KENTUCKY-AMERICAN WATER COMPANY
2300 Richmond Road
Lexington, Kentucky 40502

BOND PURCHASE AGREEMENT

Re: $9,000,000 General Mortgage Bonds,
6.99% Series, Due June 1, 2028

Dated as of June 1, 1998

AMERICAN UNITED LIFE INSURANCE COMPANY
One American Square
PO Box 368
Indianapolis, Indiana 46206-0368

Attention: Christopher Pahlke
Vice President, Private Placements

KENTUCKY-AMERICAN WATER COMPANY, a Kentucky corporation (the "Company"), agrees with you as follows:

1. Description and Sale of Bonds. The Company agrees to sell to you, and you agree to purchase from the Company, subject to the terms and conditions hereinafter set forth, $9,000,000 aggregate principal amount of General Mortgage Bonds, 6.99% Series, due June 1, 2028 (the "Bonds"), of the Company, at a price equal to 100% of the principal amount thereof. The Bonds purchased by you shall be dated the date of their delivery to you, shall bear interest from such date at the rate of 6.99% per annum, shall mature June 1, 2028, and shall be issued under the Indenture of Mortgage dated as of May 1, 1968 (the "Original Indenture") between Lexington Water Company (predecessor to the Company) and The Fidelity Bank (now First Union National Bank), as trustee (the "Trustee"), as heretofore supplemented and as to be supplemented by a Sixteenth Supplemental Indenture between the Company and the Trustee to be dated as of June 1, 1998, which shall be substantially in the form attached hereto and marked Exhibit "A" with such changes therein as may be agreed upon by you and the Company (said Original Indenture, as so supplemented, being hereinafter referred to as the "Indenture").

2. Closing. Delivery of and payment for the Bonds (the "Closing") shall be made at the offices of American Water Works Service Company, 1025 Laurel Oak Road, Voorhees, New Jersey 08043 at 9:00 A.M. local time on _____, June __, 1998, or at such other date and time or such other place as shall be mutually agreed to. Payment shall be made to the order of the Company in

immediately available funds to Account No. _____. Delivery shall be made to you in the form of one (1) fully registered Bond, in the principal amount of the Bonds to be purchased by you, registered in your name or in the name of your nominee, if any, specified in Schedule 1 attached hereto.

3. Redemption of Bonds. The Bonds are subject to mandatory redemption at such time or times, and from time to time, and on such terms as provided in the Bonds and the Indenture. The Bonds are subject to redemption at the option of the Company, in accordance with the terms and at the price set forth in the form of the Bond which is attached to the Sixteenth Supplemental Indenture as Exhibit A.

4. Representations.

4.1. Representations of the Company. The Company represents that the matters set forth in paragraphs 1 through 18 of the form of certificate annexed hereto as Exhibit "B" are true and correct at the time of Closing and are hereby incorporated herein by reference with the same force and effect as though herein set forth in full.

4.2. Company's Use of Proceeds. The Company represents that the net proceeds from the sale of the Bonds and the Additional Stock (as hereinafter defined) will be used to (i) repay short-term bank debt at the date of Closing, (which debt was in the amount of $3,247,873 as of December 31, 1997) and which was, or will be incurred to fund construction, (ii) satisfy remaining 1998 sinking fund obligations of outstanding securities in the amount of $48,000, (iii) fund the payment of principal and accrued interest at maturity of the 9.71% Series Bonds due September 1, 1998, and (iv) fund ongoing construction projects. The Company will not use any part of the proceeds from the sale of the Bonds, directly or indirectly, for the purpose of purchasing or carrying any margin stock within the meaning of Regulation G (12 CFR Part 207) promulgated by the Board of Governors of the Federal Reserve System, as now amended, nor for the purpose of purchasing or carrying any other securities.

4.3. Representations of the Purchaser. You represent (i) that your purchase of the Bonds under this Agreement is for your own account, for investment and not with a view toward distribution or resale thereof, provided, however, that you reserve the right to dispose of all or any part of the Bonds by sale or other distribution not in violation of the Securities Act of 1933, as amended (the "Act"), or the rules and regulations thereunder, if at some future time in your sole discretion you deem it advisable

to do so; and (ii) that you are not a registered investment company or a company controlled by a registered investment company as defined in the Investment Company Act of 1940. You understand that the Bonds are not being registered under the Act and agree that you will not resell or otherwise dispose of the Bonds or any interest therein except upon effective registration under, or an exemption from, the Act. You hereby agree that the following legend will appear on the Bonds: THIS BOND HAS NOT BEEN REGISTERED OR QUALIFIED FOR SALE UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS, AND MAY NOT BE SOLD OR TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN EXEMPTION THEREFROM UNDER SAID ACT AND LAWS. The Company's obligation to sell the Bonds to you hereunder is subject to the condition that at the Closing you confirm, by accepting delivery of the Bonds, the aforesaid representations and agreements as if made at that time.

5. Closing Conditions. Your obligation to purchase and the Company's obligation to sell the Bonds pursuant to this Agreement are conditioned upon:

5.1. Additional Stock. The issue and sale, at or prior to the Closing, of additional shares of Common Stock of the Company (the "Additional Stock") for an aggregate price of not less than $6,000,000 before deducting the costs of such sale.

