

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

DEC 19 2006

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

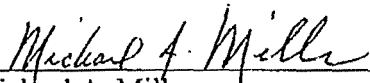
PUBLIC SERVICE
COMMISSION

CASE NO. 2006-00418

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

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

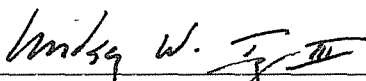
IN THE MATTER OF:)
)
APPLICATION OF KENTUCKY-AMERICAN) CASE NO. 2006-00418
WATER COMPANY FOR CONTINUED)
PARTICIPATION WITH AMERICAN WATER)
CAPITAL CORP.)

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 ATTORNEY GENERAL'S REQUEST FOR
INFORMATION DATED DECEMBER 5, 2006

Item No. AG-1-1

Witness: **Michael A. Miller**

AG-1-1 RE: Numbered Paragraph 10. The Application indicates, in part, that "RWE has expressed its intention, upon securing the regulatory approvals for the sale of the common stock of American Water, to terminate its support to American Water Capital Corp. and call its notes which support the short-term debt, and both the 4.750% series and the 5.650% series long-term indebtedness of Kentucky American Water." With regard to this paragraph, please answer the following.

- a. Please explain how the notes it plans to call support both the 4.750% series and the 5.650% series long-term indebtedness of Kentucky American Water Company.
- b. Is there any legal requirement that mandates or otherwise obligates the call of these notes? If the answer is yes, then please identify and explain the requirement.
- c. If there is no legal requirement that mandates or otherwise obligates the call of these notes such that the decision is a matter of discretion, then please provide (i) the factors or reasons supporting the decision to take such an action and (ii) the identity of who made the decision.
- d. Please identify the benefits to Kentucky American Water Company that result from calling these notes.
- e. Please identify the projected interest rate for both the 4.750% and the 5.650% series post-call (the anticipated interest rate for the refinancing).
- f. For a scenario in which RWE does not secure regulatory approval for the sale of the common stock of American Water, does RWE plan to terminate its support of American Water Capital Corp.? A response stating that Kentucky American

Water Company is certain or otherwise expects that RWE will obtain all necessary regulatory approvals will be deemed inadequate.

- g. For the 5.650% series in the amount of \$24,000,000 due June 12, 2007, explain what happens if the Commission approves this Application but RWE has not secured regulatory approval for the sale of the common stock of American Water by June 12, 2007. A response stating that Kentucky American Water Company is certain or otherwise expects that RWE will obtain all necessary regulatory approvals before June 12, 2007, will be deemed inadequate.

RESPONSE:

- a. Attached to this response please find the \$24.0 million, 5.65% Note and the \$14.0 million, 4.75% Note between KAWC and AWCC. These Notes are identified as Attachments 2 and 4, respectively. Also attached are the corresponding Notes between AWCC and RWE which were issued to obtain the funds provided to KAWC. Those notes are identified as Attachments 1 and 3, respectively. The applicable provisions of the Notes are highlighted for ease of reference.

The call provisions of the Notes reside in the Notes between AWCC and RWE, and the terms of the Notes between KAWC and AWCC simply indicate the payment terms of those Notes are the same as the Notes of the Borrower (AWCC in this instance).

The funds for the \$24.0 million, 5.65% Note issued by KAWC to AWCC were obtained from RWE in a \$130.0 million Note dated September 30, 2002 as shown in Attachment 1. In the last sentence of the first paragraph, the language regarding the call is highlighted. In Attachment 2 (the \$24.0 million Note issued by KAWC), the information is highlighted in the first paragraph regarding the terms of repayment of the loan.

The funds for the \$14.0 million, 4.75% Note issued by KAWC to AWCC were obtained from RWE in a \$113.0 million Note dated March 1, 2004 as shown in Attachment 3. Sub-paragraph 5 contains the call provision and is highlighted. In Attachment 4 (the \$14.0 million Note issued by KAWC) the information is highlighted in the first paragraph regarding the terms of repayment of the loan.

