KENTUCKY-AMERICAN WATER COMPANY
P. O. Box 593
Charleston, West Virginia 25322

PREFERENCE STOCK PURCHASE AGREEMENT

Re: 45,000 Shares of the 8.47% Series Preference Stock of the Par Value of $100 per Share

Dated as of December 1, 1991

First Colony Life Insurance Company
700 Main Street
P. O. Box 1280
Lynchburg, Virginia 24504

Attention: Mr. J. Alden Butler

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

1. Description and Sale of Preference Stock. The Company has, or prior to the Closing referred to in paragraph 2 will have, authorized the issuance of 45,000 shares of its Preference Stock as a new series of such stock, designated as the Preference Stock, 8.47% Series (said 45,000 shares being hereinafter called the "Preference Stock") of the par value of $100 per share. The Company agrees to issue and sell to you, and you agree to purchase from the Company, subject to the terms and conditions hereinafter set forth, the Preference Stock at a price equal to $100 per share. The Preference Stock shall have (a) the rights and preferences provided for all series of the Preference Stock of the Company in the respects in which such rights and preferences must be identical for all series of such Stock as set forth in Paragraph 5 of the Charter and Articles of Incorporation of the Company, as amended (the Charter and Articles of Incorporation as so amended being referred to as the "Articles of Incorporation"), a true and complete copy of which has heretofore been delivered to you, and (b) the relative rights and preferences set forth in Exhibit A hereto, with such changes therein as may be agreed upon by you and the Company, in the respects in which the rights and preferences of any particular series of the Preference Stock may vary from other series of such Stock.

2. Closing. Delivery of and payment for the Preference Stock (the "Closing") shall be made at the offices of the law firm of Stoll, Keenon & Park at 1000 First Security Plaza, Lexington, Kentucky 40507, at 10 a.m. local time on Friday, January 24, 1992, 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. 0020180394 at Signet Bank/Maryland, 7 St. Paul Street, Baltimore, Maryland 21202 (ABA No. 052000016). Delivery shall be made to you of ten certificates, each representing 4,500 shares of the Preference Stock, for an aggregate amount of 45,000 shares of the Preference Stock, registered in your name or in the name of such nominee as you may designate in writing at least five (5) days prior to the Closing. For the purpose of this Agreement, shares of the Preference Stock held by a nominee designated by you shall be deemed to be held by you.

3. Redemption of Preference Stock. The Preference Stock is subject to optional and mandatory redemption at such time or times, and from time to time, and on such terms as provided in the resolutions of the Company's Board of Directors establishing the Preference Stock, which resolutions shall be in the form set forth in Exhibit A hereto, with such changes therein as may be agreed upon by you and the Company.

4. Representations.

4.1. Representations of the Company. The Company represents that the matters set forth in paragraphs 1 through 13 of the form of certificate annexed hereto as Exhibit "B" are true and correct as of the date hereof and such matters 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 Preference Stock will be used to repay or reduce outstanding short-term debt issued for purposes of

(i) funding construction programs and (ii) satisfying sinking fund provisions of existing debt securities, and the balance of said proceeds will be used to fund additional new construction. The Company will not use any part of the proceeds from the sale of the Preference Stock, 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 Preference Stock 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 Preference Stock 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 Preference Stock is not being registered under the Act and agree that you will not resell or otherwise dispose of the Preference Stock or any interest therein except upon effective registration under the Act or unless an exemption therefrom is available under the Act. You hereby agree that the following legend will appear on the certificates of Preference Stock: THE SHARES REPRESENTED BY THIS CERTIFICATE HAVE 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 Preference Stock to you hereunder is subject to the condition that at the Closing you confirm, by accepting delivery of the Preference Stock, 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 Preference Stock pursuant to this Agreement are conditioned upon:

5.1. Additional Bonds. The issue and sale, at or prior to the Closing, of $13,000,000 aggregate principal amount of a new series of the General Mortgage Bonds of the Company to be known and designated as the "Bonds of the 8.36% Series".

5.2. Governmental Authorization. The authorization, prior to the Closing, of the issue and sale of the Preference Stock and the Bonds of the 8.36% Series 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, 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 hereto 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 that the Company shall in any event be responsible for all reasonable expenses as provided in paragraph 6 hereof.

8. Financial Statements. The Company agrees that, so long as you shall hold any of the Preference Stock 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) month 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 immediately 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. 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 Preference Stock sold to you hereunder, you shall have the right at your expense to visit and inspect the Company's properties under its guidance, to examine its books of account, 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 by any of your financial officers or by anyone duly designated for the purpose in writing by any such financial officer.

10. Preparation and Delivery of Preference Stock. The Company shall bear all expenses in connection with the preparation, issue and initial delivery to you of the certificates for the Preference Stock, including documentary or other similar taxes upon the original issue of such Preference Stock, but not including any taxes with respect to any transfer thereof. The Company will pay the reasonable cost of shipping the certificates for the Preference Stock delivered to you at the Closing to your home office or to a depository designated by you.

Upon the surrender of any certificate for shares of the Preference Stock, at the request of the holder of such shares, the Company will execute and deliver, at the Company's expense (except as provided below), new certificates in exchange, in an aggregate number of shares equal to the number of shares represented by the surrendered certificates. Such new certificates

shall be registered in the name of such person as such holder may request. The Company may require payment of a sum sufficient to cover any stamp tax or governmental charge imposed in respect of any transfer.