5.2. Governmental Authorization. The authorization, prior to the Closing, of the issue and sale of the Bonds and Additional Stock by the Public Service Commission of the Commonwealth of Kentucky, whose authorization is required, which authorization shall not contain any conditions deemed by the Company to be burdensome to it.

5.3. Closing Certificate. The Company shall deliver to you at the Closing a certificate duly authorized, executed and delivered by the Company substantially in the form of the certificate attached hereto as Exhibit "B", the truth and accuracy of which, at the time of Closing, shall be a condition precedent to your obligations hereunder.

5.4. Opinions. You shall receive at the Closing from Chapman and Cutler, your special counsel in connection with this transaction, and from Stoll, Keenon & Park, LLP, counsel for the Company, their opinions satisfactory to you and covering the matters set forth in Exhibit "C" hereto.

5.5. Proceedings and Documents. All proceedings to be taken in connection with the transactions contemplated by this Agreement, and all documents incident thereto, shall be

satisfactory in form and substance to you and your special counsel; and you and your special counsel shall have received counterparts, originals or certified or other copies of all documents which you may reasonably request in connection with said transactions and all corporate proceedings in connection therewith, in form and substance satisfactory to you and your special counsel, such documents where appropriate to be certified by the proper corporate or governmental authorities.

6. Expenses. The Company agrees to bear all reasonable expenses in connection with the transactions herein contemplated whether or not such transactions are effected, including the reasonable fees and out-of-pocket disbursements of Chapman and Cutler, your special counsel in connection with the transactions contemplated by this Agreement.

7. Inability to Complete Transaction. In the event that the transactions herein contemplated are not carried out by reason of the inability of either party to perform any of the conditions herein specified, neither party hereto shall be responsible to the other for any damages or otherwise by reason thereof, except as is provided in paragraph 6 hereof.

8. Financial Statements. The Company agrees that, so long as you shall hold any of the Bonds purchased hereunder, it will deliver to you:

8.1. As soon as practicable, and in any event within sixty (60) days, after the end of each quarterly period, except the last, of each fiscal year of the Company, (i) a copy of its balance sheet as at the end of such quarterly period; and (ii) a copy of its income statement for the twelve (12) months' period and for the portion of the fiscal year to the end of such quarterly period, together with the figures for the corresponding periods one (1) year prior thereto, in reasonable detail, prepared in accordance with generally accepted accounting principles consistently applied and certified by the Comptroller or an Assistant Comptroller of the Company.

8.2. As soon as practicable, and in any event within one hundred twenty (120) days, after the end of each fiscal year of the Company, a copy of its balance sheet as at the end of such year and its statements of income, retained earnings and cash flows for such year together with the figures for the corresponding period for the fiscal year prior thereto, in reasonable detail, prepared in accordance with generally accepted accounting principles consistently applied and certified by independent accountants of recognized national standing selected by the Company.

8.3. Within the period provided in Section 8.2 above, the written statement of such accountants that in making the examination necessary to their certification of such audit report they have obtained no knowledge of any event of default (as defined in the Indenture), or event which with the lapse of time or giving of notice, or both, would become such an event of default, or if such accountants shall have obtained knowledge of any such event of default or event which would so become an event of default, they shall disclose in such statement the default or defaults and the nature thereof.

8.4. Such other information pertinent to an evaluation of your investment as you may reasonably request from time to time.

9. Inspection of Properties and Books. The Company agrees that, after the execution and delivery of this Agreement and so long as you shall hold any of the Bonds sold to you hereunder, you shall have the right to visit and inspect its properties under its guidance, to examine the books of account of the Company, to make extracts therefrom, and to discuss its affairs, finances and accounts with and be advised as to the same by its officers, all at reasonable times and at reasonable intervals. This privilege may be exercised only by any of your financial officers or by anyone duly designated for the purpose in writing by any such financial officers. So long as no "event of default" (as defined in the Indenture) shall have occurred and be continuing, the Company shall not be required to pay or reimburse you for expenses which you may incur in connection with any such visitation or inspection. If a default shall have occurred and be continuing, the Company shall reimburse you for any reasonable expenses incurred in connection with any such visitation or inspection.

10. Exchange and Transfer of Bonds. The Company agrees that, within a reasonable time (not exceeding ninety (90) days after you shall have made written request therefor to the Company), it will deliver to you at the principal office of the Trustee, in exchange for any Bonds delivered to you at the Closing, an equal aggregate principal amount of registered Bonds of said Series without coupons, in authorized denominations. The Company shall bear all expenses (including documentary or other similar taxes upon the original issue of the Bonds, but excluding any transfer or any similar taxes) and shall make no charge in connection with (i) the preparation, issue, authentication and delivery to you of any Bonds delivered to you at the Closing, and (ii) anything in the Indenture to the contrary notwithstanding, any exchange permitted by this paragraph. The Company will pay the reasonable cost of shipping for your account to your home office or to the office of a

depository designated by you all Bonds delivered to you at the Closing or upon any exchange above provided. The Bonds shall be transferred in accordance with the provisions of Section 1.07 of the Original Indenture; provided that the Company shall make no charge in connection with the preparation, issue, authentication and delivery to any transferee of any Bonds; provided further that the Company shall not be required to pay any taxes or other governmental charges in connection with such transfer.