- b. Yes, for the \$14.0 million, 4.75% Note. Please see the response to part a. above for the Notes and call provisions. Please note that the \$24.0 million, 5.65% Note issued by KAWC matures in the normal course of business on June 12, 2007 and is not likely to be called prior to that time.
- c. See response to part b. above.
- d. The call of bonds can not be stated in the terms of benefits. The bonds will mature or be called according the terms of the Notes supporting those loans. The

loans will be refinanced at the market determined interest rates at the time of issuance with the benefits of AWCC identified in the Application, as amended, flowing to KAWC. Please see the response to the Commission Staff's First Information Request, Item 1 for a discussion of the benefits of prior Notes issued to AWCC by KAWC. Please Note the benefits shown in that response are currently embedded in the rates of KAWC and have and will continue to be enjoyed by the customers of KAWC until such time as the Commission approves revised tariffs for KAWC.

- e. The \$24.0 million Note of KAWC does not mature until June 12, 2007 and it is not expected to be called before that time. The interest rates for the refinancing of the \$24.0 million Note and the \$14.0 million Note will not be known until they are refinanced.

Recently, AWCC received bids for \$900 million of long-term debt to be issued in the U.S. private placement market (none for KAWC). Those bids contained several series of maturity, including 7-year, 10-year, 12-year and 15-year maturities. The interest rates were 5.39%, 5.52%, 5.62% and 5.77%, respectively. Based on the Value Line Investment Survey dated November 24, 2006, the interest rates for 10-year A rated utility bonds could be expected to have an interest rate of between 5.4% - 5.6% during the third or fourth quarters of 2006.

- f. The terms of the \$130 million, 5.65% Note between AWCC and RWE (attachment 1 to AG-1-1-a. above) indicate the Note is payable on demand. This Note matures in the normal course of business on June 12, 2007 and is not likely to be called prior to the IPO or in the absence of the IPO on demand prior to maturity. The terms of the \$113 million Note between AWCC and RWE (attachment 3 to AG-1-1-a. above) indicate that the Note can be redeemed early at the mutual consent of both parties and redemption is mandatory if there is a change in the shareholder structure to the Borrower (AWCC). A final decision as to the redemption of this bond prior to maturity absent approval of the Proposed Transaction requested in case number 2006-00197 has not been made at this time.
- g. It will be refinanced in the normal course of business on June 12, 2007.

AMERICAN WATER CAPITAL CORP.

5.65% SENIOR NOTE DUE JUNE 12, 2007

No. 2
\$130,000,000

September 30, 2002

For Value Received, the undersigned, American Water Capital Corp. (herein called the "Company"), a corporation organized and existing under the laws of the State of Delaware, hereby promises to pay to RWE Aktiengesellschaft or registered assigns, the principal sum of One Hundred and Thirty Million Dollars on June 12, 2007 with interest (computed on the basis of a 360-day year of twelve 30-day months) (a) on the unpaid balance thereof at the rate of 5.65% per annum from the date hereof, payable annually, on the 12th day of June of each year, commencing with June 12, 2003, until the principal hereof shall have become due and payable, and (b) to the extent permitted by law, on any overdue payment (including any overdue prepayment) of principal, any overdue payment of interest and any overdue payment of any Make-Whole Amount (as defined in the Note Purchase Agreement referred to below), payable annually as aforesaid, (or, at the option of the registered holder hereof, on demand), at the Default Rate.

Payments of principal of, interest on and any Make-Whole Amount with respect to this Note are to be made in lawful money of the United States of America at the principal office of PNC Bank, National Association, in New York, New York or at such other place as the Company shall have designated by written notice to the holder of this Note as provided in the Note Agreement referred to below.

This Note is one of the Senior Notes (herein called the "Notes") issued pursuant to the Note Purchase Agreement, dated as of June 12, 2002 (as from time to time amended, the "Note Purchase Agreement"), among American Water Capital Corp., American Water Works Company, Inc. and the Purchaser named therein and is entitled to the benefits thereof. Each holder of this Note will be deemed, by its acceptance hereof, (i) to have agreed to the confidentiality provisions set forth in Section 20 of the Note Purchase Agreement and (ii) to have made the representation set forth in Section 6.1 of the Note Purchase Agreement.

