



S T O L L · K E E N O N · O G D E N
P L L C

300 West Vine Street
Suite 2100
Lexington, KY 40507-1801
(859) 231-3000
Fax: (859) 246-3672
www.skofirm.com

LINDSEY W. INGRAM III
Direct Dial: 859-231-3982
L.Ingram@skofirm.com

December 19, 2006

RECEIVED

DEC 19 2006

PUBLIC SERVICE
COMMISSION

VIA HAND DELIVERY

Beth A. O'Donnell
Executive Director
Kentucky Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

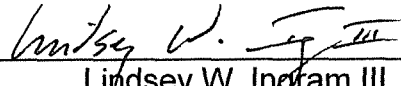
Re: *In the Matter of: Application of Kentucky-American Water Company for Continued Participation with American Water Capital Corp., Case No. 2006-00418*

Dear Ms. O'Donnell:

Enclosed please find for filing Kentucky American Water's Responses to the Commissions Staff's First Information Request and the Attorney General's Request for Information in the above-referenced case.

Very truly yours,

STOLL KEENON OGDEN PLLC

By 
Lindsey W. Ingram III

Enclosures

cc: David Edward Spenard
LEX 010311/124828/3474511.1

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

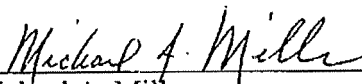
IN THE MATTER OF:)
)
APPLICATION OF KENTUCKY-AMERICAN) CASE NO. 2006-00418
WATER COMPANY FOR CONTINUED)
PARTICIPATION WITH AMERICAN WATER)
CAPITAL CORP.)

DEC 19 2006
PUBLIC SERVICE
COMMISSION

CERTIFICATION OF RESPONSES TO INFORMATION REQUESTS

This is to certify that I have supervised the preparation of Kentucky-American Water Company's December 19, 2006 Responses to the Attorney General's Request for Information and the Commission Staff's First Information Request and that the Responses are true and accurate to the best of my knowledge, information and belief formed after reasonable inquiry.

Date: 12-15-06



Michael A. Miller
Treasurer and Comptroller
Kentucky-American Water Company

LEX 010311/124828/3473857.1

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

DEC 19 2006

PUBLIC SERVICE
COMMISSION

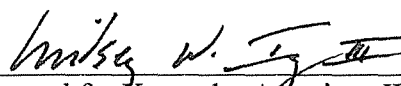
IN THE MATTER OF:)
)
APPLICATION OF KENTUCKY-AMERICAN) CASE NO. 2006-00418
WATER COMPANY FOR CONTINUED)
PARTICIPATION WITH AMERICAN WATER)
CAPITAL CORP.)

CERTIFICATE OF FILING AND SERVICE

This is to certify that, in accordance with the Commission's November 20, 2006 Order, six copies of Kentucky American Water's Responses to the Commission Staff's First Information Request and the Attorney General's Request for Information have been filed with the Commission and a copy has been served, via U.S. Mail, upon the following:

David Edward Spenard
Assistant Attorney General
1024 Capital Center Drive, Suite 200
Frankfort, Kentucky 40601-8204

on this 19th day of December, 2006.



Counsel for Kentucky American Water

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF KENTUCKY-AMERICAN)
WATER COMPANY FOR CONTINUED)
PARTICIPATION WITH AMERICAN WATER)
CAPITAL CORP.) CASE NO. 2006-00418

RESPONSES TO COMMISSION STAFF'S FIRST
INFORMATION REQUEST DATED DECEMBER 8, 2006

Item No. 1

Witness: **Michael A. Miller**

1. The Commission authorized KAWC to enter into the Financial Services Agreement with American Water Capital Corporation ("AWCC"), to participate in the borrowing program, and to issue \$41,500,000 of securities prior to December 31, 2005.¹ KAWC states that participation in the borrowing program of AWWC allows it to incur less cost than would otherwise be available.²
 - a. For each debt issuance that comprises the authorized \$41,500,000 of securities provide a schedule containing the following information:
 - (1) The date of issuance.
 - (2) The total amount of the issuance.
 - (3) The actual annual interest rate.
 - (4) The estimated savings KAWC realized from participating in the AWWC borrowing program.
 - b. Provide all workpapers, calculations, and assumptions KAWC used to estimate the savings in 1(a)(4).

RESPONSE:

The information requested in sub-parts a. (1-4) and b. are provided in the attached worksheet.

¹ Case No. 2000-00189, The Application of Kentucky-American Water Company for Approval of Participation in Borrowing Program (Ky. PSC July 21, 2000).

² Application at 6.

KENTUCKY-AMERICAN WATER COMPANY
 CONSTS/SAVINGS INFORMATION THRU US OF AWCC
 SAVINGS ON THE COST OF LONG-TERM DEBT

RESPONSE TO STAFF DATA REQUEST 1.B.

Debt Security	Date Issued	Interest Rate	Amount Issued	Term of the Loan	Basis Point Savings	Annual Interest Savings	Avoided Issuance Costs	Avoided Annual Issuance Costs	Net Annual Savings	Cumulative Savings	Note
2001	3/29/2001	6.87%	\$15,500,000	10 Years	250	\$200,000	(\$508,296)	(\$35,741)	\$164,259	\$164,259	Note 1
Total Savings - 2001											
2002	06/12/2002	5.65%	\$24,000,000	5 Years	20	\$48,000	\$177,000	\$35,400	\$83,400	\$83,400	Note 2
Total Savings - 2002											
2003						\$248,000		-\$341	\$247,659	\$659,577	
Total Savings - 2003											
2004	3/1/2004	4.75%	\$14,000,000	10 Years	20	\$28,000	\$105,000	\$10,500	\$38,500	\$38,500	Note 3
Total Savings - 2004											
2005						\$276,000		\$10,159	\$286,159	\$1,231,895	
Total Savings - 2005											
2006						\$276,000		\$10,159	\$286,159	\$1,518,054	
Total Savings - 2006											

Note 1: The 2001 Note to AWCC was issued prior to the change of control of AWW in the RWIE acquisition. The Note was issued in the U.S. public debt market utilizing the AWCC credit rating of A-. This issue was utilized to replace the early call of the \$8.0 million, 9.37% private placement Note due in 2019. The new Note matures on March 29, 2011 and is not impacted by the current proposed Change of Control Proceeding.