11. Home Office Payment. So long as you are the holder of any Bonds the Company will cause payment of principal, interest and premium, if any, on any fully registered Bond registered in your name to be made in the manner set forth in Schedule 1 or in such other manner or to such other address as you shall designate in writing to the Company. In the case of any payment of interest or premium on the Bonds or the redemption of less than all of the Bonds, such payment on or redemption of the Bonds shall be without presentation or surrender of such Bonds. In the case of redemption of all of the Bonds at final maturity or otherwise, payment of principal, interest and premium, if any, shall be made upon presentation and surrender of the Bonds as provided in the Indenture. You agree that you will not sell, transfer or otherwise dispose of any Bond unless you shall have caused notation to be made thereon of (i) all payments of principal on such Bond and (ii) the last interest payment date to which interest has been paid on such Bond; and prior to delivery thereof such Bond shall have been presented to the Trustee for inspection or surrendered in exchange for a new Bond or Bonds for the unpaid balance of the principal amount thereof.

12. Loss, Theft or Destruction of Bonds. In the event of mutilation of any Bond owned by you, upon surrender and cancellation of such Bond, the Company will deliver a new Bond, of like tenor, in lieu of such mutilated Bond. If you are the owner of any lost, stolen or destroyed Bond, then the affidavit of your President or a Vice President, setting forth the fact of loss, theft or destruction and of your ownership of the Bond at the time of such loss, theft or destruction shall be accepted by the Company as satisfactory evidence thereof, and no indemnity shall be required as a condition to execution and delivery of a new Bond other than your written agreement to indemnify the Company and the Trustee under the Indenture. No charge will be made to you for the delivery of a new Bond pursuant to this paragraph.

13. Survival. All covenants, agreements, representations and warranties made herein, and in certificates delivered pursuant hereto, by or on behalf of the respective parties hereto, shall survive the execution and delivery of the Bonds to you hereunder

and your payment therefor, and shall bind and inure to the benefit of the respective parties hereto and their successors and assigns.

14. Notices. All communications provided for hereunder shall be in writing and, if to you, mailed or delivered to the address and for the attention of the person shown on Schedule 1, or, if to the Company, mailed or delivered to it at 2300 Richmond Road, Lexington, Kentucky 40502, Attention: Vice President and Treasurer, or in either case to such other address as may be designated in writing by the party to receive such notice.

15. Entire Agreement. It is understood and agreed that in entering into this Agreement you have not relied on any oral representations or oral warranties or oral information made or given to you by any representatives of the Company or by anyone on its behalf, and that all statements, covenants, agreements, representations and warranties made herein supersede any oral or written statements inconsistent therewith. Any amendment hereto must be in writing.

16. Governing Law. This Agreement shall be governed by and construed in accordance with the law of the Commonwealth of Kentucky.

17. Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

18. Captions. The headings preceding the text of the sections hereof are inserted solely for convenience of reference and shall not constitute a part of this Agreement nor affect its meaning, construction or effect.

If the foregoing is satisfactory to you, please sign the form of acceptance on the enclosed counterpart of this letter and forward the same to the Company, whereupon this letter will become a binding agreement between you and the Company.

Very truly yours,

KENTUCKY-AMERICAN WATER COMPANY

By: _____
Vice President and Treasurer

The foregoing Agreement is hereby accepted as of the date first above written.

AMERICAN UNITED LIFE INSURANCE COMPANY

By: _____

Its: Authorized Signatory

By: _____

Its: Authorized Signatory

KENTUCKY-AMERICAN WATER COMPANY

SCHEDULE 1

NAME AND ADDRESS OF PURCHASER NOTICE AND PAYMENT INFORMATION	AMOUNT OF BONDS TO BE PURCHASED
AMERICAN UNITED LIFE INSURANCE COMPANY Private Placements One American Square PO Box 368 Indianapolis, Indiana 46206-0368 Telephone Number: 317-263-1877 Attention: Chris Pahlke	$9,000,000

Payments

All payments on or in respect of the Bonds to be by bank wire transfer of Federal or other immediately available funds (identifying each payment as Kentucky-American Water Company, General Mortgage Bonds, 6.99% Series, due June 1, 2028, principal or interest) to:

_____

ABA _____

for credit to American United Life Insurance Collection Account

_____

Notices

All notices of scheduled payments and written confirmation of each such payment, to be addressed:

AMERICAN UNITED LIFE INSURANCE COMPANY
Private Placements
One American Square
PO Box 368
Indianapolis, Indiana 46206-0368
Telephone Number: 317-263-1877
Attention: Chris Pahlke

All financial reports, compliance certificates and all other written communications, including notice of prepayments to be addressed as first provided above.

Name of Nominee in which Notes are to be issued: None

Taxpayer I.D. Number: _____