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, (THE "ACT") OR REGISTERED OR QUALIFIED UNDER THE SECURITIES LAWS OF ANY STATE. THIS NOTE MAY NOT BE SOLD OR TRANSFERRED, IN THE ABSENCE OF SUCH REGISTRATION OR QUALIFICATION OR AN EXEMPTION THEREFROM UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

This Note is a registered Note and, as provided in the Note Purchase Agreement, upon surrender of this Note for registration of transfer, duly endorsed, or accompanied by a written instrument of transfer duly executed, by the registered holder hereof or such holder's attorney

duly authorized in writing, a new Note for a like principal amount will be issued to, and registered in the name of, the transferee. Prior to due presentment for registration of transfer, the Company may treat the person in whose name this Note is registered as the owner hereof for the purpose of receiving payment and for all other purposes, and the Company will not be affected by any notice to the contrary.

This Note is subject to optional prepayment, in whole or from time to time in part, at the times and on the terms specified in the Note Purchase Agreement, but not otherwise.

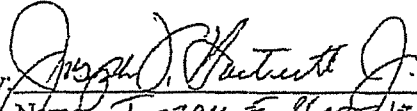
If an Event of Default, as defined in the Note Purchase Agreement, occurs and is continuing, the principal of this Note may be declared or otherwise become due and payable in the manner, in the amount (including any applicable Make-Whole Amount) and with the effect provided in the Note Purchase Agreement.

The Notes and the holders thereof are entitled to the benefits of a Support Agreement (as defined in the Note Purchase Agreement) between American Water Capital Corp. and American Water Works Company, Inc.

[the remainder of this page has been left blank intentionally]

This Note and said Note Purchase Agreement are governed by and construed in accordance with the laws of New York.

AMERICAN WATER CAPITAL CORP.

By: 
Name: JOSEPH F. HARTNETT JR.
Title: VP & TREASURER

**PROMISSORY NOTE
FOR LONG-TERM BORROWINGS**

\$24,000,000.00

June 12, 2002

FOR VALUE RECEIVED, Kentucky – American Water Company, a Kentucky corporation (herein "Borrower") hereby promises to pay to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at Voorhees, NJ or such other place as Lender may from time to time designate, the principal sum of Twenty Four Million Dollars (\$24,000,000 00), together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise

singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

Kentucky - American Water Company

By: Michael A. Mill V.P. & Treas.
Name and Title:



Inrecon 1 60 23

Loan Contract

Between

RWE Aktiengesellschaft,
Opernplatz 1, 45128 Essen, Germany

(the Lender)

and

American Water Capital Corp,
1025 Laurel Oak Road, Voorhees, New Jersey, USA

(the Borrower)

the following loan contract is made on 1st March 2004:

Definitions

The following definitions shall apply to this loan contract:

Business Day means any date that is a business day in Frankfurt (Germany) and New York City (USA).

§ 1 Loan principal

The Lender has agreed to lend a nominal amount of

USD 113,000,000.00 (the loan)

(in words: US Dollar one hundred and thirteen million)

to the Borrower.

§ 2 Termination

The loan is terminated until 1st March 2014.

§ 3 Interest

The loan shall bear interest at the rate of 4.75% per annum calculated on a 30/360 day basis and shall accrue daily from 1st March 2004. Interest is calculated on the outstanding nominal amount.

A handwritten signature in black ink, appearing to be a stylized name or set of initials.



The interest payments are due on every June 30th and December 31st, or, if any of these dates are not a business day, interest payable up to and including the payment date will be paid on the business day immediately following the relevant payment date, as well as at maturity of the loan. Accordingly the first interest payment date will be on 30th June 2004.

If, during the life of the loan contract, it becomes either unlawful or impossible in the reasonable opinion of the Borrower and the Lender for interest to be paid without any deduction of taxes, withholding taxes or similar charges, then the Lender may declare that all amounts outstanding under the loan contract, including all accrued interest, are due and payable on a date to be agreed in writing by the Borrower and the Lender.

Should any of the payment dates not fall on a business day, the Borrower empowers the Lender irrevocably to debit interest accrued for the period up to the relevant payment date from the inter-company clearing account which the Borrower keeps at the Lender ("Interest Adjustment")

The Interest Adjustment will be reversed on the next business day, when the Borrower will pay all interest due

§ 4 Repayment

The nominal amount of the loan shall be repaid together with any accrued interest on 1st March 2014.

