7.6%, SJI-8.0%, SWX-8.0%, WGL-7.5%, CPK-6.8%,
Zack's average earnings growth = 6.4%.

KENTUCKY-AMERICAN WATER COMPANY

**STOCK PRICE, DIVIDENDS, YIELDS
WATER UTILITIES**

<u>COMPANY</u>	<u>AVG. STOCK PRICE</u> <u>12/8/08-1/21/09</u> <u>(PER SHARE)</u>		<u>ANNUALIZED</u> <u>DIVIDEND</u> <u>(PER SHARE)</u>	<u>DIVIDEND</u> <u>YIELD</u>
AWR	\$31.65	*	\$1.07	3.38%
AWK	\$20.77		\$0.80	3.85%
WTR	\$19.79		\$0.54	2.73%
CWT	\$42.78	*	\$1.25	2.93%
CTWS	\$23.18		\$0.89	3.83%
MSEX	\$16.78		\$0.71	4.24%
PNNW	\$19.56		\$0.70	3.58%
SJW	\$27.40	*	\$0.69	2.51%
YORW	\$11.88		\$0.50	<u>4.24%</u>
			AVERAGE	3.48%

* Dividend increased by (1+g), derived on Schedule 5.

KENTUCKY-AMERICAN WATER COMPANY

**STOCK PRICE, DIVIDENDS, YIELDS
GAS DISTRIBUTION UTILITIES**

<u>COMPANY</u>	<u>AVG. STOCK PRICE</u> <u>12/8/08-1/27/09</u> (PER SHARE)		<u>ANNUALIZED</u> <u>DIVIDEND</u> (PER SHARE)	<u>DIVIDEND</u> <u>YIELD</u>
ATG	\$30.21	*	\$1.76	5.82%
GAS	\$34.41		\$1.86	5.41%
NI	\$10.99		\$0.92	8.37%
NWN	\$43.48		\$1.58	3.63%
PNY	\$29.68	*	\$1.10	3.71%
SJI	\$37.17		\$1.19	3.21%
SWX	\$24.58	*	\$0.95	3.86%
WGL	\$31.79	*	\$1.51	4.74%
CPK	\$30.60		\$1.22	<u>3.99%</u>
			AVERAGE	4.75%

* Dividend increased by (1+g), derived on Schedule 5.

KENTUCKY-AMERICAN WATER COMPANY

**DCF COST OF EQUITY CAPITAL
WATER UTILITIES**

<u>COMPANY</u>	DIVIDEND YIELD <u>Schedule 4</u>	GROWTH RATE <u>Schedule 3</u>	DCF COST OF <u>EQUITY CAPITAL</u>
AWR	3.38%	6.96%	10.35%
AWK	3.85%	5.21%	9.06%
WTR	2.73%	6.37%	9.09%
CWT	2.93%	6.90%	9.82%
CTWS	3.83%	5.48%	9.32%
MSEX	4.24%	6.20%	10.45%
PNNW	3.58%	6.25%	9.82%
SJW	2.51%	7.00%	9.51%
YORW	4.24%	5.99%	<u>10.24%</u>
		AVERAGE	9.74%
		STANDARD DEVIATION	0.53%

KENTUCKY-AMERICAN WATER COMPANY

**DCF COST OF EQUITY CAPITAL
GAS DISTRIBUTION UTILITIES**

<u>COMPANY</u>	DIVIDEND YIELD <u>Schedule 6</u>	GROWTH RATE <u>Schedule 5</u>	DCF COST OF <u>EQUITY CAPITAL</u>
ATG	5.82%	4.75%	10.58%
GAS	5.41%	4.75%	10.16%
NI	8.37%	1.65%	10.02%
NWN	3.63%	5.59%	9.23%
PNY	3.71%	5.79%	9.50%
SJI	3.21%	7.57%	10.77%
SWX	3.86%	5.43%	9.29%
WGL	4.74%	4.58%	9.32%
CPK	3.99%	6.06%	<u>10.05%</u>
		AVERAGE	9.88%
		STANDARD DEVIATION	0.57%

