

COMMONWEALTH OF KENTUCKY
BEFORE THE 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.)

CASE NO. 2009-00156

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COMMISSION

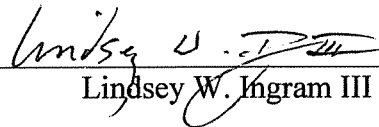
ORDERING PARAGRAPH 5 REPORT

In accordance with Ordering Paragraph 5 of the Commission's May 29, 2009 Order in this matter, Kentucky American Water provides the attached report detailing the terms and conditions of the \$45,390,000 private activity bond issuance the Commission authorized in its Order. The attached also provides an analysis showing the interest rate for the bond issuance was the most reasonable at the time of issuance as proven by an annual savings of \$585,531.

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BY: 
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**Kentucky American Water Company
Analysis of Interest Rate on KAWC 6.25% Series, \$45.390 million bond**

Bond Terms:

Type Tax Exempt
 Interest Rate 6.25% fixed
 Rating S&P-BBB+; Moody's-Baa2
 Maturity Term 30 Years
 Amount \$45,390,000
 Pricing Date 16-Jun-09

Value Line Information:

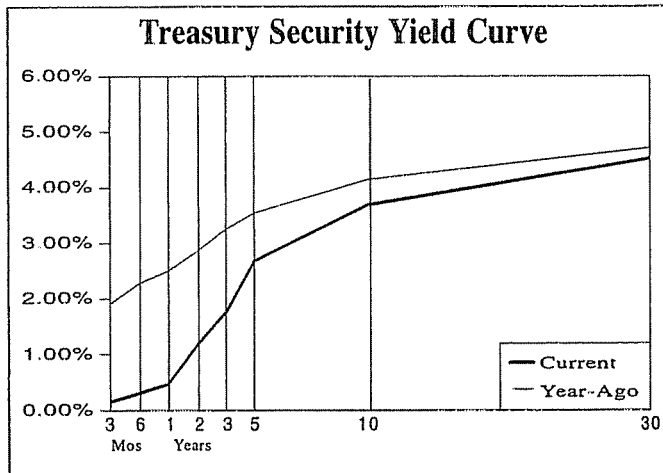
Pub. Date 6/26/09	Tax Exempt A-rated <u>25/30 Yr.</u>	Taxable BBB-rated <u>25/30 Yr.</u>
Price Date 6/17/09	6.24%	7.54%
Basis Point Savings to Taxable Rates		1.29%
Annual Savings to Published Taxable Bond Rates		\$585,531

Conclusions:

1. The tax exempt rate obtained by KAW/AWCC on June 16, 2009 was determined by a competitive market bid. The 6.25% rate obtained was essentially the same as the published 25/30 Yr. Rate for an A rated bond of Value Line priced on June 17, 2009.
2. The tax exempt rate of 6.25% obtained by KAW/AWCC was a reduction of 1.29% from the Value Line published rate for BBB rated, 25/30 year taxable issues per Value Line's pricing of June 17, 2009, generating an annual savings of \$585,531 from the similar taxable bonds issued by KAW/AWCC.

Selected Yields

	Recent (6/17/09)	3 Months Ago (3/18/09)	Year Ago (6/18/08)		Recent (6/17/09)	3 Months Ago (3/18/09)	Year Ago (6/18/08)
TAXABLE							
Market Rates							
Discount Rate	0.50	0.50	2.25	Mortgage-Backed Securities			
Federal Funds	0.00-0.25	0.00-0.25	2.00	GNMA 6.5%	4.00	3.59	5.78
Prime Rate	3.25	3.25	5.00	FHLMC 6.5% (Gold)	3.13	3.15	5.74
30-day CP (A1/P1)	0.42	0.49	2.65	FNMA 6.5%	2.96	3.28	5.67
3-month LIBOR	0.61	1.29	2.80	FNMA ARM	2.53	3.60	4.31
Bank CDs							
6-month	0.66	0.84	1.75	Corporate Bonds			
1-year	0.87	1.05	2.31	Financial (10-year) A	6.70	7.52	6.10
5-year	1.92	2.07	3.47	Industrial (25/30-year) A	6.13	6.07	6.24
U.S. Treasury Securities							
3-month	0.16	0.20	1.92	Utility (25/30-year) A	5.95	5.90	6.27
6-month	0.31	0.38	2.27	Utility (25/30-year) Baa/BBB	7.54	7.51	6.50
1-year	0.47	0.56	2.50	Foreign Bonds (10-Year)			
5-year	2.68	1.57	3.55	Canada	3.44	2.70	3.82
10-year	3.69	2.53	4.14	Germany	3.48	3.22	4.61
10-year (inflation-protected)	1.92	1.31	1.54	Japan	1.47	1.31	1.79
30-year	4.51	3.53	4.71	United Kingdom	3.79	3.11	5.16
30-year Zero	4.60	3.54	4.75	Preferred Stocks			
				Utility A	5.47	6.25	6.30
				Financial A	8.72	9.76	6.92
				Financial Adjustable A	5.47	5.47	5.47



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	4.86	5.03	4.69				
25-Bond Index (Revs)	5.76	5.83	5.14				
General Obligation Bonds (GOs)							
1-year Aaa	0.40	0.57	1.78				
1-year A	1.10	0.67	1.88				
5-year Aaa	2.25	2.39	3.24				
5-year A	3.65	2.99	3.34				
10-year Aaa	3.33	3.45	3.89				
10-year A	4.85	3.95	4.09				
25/30-year Aaa	4.72	4.98	4.67				
25/30-year A	6.24	5.98	4.87				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	6.30	6.00	4.97				
Electric AA	6.35	6.10	5.02				
Housing AA	6.65	6.35	5.07				
Hospital AA	6.60	6.30	5.10				
Toll Road Aaa	6.30	6.15	5.00				

Federal Reserve Data

BANK RESERVES							
<i>(Two-Week Period; in Millions, Not Seasonally Adjusted)</i>							
	Recent Levels			Average Levels Over the Last...			
	6/3/09	5/20/09	Change	12 Wks.	26 Wks.	52 Wks.	
Excess Reserves	838497	877072	-38575	793290	759788	448486	
Borrowed Reserves	497684	554779	-57095	565243	586617	461783	
Net Free/Borrowed Reserves	340813	322293	18520	228048	173171	-13297	

MONEY SUPPLY							
<i>(One-Week Period; in Billions, Seasonally Adjusted)</i>							
	Recent Levels			Growth Rates Over the Last...			
	6/1/09	5/25/09	Change	3 Mos.	6 Mos.	12 Mos.	
M1 (Currency+demand deposits)	1597.0	1602.2	-5.2	9.4%	8.8%	15.6%	
M2 (M1+savings+small time deposits)	8349.4	8356.9	-7.5	3.9%	8.4%	9.1%	