11. Home Office Payment. While any of the Preference Stock purchased by you hereunder is owned by you (or a nominee designated by you) or by any institutional investor (or a nominee designated by it), the Company will cause payment of the quarterly dividend on, and the redemption price of, the shares of the Preference Stock so owned to be made directly to you at the address appearing, and in the manner indicated, in the attached Schedule 1 (unless you shall have designated another address or method of payment in writing) or directly to an institutional investor at such address as it may designate in writing, but with respect to payment of the redemption price, only upon surrender to the Company of the shares of the Preference Stock being redeemed.

If at any time there is more than one owner of the Preference Stock, the Company will not at any time redeem any portion of the Preference Stock without redeeming your pro rata portion of the total number of shares of Preference Stock then being redeemed.

For the purposes of this paragraph 11, your pro rata portion of the Preference Stock shall mean that portion (rounded off to the nearest whole share) which bears the same ratio to the total number of shares then held by you as the ratio that the aggregate number of shares then involved in the proposed transaction bears to the aggregate number of shares then outstanding.

You will be given written notice of any redemption of the Preference Stock at least thirty (30) days prior to the date fixed for redemption, of the date so fixed and the shares to be redeemed, and you agree to accept such notice in lieu of any notice required by the provisions of the Charter. In such case, the particular shares held by you to be redeemed may be selected by you.

12. Payments Falling On Weekends, Holidays, etc. In the event that a dividend payment date or a date fixed for redemption of any of the Preference Stock shall be a Saturday, Sunday or a legal holiday or a day on which banking institutions in the City from where the payment is to be made are authorized by law to close, then payment of the dividend or redemption of such stock need not be made on such date, but may be made on the next succeeding business day not a Saturday, Sunday or a legal holiday or a day upon which banking institutions in the City from where the payment is to be made are authorized by law to close, with the same force and effect as if made on the dividend payment date or the date fixed for redemption.

13. Loss, Theft or Destruction of Stock Certificates. In the event of mutilation of any certificates of Preference Stock owned by you, upon surrender and cancellation of such certificates of Preference Stock, the Company will deliver a new certificate of Preference Stock, of like tenor, in lieu of such mutilated certificate of Preference Stock. If you are the owner of any lost, stolen or destroyed certificates of Preference Stock, 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 certificates of Preference Stock 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 certificate of Preference Stock other than your written agreement to indemnify the Company against any loss suffered by it arising out of the issuance of such new certificate. No charge will be made to you for the delivery of a new certificate of Preference Stock pursuant to this paragraph.

14. Notice of Default. The Company agrees that it will give you written notice of any default by the Company in the payment of dividends on any shares of Preference Stock, any default in redeeming any shares of Preference Stock pursuant to any Sinking Fund established for any series of Preference Stock and any other default in the observance or performance of the provisions of the Company's Charter as from time to time in effect, such notice to be given by the Company within three (3) business days after an officer of the Company shall have obtained knowledge of the occurrence of such default.

15. Treatment of Preference Stock as Equity. The Company (i) will not treat the Preference Stock as debt or treat the dividends paid thereon as interest paid on debt in any report to shareholders or any governmental body having jurisdiction over the accounts of the Company unless required to do so by a governmental body having jurisdiction over the accounts of the Company, and (ii) will not take any other action which could reasonably be expected to adversely affect the treatment of the Preference Stock as equity capital.

16. Repurchase of Shares. The Company will not, directly or indirectly, make any offer to repurchase any shares of Preference Stock unless the offer has been made to repurchase shares, pro rata, from all holders of shares of Preference Stock at the same time and at the same price and upon the same terms.

17. Survival. All covenants, agreements, representations and warranties made herein, and in certificates delivered pursuant hereto, by or on behalf of the Company, shall survive the execution and delivery of the Preference Stock 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.

18. 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 in Schedule 1, or, if to the Company, mailed or delivered to the President, any Vice President or the Secretary of the Company at P. O. Box 593, Charleston, West Virginia 25322, or in either case such other address as may be designated in writing by the party to receive such notice.

19. 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.

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

21. 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.

22. 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 _____
C. E. Sasher
Its Vice President

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

FIRST COLONY LIFE INSURANCE COMPANY

By _____

Its Senior Vice President

KENTUCKY-AMERICAN WATER COMPANY

SCHEDULE 1 TO PREFERENCE STOCK PURCHASE AGREEMENT

Name and Address of Purchaser and Payment Information	Aggregate Number of Shares of Preference Stock to be Purchased
First Colony Life Insurance Company 700 Main Street P. O. Box 1280 Lynchburg, Virginia 24504 Attention: J. Alden Butler	45,000

All notices and other communications, including notices with respect to payment and written confirmation of such payment, to be addressed as above.

(Taxpayer I.D. No. 54-0596414)

All payments to be made as follows:

By bank wire transfer of Federal or other immediately available funds (identifying each payment as "Kentucky-American Water Company, 8.47% Series Preference Stock") to:

Crestar/Richmond
ABA # : 05-10-0002-0

for credit to First Colony Life Insurance Company
Account #: 10765400
Attention: Barbara Crossman

Name of Nominee in which Preference Stock is to be issued: None