**KENTUCKY-AMERICAN WATER COMPANY
MULTI-STAGE DCF ANALYSIS**

Sample Companies With Earnings Projections	Projected Earnings Growth Rates		Average First Stage Growth Rate	CASH FLOWS										DCF Cost of Equity k = Internal Rate of Return
	Value Line	IBES		Zacks	Year 1 Dividend	Year 2 Dividend	Year 3 Dividend	Year 4 Dividend	Year 5 Dividend	Year 6-100 Div. Growth				
				Recent Price										
American States Water	11.00%	4.00%	12.00%	9.00%	\$31.65	\$1.07	\$1.17	\$1.27	\$1.39	\$1.51	4.20%	8.08%		
American Water Works	x	9.88%	8.30%	9.09%	\$20.77	\$0.80	\$0.87	\$0.95	\$1.04	\$1.13	4.20%	8.68%		
Aqua America	6.00%	7.00%	8.00%	7.00%	\$19.79	\$0.54	\$0.58	\$0.62	\$0.66	\$0.71	4.20%	7.00%		
California Water	11.00%	8.00%	8.40%	9.13%	\$42.78	\$1.25	\$1.36	\$1.49	\$1.62	\$1.77	4.20%	7.52%		
Middlesex Water	x	8.00%	8.00%	8.00%	\$16.78	\$0.71	\$0.77	\$0.83	\$0.89	\$0.97	4.20%	8.96%		
SJW Corp.	x	x	13.50%	13.50%	\$27.40	\$0.69	\$0.78	\$0.89	\$1.01	\$1.15	4.20%	7.51%		
York Water Company	x	8.00%	8.00%	8.00%	\$11.88	\$0.50	\$0.54	\$0.58	\$0.63	\$0.68	4.20%	8.93%		
AGL Resources	3.00%	4.25%	4.00%	3.75%	\$30.21	\$1.76	\$1.83	\$1.89	\$1.97	\$2.04	4.20%	9.91%		
NICOR	4.00%	2.85%	6.50%	4.45%	\$34.41	\$1.86	\$1.94	\$2.03	\$2.12	\$2.21	4.20%	9.62%		
NiSource	5.00%	1.60%	2.50%	3.03%	\$10.99	\$0.92	\$0.95	\$0.98	\$1.01	\$1.04	4.20%	12.26%		
Northwest Natural Gas	7.00%	4.75%	6.80%	6.18%	\$43.48	\$1.58	\$1.68	\$1.78	\$1.89	\$2.01	4.20%	7.98%		
Piedmont Natural Gas	7.50%	7.13%	7.60%	7.41%	\$29.68	\$1.10	\$1.18	\$1.27	\$1.36	\$1.46	4.20%	8.25%		
South Jersey Industries	6.00%	7.50%	8.00%	7.17%	\$37.17	\$1.19	\$1.28	\$1.37	\$1.46	\$1.57	4.20%	7.61%		
Southwest Gas	6.50%	6.00%	8.00%	6.83%	\$24.58	\$0.95	\$1.01	\$1.08	\$1.16	\$1.24	4.20%	8.35%		
WGL Holdings	3.50%	4.00%	7.50%	5.00%	\$31.79	\$1.51	\$1.59	\$1.66	\$1.75	\$1.84	4.20%	9.03%		
Chesapeake Utilities Corp.	x	5.10%	6.80%	5.95%	\$30.60	\$1.22	\$1.29	\$1.37	\$1.45	\$1.54	4.20%	8.35%		

**Average
Water
Gas**

**8.63%
8.10%
9.04%**

Earnings growth projections shown on Schedule 3.
Market price and 2009 dividend shown on Schedule 4.
GDP from <http://www.cbo.gov/budget/econproj.shtml>.

KENTUCKY-AMERICAN WATER COMPANY
CAPM COST OF EQUITY CAPITAL
WATER UTILITIES

$$k = rf + B (rm - rf)$$

T-BONDS

$$\begin{aligned} [rf]^* &= 3.00\% \\ [rm - rf]^\dagger &= 5.00\% \text{ (geometric mean)} \\ [rm - rf]^\ddagger &= 6.50\% \text{ (arithmetic mean)} \\ [rm - rf]^\ddagger &= 5.30\% \\ \text{average beta} &= 0.84 \end{aligned}$$

$$\begin{aligned} k &= 3.00\% + 0.87 (5.00\%/5.30\%/6.50\%) \\ k &= 3.00\% + 4.33\%/4.59\%/5.63\% \\ k &= \mathbf{7.19\%/7.44\%/8.44\%} \end{aligned}$$

*Current T-Bill & T-Bond yields, six-week average yield from Value Line Selection & Opinion (12/19/08-1/23/09)
†Geometric and arithmetic market risk premiums from Morningstar 2007 SBBI Yearbook, p. 28.
‡‡ Mid-point long- and short-term market risk premium from Brealey, R., Meyers, S., Allen, F., Principles of Corporate Finance, 8th Edition, McGraw-Hill, Irwin, Boston MA, 2006, pp. 149, 154, 222.