Early redemption of all or part of the loan principal is possible by written mutual agreement between both parties. The Borrower informs the Lender at least two week prior to the repayment. If both parties agree partial repayment, the minimum amount has to be USD 5 million.

§ 5 Notice of Termination

Notice of termination of the full or partial loan principal is possible and is mandatory if there is a change in the shareholder structure of the Borrower.

§ 6 Payments

All payments resulting from this loan contract are payable in USD

§ 7 Miscellaneous

The variation of any of the terms of this loan contract shall not be valid unless it is in writing and signed by representatives of the Lender and the Borrower. The expression variation shall include any supplement, deletion or replacement.

Should any of the provisions of this loan contract be or become legally invalid the validity of the remaining provisions hereof shall not be affected thereby. The Parties undertake instead to replace the invalid provision by another provision which shall to the

A handwritten signature in dark ink, appearing to be a stylized 'J' or 'K' followed by a flourish.



greatest extent possible correspond to the spirit and the economic effect of the invalid provision.

§ 8 Governing Law

This loan contract shall be governed by and construed in accordance with German law.

Each of the parties agrees that the courts of German courts are to have exclusive jurisdiction to settle any dispute (including claims for set-off and counterclaims) which may arise in connection with the creation, validity, effect, interpretation or performance of, or the legal relationships established by, this loan contract or otherwise arising in connection with this loan contract and for such purposes irrevocably submits to the jurisdiction of the German courts

This loan contract may be executed by the parties on separate documents, each of which shall be an original but all of which together shall constitute one and the same instrument. The Lender receives the first deed, while the Borrower receives the second deed.

Essen (Germany), 1st March 2004

Signed by
for and on behalf of

RWE Aktiengesellschaft

Two handwritten signatures in black ink are written over horizontal lines. The signature on the left is more cursive and includes the letters "RWE". The signature on the right is more stylized and appears to be a single name.

Vorhees (USA), 1st March 2004

Signed by
for and on behalf of

American Water Capital Corp

Two handwritten signatures in black ink are written over horizontal lines. The signature on the left is very cursive and includes the name "Joseph J. Hartmann". The signature on the right is more stylized and appears to be a single name.

PROMISSORY NOTE FOR LONG-TERM BORROWING
Interest Rate - 4.75%; Maturity - March 1, 2014

\$14,000,000.00

March 1, 2004

FOR VALUE RECEIVED, Kentucky -- American Water Company, a Kentucky corporation (herein "Borrower") hereby promises to pay to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at Voorhees, NJ or such other place as Lender may from time to time designate, the principal sum of Fourteen Million dollars (\$14,000,000.00), together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to

the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefore shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

Kentucky – American Water Company

By: Michael A. Miller V.P. Finance
Name and Title:

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 ATTORNEY GENERAL'S REQUEST FOR
INFORMATION DATED DECEMBER 5, 2006

Item No. AG-1-2

Witness: **Michael A. Miller**

AG-1-2 RE: Numbered Paragraph 11. Please provide the derivation of the approximate \$158,000 in annual savings and supply any work-papers or memoranda supporting the calculation.

RESPONSE:

See attached.

Market funded cost @ 9-5-06	New Facility		RWE		Variance
	A2/P2 CP	LIBOR	A2/P2 CP	LIBOR	
30 days	5.33%	5.33%	5.33%	5.33%	0.00%
60 days	5.33%	5.33%	5.33%	5.36%	-0.03%
90 days	5.33%	5.33%	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

