American Water Works Service Company, Inc.

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Kathy Lee Pape
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CLOSING MEMORANDUM

TO: J. James Barr, W.T. Pohl, J.F. Hartnett, Jr., R.D. Sievers, R.J. Gallo, B.E. Tillotson, G.W. Thomas, H.A. Baumgarner, T.D. Snyder, R.W. Mundy, II, Price Waterhouse

FROM: K.L. Pape

DATE: February 28, 1997

RE: **Kentucky-American Water Company**
1997 Financing

The following transactions were consummated on Thursday, February 20, 1997:

(a) The Company issued and sold $7,500,000 principal amount of General Mortgage Bonds, 7.15% Series, due February 1, 2027 (the "Bonds") at the face amount thereof to Allstate Life Insurance Company of New York.

(b) The Company issued and sold 58,634 shares of its Common Stock to American Water Works Company, Inc. for $2,000,000.

(c) The Company repaid $9,221,308.92 in outstanding bank loans from Signet Bank/Virginia and invested the remaining $278,691.08.

(d) The Company reduced its credit line with Signet Bank/Virginia as follows:

02/20/97 — 06/30/97	$2,693,000

Bond No. PR-1 for $7,500,000 was registered in the name of Allstate Life Insurance Company of New York. The Bond bears interest from February 20, 1997 (the date of issuance) at the rate of 7.15% per annum, payable semiannually on February 1 and August 1 (commencing on August 1, 1997), matures February 1, 2027 and was issued under a Fifteenth Supplemental Indenture dated as of February 1, 1997 (the "Fifteenth Supplemental Indenture") between the Company and First Union National Bank, as Trustee. Interest is to be computed on the basis of a 360-day year composed of twelve 30-day months.

There is no sinking fund.

These Bonds are subject to redemption prior to maturity at a redemption price equal to the greater of par or a Make-Whole Premium generally equal to yield on comparable term Treasury securities plus 50 basis points.

The aggregate principal amount of the Bonds is limited to $7,500,000. The Fifteenth Supplemental Indenture requires the Company to meet the standard "one and one-half times net income" test for the issuance of additional bonds pursuant to a subsequent supplemental indenture.

Interest payments are to be made direct and, in accordance with the purchase agreement, by wire transfer. Payments due on Saturdays, Sundays or a legal holiday or a day on which banking institutions in either the city where payment is made or received are authorized by law to close need not be made until the next succeeding business day. The addresses to be used for interest payments, financial statements and other communications to Allstate Life Insurance Company of New York are set forth in the attached schedule from the Bond Purchase Agreement. The Federal Identification Number for Allstate Life Insurance Company of New York is 36-2608394.

The Bond Purchase Agreement dated February 1, 1997, contains, among other things, the requirement for an annual auditors' no default certificate.

Common Stock Certificate No. NC 10 for 58,634 shares was registered in the name of and delivered to American Water Works Company, Inc.

The following is a summary of the financing proceeds before financing expenses and the purposes for which they were used:

Proceeds

Bonds	$7,500,000.00
Common Stock	$2,000,000.00
Total	$9,500,000.00

Use of Proceeds

Repayment of Loans from:	
Signet Bank/Virginia	$9,221,308.92
Repurchase Agreement with Signet Investment Banking	$ 278,691.08
Total	$9,500,000.00

KLP/sjm

Attachment

KENTUCKY-AMERICAN WATER COMPANY

SCHEDULE 1

NAME AND ADDRESS OF PURCHASER NOTICE AND PAYMENT INFORMATION	AMOUNT OF BONDS TO BE PURCHASED
ALLSTATE LIFE INSURANCE COMPANY OF NEW YORK Private Placements 3075 Sanders Road, G4A Northbrook, Illinois 60062-7127 Attention: Private Placements Telephone Number: 847-402-4394 Telecopier Number: 847-402-3092	$7,500,000

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, 7.15% Series, due February 1, 2027, DPP No. 49122 AR1, principal or interest) to:

Harris Trust and Savings Bank
ABA #071000288

for credit to Allstate Life Insurance Company of New York Collection Account #168-120-4

Notices

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

Allstate Life Insurance Company
Private Placements
3075 Sanders Road, STE G4A
Northbrook, Illinois 60062-7127
Telephone Number: (847) 402-8709
Telecopier Number: (847) 402-7331

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: 36-2608394