KENTUCKY-AMERICAN WATER COMPANY

**CAPM COST OF EQUITY CAPITAL
GAS DISTRIBUTION UTILITIES**

$$k = rf + B (rm - rf)$$

T-BONDS

$$\begin{aligned} [rf]^* &= 3.00\% \\ [rm - rf]^\dagger &= 5.00\% \text{ (geometric mean)} \\ [rm - rf]^\ddagger &= 6.50\% \text{ (arithmetic mean)} \\ [rm - rf]^{\dagger\dagger} &= 5.30\% \\ \text{average beta} &= 0.72 \end{aligned}$$

$$\begin{aligned} k &= 2.81\% + 0.72 (5.00\%/5.30\%/6.50\%) \\ k &= 2.81\% + 3.58\%/3.80\%/7.47\% \\ k &= \mathbf{6.58\%/6.68\%/7.66\%} \end{aligned}$$

*Current T-Bill & T-Bond yields, six-week average yield from Value Line Selection & Opinion (12/19/08-1/23/09)

†Geometric and arithmetic market risk premiums from Morningstar 2007 SBBI Yearbook, p. 28.

†† Mid-point long- and short-term market risk premium from Brealey, R., Meyers, S., Allen, F., Principles of Corporate Finance, 8th Edition, McGraw-Hill, Irwin, Boston MA, 2006, pp. 149, 154, 222.

**KENTUCKY-AMERICAL WATER
PROOF**

If market price exceeds book value,
the market-to-book ratio is greater than 1.0,
and the earnings-price ratio understates the cost of capital.

MP = market price
BV = book value
i = cost of equity capital
r = earned return
E = earnings

1. At $MP = BV$, $i = r = \frac{E}{MP}$.
2. $E = rBV$.
3. Then, $\frac{E}{MP} = \frac{rBV}{MP}$.
4. When $BV < MP$, i.e., $\frac{BV}{MP} < 1$, then,
 - a. $\frac{E}{MP} < r$, since $\frac{E}{MP} = \frac{rBV}{MP} < r$, because $\frac{BV}{MP} < 1$;
 - b. $i < r$, since at $\frac{BV}{MP} = 1$, $i = \frac{E}{MP} = \frac{rBV}{MP}$, but if $\frac{BV}{MP} < 1$, then $i < r$; and
 - c. $\frac{E}{MP} < i$, since at $\frac{BV}{MP} = 1$, $i = \frac{E}{MP} = \frac{rBV}{MP}$, but if $\frac{BV}{MP} < 1$, then $\frac{E}{MP} < i$, because,
 - 1) $\frac{BV}{MP} < 1$, through MP increasing, and, if so, $\frac{E}{MP}$ decreases, therefore, $\frac{E}{MP} < i$, or
 - 2) $\frac{BV}{MP} < 1$, through BV decreasing, and, if so, given $E = rBV$, $\frac{E}{MP}$ decreases, therefore, $\frac{E}{MP} < i$.
5. Ergo, $\frac{E}{MP} < i < r$, the earnings-price ratio is lower than the cost of capital, which is lower than the earned return.

KENTUCKY-AMERICAN WATER COMPANY
MODIFIED EARNINGS-PRICE RATIO ANALYSIS
WATER UTILITIES

<u>COMPANY</u>	<u>IBES</u> <u>2009 Earnings</u> (Per Share) [1]	<u>Market</u> <u>Price</u> (Per share) [2]	<u>Earnings-Price</u> <u>Ratio</u> [3]=[1]/[2]	<u>Current</u> <u>R.O.E.</u> 2009 [4]	<u>Projected</u> <u>R.O.E.</u> 2011-2013 [5]
AWR	\$1.75	\$31.65	5.53%	9.00%	12.50%
AWK	\$1.34	\$20.77	6.45%	4.50%	5.50%
WTR	\$0.84	\$19.79	4.24%	11.00%	11.00%
CWT	\$2.15	\$42.78	5.03%	11.00%	12.50%
CTWS	\$1.23	\$23.18	5.31%	n/a	n/a
MSEX	\$0.96	\$16.78	5.72%	n/a	n/a
PNNW	\$1.10	\$19.56	5.62%	n/a	n/a
SJW	\$1.38	\$27.40	5.04%	n/a	n/a
YORW	\$0.65	\$11.88	<u>5.47%</u>	<u>n/a</u>	<u>n/a</u>
		AVERAGE	5.38%	8.88%	
		CURRENT M.E.P.R.		7.13%	
		AVERAGE	5.38%		10.38%
		PROJECTED M.E.P.R.		7.88%	