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

N160 Index BTMM

Change Country		US TREASURY & MONEY MARKETS										09:31:02		
09:28		FED FUNDS			US T-BILL YIELD/PRICE				EURO\$DEP		REVERSE		REPO	
BID/ASK	5 ¹ / ₄	5 ¹ / ₄	5 ¹ / ₄	4W	5.06	0.00	4.99	4.98	3M	5.3400	5.3900	O/N	5.25	5.20
LST/OPEN	5 ¹ / ₄	5 ¹ / ₄	5 ¹ / ₄	3M	5.00	-0.01	4.89	4.88	6M	5.3600	5.4100	1W	5.25	5.21
HIGH/LOW	5 ¹ / ₄	5 ¹ / ₄	5 ¹ / ₄	6M	5.10	0.01	4.92	4.91	1Y	5.3300	5.3800	2W	5.25	5.21
DJIA	11467.99	+3.84	S&P 500 FUT	1312.70	0.10	CCMP	2193.72	+56	1M	5.22	5.18			
US BONDS YLD/BID/ASK/CHG				DEALER CP		90D EUR\$ FUT		FUNDS FUT		LIBOR FIX				
4 ⁷ / ₈ 08/31/08	4.774	100-05+	100-06	-01	15D	5.240	SEP	94.60	SEP	94.75	1W	5.30563		
4 ⁷ / ₈ 08/15/09	4.713	100-13+	100-14	-02+	30D	5.260	DEC	94.64	OCT	94.74	1M	5.33000		
4 ⁵ / ₈ 08/31/11	4.707	99-20	99-20+	-04	60D	5.260	MAR	94.78	NOV	94.71	2M	5.36000		
4 ⁷ / ₈ 08/15/16	4.751	100-30	100-31	-07	90D	5.250	JUN	94.92	DEC	94.73	3M	5.39000		
4 ¹ / ₂ 02/15/36	4.899	93-25	93-26	-13	120D	5.240	SEP	95.03	JAN	94.72	4M	5.40000		
SPOT FOREX		CRB	326.92	1.50	180D	5.210	DEC	95.10	FEB	94.80	5M	5.41000		
JPY	115.9050	30Y MBS				LONG BOND FUT		SWAP RATES		Key Rates				
EUR	1.2814	GNMA 5.5	99-06	99-07	03	CBT	110.26	-10	3Y	5.155	Prime	8.25		
GBP	1.8965	GOLD 5.5	98-06	98-07	01	CRUDE OIL		5Y	5.188	BLR	7.00			
CHF	1.2340	FNMA 5.5	98-04	98-05	00	NYMEX	68.37	-0.82	10Y	5.299	FDTR	5.25		
MXN	10.8380													
CAD	1.1132													
Date Time		Event		Survey	Actual	Prior	Revised							
9/5 10:00	US	1) House Price Index QoQ	2Q	2.4%	--	2.0%	--							
9/5 17:00	US	2) ABC Consumer Confidence	SEP 4	--	--	-19	--							
9/6 7:00	US	3) MBA Mortgage Applications	SEP 1	--	--	-0.9%	--							
9/6 8:30	US	4) Nonfarm Productivity	2Q F	1.6%	--	1.1%	--							

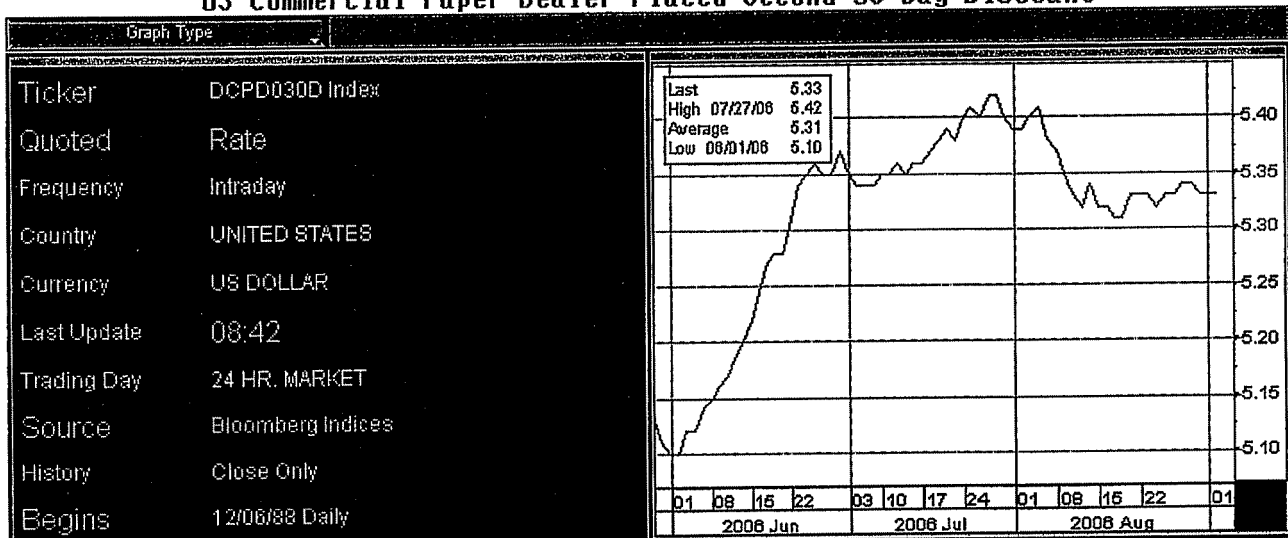
Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 920410
 Hong Kong 852 2977 6000 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2006 Bloomberg L.P.
 H214-430-0 05-Sep-06 9:31:02



