

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN WATER)
COMPANY FOR AN ORDER AUTHORIZING THE)
ISSUANCE AND SALE OF ITS GENERAL MORTGAGE)
BONDS, 6.99% SERIES, DUE JUNE 1, 2028, IN THE) CASE NO.
PRINCIPAL AMOUNT OF \$9,000,000 FURTHER) 98-149
AUTHORIZING THE ISSUANCE AND SALE OF 170,309)
SHARES OF ITS COMMON STOCK FOR AN)
AGGREGATE CONSIDERATION OF \$6,000,000)

O R D E R

On March 27, 1998, Kentucky-American Water Company ("Kentucky-American") filed its application seeking authority to issue and sell \$9,000,000 of its general mortgage bonds at 6.99 percent interest and 170,309 shares of its common stock for an aggregate consideration of \$6,000,000. The proceeds will be used to: (1) repay short-term debt at the date of closing (which debt totaled \$3,247,873 as of December 31, 1997) and was incurred to fund construction; (2) satisfy 1998 sinking fund obligations of outstanding securities in the amount of \$48,000; (3) fund the payment of principal and accrued interest at maturity of the 9.71 percent Series Bonds due September 1, 1998, which have an outstanding principal balance of \$6,000,000; and (4) partially fund 1998 construction projects which totaled \$10,453,646 for the period June 1, 1998 through December 31, 1998.

The proposed bonds are to be sold to American United Life Insurance Company. Upon approval and closing, Kentucky-American will simultaneously issue and sell its common stock to American Water Works Company, Inc. in

order to remain in compliance with applicable capitalization provisions of its Indenture of Mortgage.

The Commission, having considered the evidence of record and being otherwise sufficiently advised, finds that the proposed issuance and sale by Kentucky-American of \$9,000,000 of its general mortgage bonds at 6.99 percent interest and 170,309 shares of its common stock for a consideration of \$6,000,000 are for lawful objects within its corporate purposes, are necessary and appropriate for and consistent with the proper performance of its service to the public, will not impair its ability to perform that service, are reasonably necessary and appropriate for such purposes, and should therefore be approved.

IT IS THEREFORE ORDERED that:

1. Kentucky-American is authorized to issue and sell \$9,000,000 of its general mortgage bonds at 6.99 percent interest and 107,309 shares of its common stock for a consideration of \$6,000,000.
2. Kentucky-American shall, within 30 days after the issuance of the securities referred to herein, file with the Commission a statement setting forth the date or dates of issuance of the securities authorized herein, the price paid, the interest rate, the purchasers, all fees and expenses, including underwriting discounts or commission or other compensation, involved in the issuance and distribution and the use of the proceeds.
3. Kentucky-American shall agree only to such terms and prices that are consistent with said parameters as set out in its application.

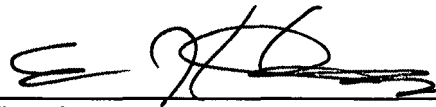
4. The proceeds from the transactions authorized herein shall be used only for the lawful purposes set out in the application.

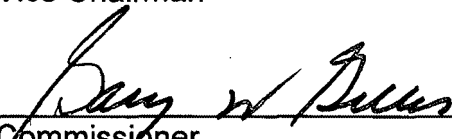
Nothing contained herein shall be construed as a finding of value for any purpose or as a warranty on the part of the Commonwealth of Kentucky or any agency thereof as to the securities authorized herein.

Done at Frankfort, Kentucky, this 22nd day of May, 1998.

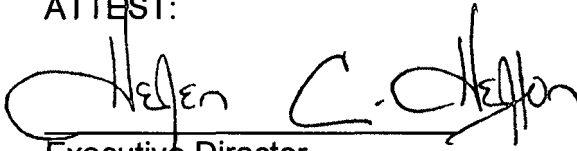
PUBLIC SERVICE COMMISSION


Chairman


Vice Chairman


Commissioner

ATTEST:


Executive Director