KENTUCKY-AMERICAN WATER COMPANY
MODIFIED EARNINGS-PRICE RATIO ANALYSIS
GAS DISTRIBUTION UTILITIES

<u>COMPANY</u>	<u>IBES</u> <u>2009 Earnings</u> <u>(Per Share)</u> [1]	<u>Market</u> <u>Price</u> <u>(Per share)</u> [2]	<u>Earnings-Price</u> <u>Ratio</u> [3]=[1]/[2]	<u>Current</u> <u>R.O.E.</u> 2009 [4]	<u>Projected</u> <u>R.O.E.</u> 2011-2013 [5]
ATG	\$2.80	\$30.21	9.27%	12.50%	13.50%
GAS	\$2.52	\$34.41	7.32%	11.50%	13.50%
NI	\$1.20	\$10.99	10.92%	6.50%	7.50%
NWN	\$2.80	\$43.48	6.44%	11.50%	11.00%
PNY	\$1.72	\$29.68	5.80%	12.50%	13.50%
SJI	\$2.40	\$37.17	6.46%	14.50%	16.00%
SWX	\$2.18	\$24.58	8.87%	8.00%	9.50%
WGL	\$2.38	\$31.79	7.49%	11.50%	10.50%
CPK	\$2.14	\$30.60	6.99%	<u>n/a</u>	<u>n/a</u>
		AVERAGE	7.73%	11.06%	
		CURRENT M.E.P.R.		9.40%	
		AVERAGE	7.73%		11.88%
		PROJECTED M.E.P.R.		9.80%	

KENTUCKY-AMERICAN WATER COMPANY

**MARKET-TO-BOOK RATIO ANALYSIS
WATER UTILITIES**

$$k = R.O.E.(1-b)/(M/B) + g$$

[2007/2008]

<u>COMPANY</u>							<u>MARKET-TO-BOOK COST OF EQUITY</u>
AWR	k= 8.0%	(1-	0.3197	)/	1.72	+ 6.96%	= 10.13%
AWK	k= 4.0%	(1-	0.6522	)/	0.72	+ 5.21%	= 7.15%
WTR	k= 10.0%	(1-	0.3377	)/	2.60	+ 6.37%	= 8.91%
CWT	k= 10.0%	(1-	0.4121	)/	2.26	+ 6.90%	= 9.49%
CTWS	k= 8.7%	(1-	0.1714	)/	1.94	+ 5.48%	= 9.20%
MSEX	k= 8.6%	(1-	0.2069	)/	1.67	+ 6.20%	= 10.29%
PNNW	k= 7.9%	(1-	0.2143	)/	1.81	+ 6.25%	= 9.67%
SJW	k= 8.2%	(1-	0.4135	)/	2.12	+ 7.00%	= 9.26%
YORW	k= 9.5%	(1-	0.1579	)/	1.99	+ 5.99%	= <u>10.02%</u>
							AVERAGE 9.35%
							STANDARD DEVIATION 0.94%

Note: Equity returns and retention ratios based on most recent year Value Line data.

KENTUCKY-AMERICAN WATER COMPANY

**MARKET-TO-BOOK RATIO ANALYSIS
WATER UTILITIES**

$$k = R.O.E.(1-b)/(M/B) + g$$

[2011-2013]

COMPANY

MARKET-TO-BOOK
COST OF EQUITY

AWR	k= 12.5%	(1- 0.5040)/	1.72	+	6.96%	=	10.57%
AWK	k= 5.5%	(1- 0.3655)/	0.72	+	5.21%	=	10.08%
WTR	k= 11.0%	(1- 0.4000)/	2.60	+	6.37%	=	8.90%
CWT	k= 12.5%	(1- 0.5094)/	2.26	+	6.90%	=	9.60%
CTWS	k= n/a	(1- n/a)/	1.94	+	5.48%	=	n/a
MSEX	k= n/a	(1- n/a)/	1.67	+	6.20%	=	n/a
PNNW	k= n/a	(1- n/a)/	1.81	+	6.25%	=	n/a
SJW	k= n/a	(1- n/a)/	2.12	+	7.00%	=	n/a
YORW	k= n/a	(1- n/a)/	1.99	+	5.99%	=	<u>n/a</u>

AVERAGE **9.79%**

STANDARD DEVIATION **0.71%**

Note: Equity returns and retention ratios based on Value Line three- to five-year projections.