DCPD030D **↓5.33 unch**
 At 08:42 Op 5.33 Hi 5.33 Lo 5.33

Index **DES**

US Commercial Paper Dealer Placed Second 30 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 9:30:17

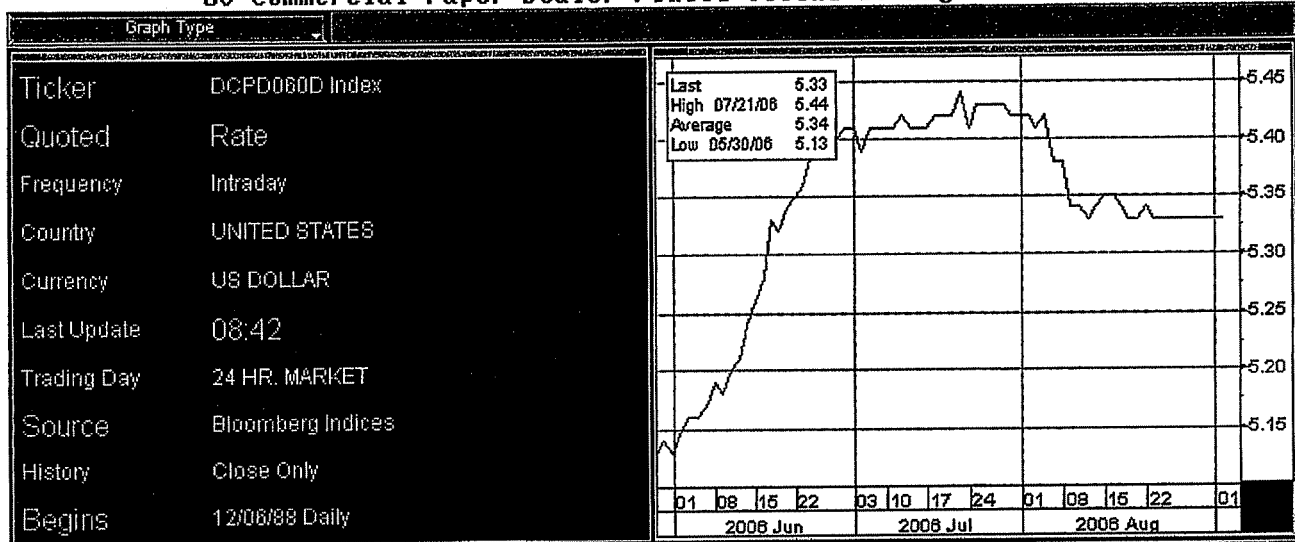


DCPD060D ↓5.33 unch

Index **DES**

At 08:42 Op 5.33 Hi 5.33 Lo 5.33

US Commercial Paper Dealer Placed Second 60 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 9:30:37