Note 2: The \$24.0 million Note matures in the normal course of business on June 12, 2007 and is not expected to be impacted by the IPO or an early call.

Note 3: The \$14.0 million Note is expected to be called early per the provisions of the Notes between RWE/AWCC and AWCC/ KAWC.

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

APPLICATION OF KENTUCKY-AMERICAN)
WATER COMPANY FOR CONTINUED)
PARTICIPATION WITH AMERICAN WATER)
CAPITAL CORP.) CASE NO. 2006-00418

RESPONSES TO COMMISSION STAFF'S FIRST
INFORMATION REQUEST DATED DECEMBER 8, 2006

Item No. 2

Witness: **Michael A. Miller**

2. KAWC states that participation in the “new short-term borrowing program” will result in approximately \$158,000 in annual savings when compared to the current arrangement. Provide all workpapers, calculations and assumptions that KAWC used to estimate the \$158,000 in annual savings.

RESPONSE:

See attached.

Market funded cost @ 9-5-06	New Facility		RWE		Variance
	A2/P2 CP	LIBOR			
30 days	5.33%	5.33%		0.00%	
60 days	5.33%	5.36%		-0.03%	
90 days	5.33%	5.39%		-0.06%	
Expected average drawdown		\$450,000,000			
90 day annual interest cost	\$23,985,000	24,255,000			\$ (270,000.00)

Assumptions:

Will use facility to back stop an A-2/P-2 CP program. New facility cost based upon Bloomberg market data at 9-05-06

Implementation and maintenance costs	RWE	Market
Upfront Cost difference		
Fee to market	\$0	\$110,000
Legal cost	\$0	\$300,000
Net	\$0	\$410,000
Amortization of upfront costs over facility life	\$0	\$82,000
Issuing and Paying Agent fees	\$0	\$10,000
Credit facility Admin Fee	\$0	\$20,000
Total Cost per year	\$0	\$112,000

Estimated total cost differential (upfront and ongoing costs) \$ (158,000.00)

Assumed balance for fee calculations (to eliminate effect of larger size)

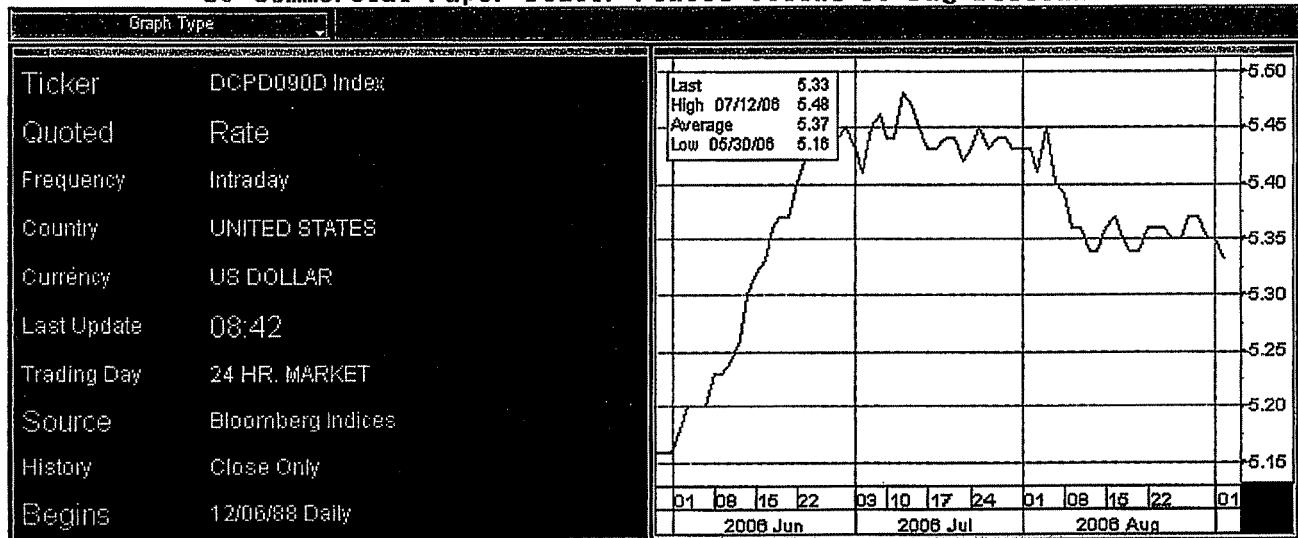
\$ 550,000,000

DCPD090D ↓ **5.33** - .02

Index **DES**

At 08:42 Op 5.33 Hi 5.33 Lo 5.33

US Commercial Paper Dealer Placed Second 90 Day Discount



The index is a composite of offered levels for A/P2/F2 rated US CP Programs. The index includes 3(a)3 & 4(2) CP Programs issued by US firms, excluding all programs which are asset-backed or LOC backed. The rates are received from broker/dealers and updated daily each morning. The rates are quoted on a discount (ACT/360) basis. To view the underlying yield curve, type MMCV <go>.

Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.
H214-430-0 05-Sep-06 9:28:33

Bloomberg
BLOOMBERG L.P.