KENTUCKY-AMERICAN WATER COMPANY

**MARKET-TO-BOOK RATIO ANALYSIS
GAS DISTRIBUTION UTILITIES**

$$k = R.O.E.(1-b)/(M/B) + g$$

[2008]

<u>COMPANY</u>	$k = R.O.E.(1-b)/(M/B) + g$ [2008]						<u>MARKET-TO-BOOK COST OF EQUITY</u>			
ATG	k=	12.0%	(1-	0.3778	)/	1.34	+	4.75%	=	10.34%
GAS	k=	11.5%	(1-	0.1733	)/	1.66	+	4.75%	=	10.48%
NI	k=	6.5%	(1-	0.2640	)/	0.59	+	1.65%	=	9.81%
NWN	k=	11.5%	(1-	0.4039	)/	1.84	+	5.59%	=	9.32%
PNY	k=	12.5%	(1-	0.3355	)/	2.36	+	5.79%	=	9.31%
SJI	k=	13.5%	(1-	0.5174	)/	2.14	+	7.57%	=	10.61%
SWX	k=	7.5%	(1-	0.4857	)/	1.05	+	5.43%	=	9.09%
WGL	k=	11.6%	(1-	0.3906	)/	1.51	+	4.58%	=	9.27%
CPK	k=	11.1%	(1-	0.3939	)/	1.73	+	6.06%	=	<u>9.94%</u>
									AVERAGE	9.80%
									STANDARD DEVIATION	0.58%

Note: Equity returns and retention ratios based on Value Line current year projections.

KENTUCKY-AMERICAN WATER COMPANY

**MARKET-TO-BOOK RATIO ANALYSIS
 GAS DISTRIBUTION UTILITIES**

$$k = R.O.E.(1-b)/(M/B) + g$$

[2011-2013]

<u>COMPANY</u>						<u>MARKET-TO-BOOK COST OF EQUITY</u>
ATG	k= 13.5%	(1- 0.4159)/	1.34	+ 4.75%	=	10.65%
GAS	k= 13.5%	(1- 0.4609)/	1.66	+ 4.75%	=	9.14%
NI	k= 7.5%	(1- 0.3867)/	0.59	+ 1.65%	=	9.50%
NWN	k= 11.0%	(1- 0.4388)/	1.84	+ 5.59%	=	8.95%
PNY	k= 13.5%	(1- 0.4195)/	2.36	+ 5.79%	=	9.12%
SJI	k= 16.0%	(1- 0.5667)/	2.14	+ 7.57%	=	10.80%
SWX	k= 9.5%	(1- 0.5760)/	1.05	+ 5.43%	=	9.25%
WGL	k= 10.5%	(1- 0.3882)/	1.51	+ 4.58%	=	8.84%
CPK	k= n/a	(1- n/a)/	1.73	+ 6.06%	=	<u>n.a</u>
					AVERAGE	9.53%
					STANDARD DEVIATION	0.76%

Note: Equity returns and retention ratios based on Value Line three- to five-year projections.

**KENTUCKY-AMERICAN WATER COMPANY
OVERALL COST OF CAPITAL**

<u>Type of Capital</u>	<u>PERCENT</u> [1]	<u>COST RATE</u> [2]	<u>WT. AVG.</u> <u>COST RATE</u> [3]=[1]x[2]
1) Common Equity	42.309%	9.500%	4.019%
2) Preferred Stock	1.946%	7.750%	0.151%
3) Long-term Debt	45.408%	6.870%	3.120%
4) Short-term Debt	<u>10.377%</u>	2.500%	<u>0.259%</u>
Totals	100.000%		7.549%

PRE-TAX INTEREST COVERAGE* = 3.06x

*Assuming the Company experiences, prospectively, a combined income tax rate of 40%, the pre-tax overall return would be 10.329% [$7.549\% - (3.120\% + 0.259\%) = 4.170\%$ / $(1 - 40\%) = 6.950\% + (3.120\% + 0.259\%)$]. That pre-tax overall return (10.329%), divided by the weighted cost of debt (3.120%+0.259%), indicates a pre-tax interest coverage level of 3.06 times.