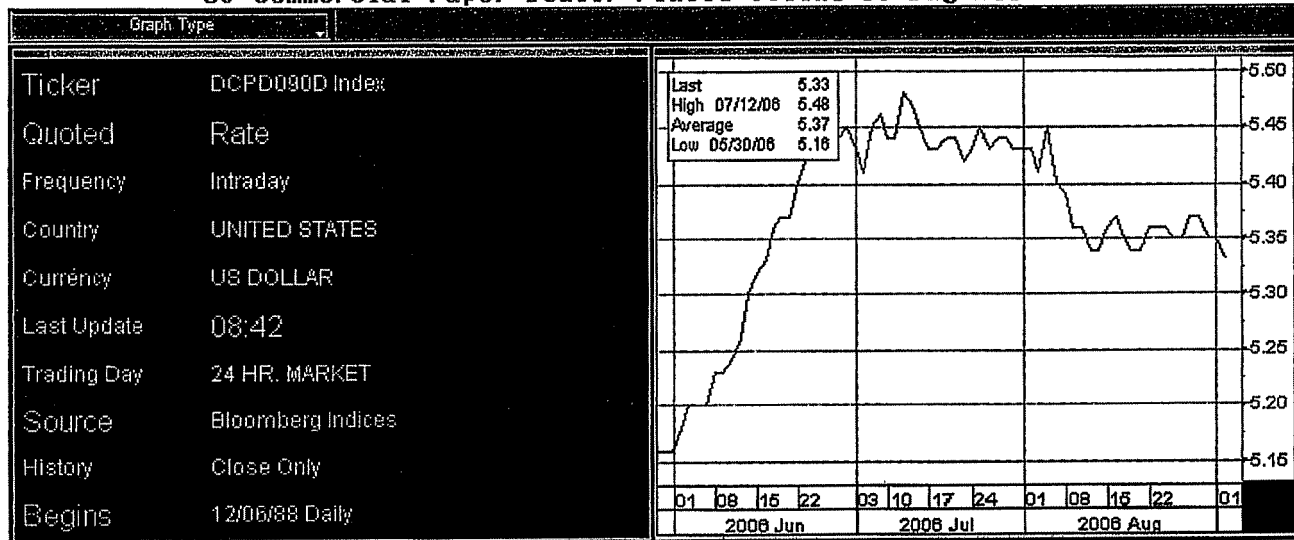


DCPD090D ↓5.33 - .02

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



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 ATTORNEY GENERAL'S REQUEST FOR
INFORMATION DATED DECEMBER 5, 2006

Item No. AG-1-3

Witness: **Michael A. Miller**

AG-1-3 RE: Numbered Paragraph 11. Please provide a side-by-side comparison for the "current arrangement" versus the proposal for the first twenty-four (24) months following an approval of the application (or, alternatively, for the time period from 1 January 2007 though and until 31 December 2008), and supply any work-papers or memoranda supporting the comparison.

RESPONSE:

See attached.

CP financing versus RWE revolver financing

<u>Assumptions</u>	Rate/Amount	24 Month Cost
<u>RWE Cost</u>		
RWE Interest Cost (2006 Average 1M LIBOR)	5.09%	25,450,000
RWE Fees	\$ -	-
Total RWE Cost		25,450,000
<u>New Cost</u>		
CP Interest Overnight Rate (2006 Average O/N LIBOR)	5.01%	(15,030,000)
CP Interest 1 Week Rate (2006 Average 1w LIBOR)	5.04%	(5,040,000)
CP Interest 1 Month Rate (2006 Average 1M LIBOR)	5.09%	(5,090,000)
CP Issuing and Paying Agent Annual Fee	\$ 12,000	(12,000)
CP Legal Cost Amortization over 5 years	\$ 30,000	(12,000)
CP Marketing Fees (2b.p. per annum)	\$ 50,000	(100,000)
Total CP Cost		(25,284,000)
Average AWCC Short Term Credit Balance	250,000,000	\$ 166,000

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 ATTORNEY GENERAL'S REQUEST FOR
INFORMATION DATED DECEMBER 5, 2006

Item No. AG-1-4

Witness: **Michael A. Miller**

AG-1-4 RE: Numbered Paragraph 12. Please indicate the status of the issuance of \$12,000,000 of additional long-term debt (projected for issuance in November 2006, and \$8,000,000 in capital (projected for issuance in November 2006).

RESPONSE:

AG-1-4 KAWC will not be issuing any additional long-term debt until or after June 2007. KAWC expects to receive the additional \$8.0 million in common equity in December 2006.