



2009-00156

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April 13, 2009

HAND DELIVERED

Jeff Derouen
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RECEIVED

APR 13 2009

PUBLIC SERVICE
COMMISSION

Re: Kentucky American Water -- KRS 278.300 Application

Dear Mr. Derouen:

Enclosed for filing please find an original and ten copies of Kentucky American Water's KRS 278.300 Application and supporting information.

Very truly yours,

Stoll Keenon Ogden PLLC

Lindsey W. Ingram III

Enclosures

cc: David E. Spenard

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED
APR 13 2009
PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:)
)
APPLICATION OF KENTUCKY-AMERICAN) CASE NO. 2009-00156
WATER COMPANY FOR ISSUANCE OF)
INDEBTEDNESS AND CONTINUED)
PARTICIPATION WITH AMERICAN WATER)
CAPITAL CORP.)

APPLICATION OF KENTUCKY-AMERICAN WATER COMPANY

Comes Kentucky-American Water Company (“Kentucky American Water”) and for its Application for authorization to issue indebtedness and for continued participation in the borrowing program with American Water Capital Corp. (“AWCC”) states as follows:

1. Kentucky American Water is a corporation organized and existing under the laws of the Commonwealth of Kentucky with its principal office and place of business at 2300 Richmond Road, Lexington, Kentucky 40502.

2. Kentucky American Water is a wholly-owned subsidiary of American Water Works Company, Inc. (“American Water”) and is engaged in the distribution and sale of water in its Central Division, consisting of Bourbon, Clark, Fayette, Harrison, Jessamine, Scott and Woodford Counties and its Northern Division consisting of Gallatin, Owen and Grant Counties. It currently owns, operates and maintains potable water production, treatment, storage, transmission and distribution systems for the purpose of furnishing potable water for residential, commercial, industrial and governmental users in its service territory having an original cost of \$427,253,868 as of January 31, 2009.

3. Kentucky American Water also owns, operates and maintains collection, pumping and treatment systems for the purpose of furnishing wastewater service for residential, commercial, industrial and governmental users in its service territory having an original cost of \$3,268,899 as of January 31, 2009.

4. A certified copy of the Articles of Incorporation of Kentucky American Water, together with all amendments thereto, are incorporated herein by reference as authorized by 807 KAR 5:001 Section 10(1)(b)(3) and Section 8(3), and were filed as Filing Exhibit No. 4 in Case No. 95-554, Notice of the Adjustment of the Rates of Kentucky-American Water Company effective on and after February 29, 1996.

5. By Order dated July 21, 2000 in Case No. 2000-189, *In the Matter of: Application of Kentucky-American Water Company for Approval of Participation in Borrowing Program*, the Public Service Commission of the Commonwealth of Kentucky authorized Kentucky American Water to enter into a Financial Services Agreement with AWCC and to participate in its borrowing program. A copy of the Financial Services Agreement entered into is attached as Exhibit No. 1. A copy of the Order dated July 21, 2000 is attached as Exhibit No. 2. On August 28, 2006, Kentucky American Water filed an Application seeking approval for continued participation in the borrowing program with AWCC in what became Case No. 2006-00418 (*In the Matter of: Application of Kentucky-American Water Company for Continued Participation with American Water Capital Corp.*). In that case, on May 8, 2007, the Commission issued an Order authorizing Kentucky American Water to continue its participation in the borrowing program with AWCC. A copy of that Order is attached as Exhibit No. 3.

6. The May 8, 2007 Order also authorized Kentucky American Water to issue securities in the form of notes or debentures in an aggregate amount of \$61,500,000 from time to

time prior to December 31, 2007 for the purpose of refunding/refinancing existing short-term and long-term debt. Pursuant to that authorization, Kentucky American Water now has stock and debt outstanding as shown on the financial exhibit attached as Exhibit No. 4 in accordance with 807 KAR 5:001 Section 11(2)(a).

7. Kentucky American Water has conveyed certain property, lands and premises described therein to U.S. Bank, National Association (formerly Wachovia Bank, National Association, formerly First Union National Bank, formerly First Fidelity Bank, National Association, formerly First Federal Bank, N.A., Pennsylvania, formerly Fidelity Bank, National Association, and formerly The Fidelity Bank) to secure payment of the bonds and indebtedness therein specified by an Indenture of Mortgage dated as of May 1, 1968; First Supplemental Indenture dated as of December 1, 1970; a Supplement to the First Supplemental Indenture dated as of December 17, 1970; Second Supplemental Indenture dated as of September 1, 1974; Third Supplemental Indenture dated as of November 1, 1977; Fourth Supplemental Indenture dated as of December 1, 1982; Fifth Supplemental Indenture dated as of June 1, 1983; Sixth Supplemental Indenture dated as of August 1, 1985; Seventh Supplemental Indenture dated as of January 1, 1987; Eighth Supplemental Indenture dated as of September 1, 1988; Ninth Supplemental Indenture dated as of October 1, 1999; Tenth Supplemental Indenture dated as of November 1, 1990; Amended and Restated Tenth Supplemental Indenture dated as of November 1, 1990; Eleventh Supplemental Indenture dated as of December 1, 1991; Twelfth Supplemental Indenture dated as of December 1, 1992; Thirteenth Supplemental Indenture dated as of December 1, 1993; Fourteenth Supplemental Indenture dated as of September 1, 1995; Fifteenth Supplemental Indenture dated as of February 1, 1997, and Sixteenth Supplemental Indenture dated as of June 1, 1998. The

Indenture of Mortgage and Supplements were attached to Kentucky American Water's Application in Case No. 2006-00418 and are incorporated by reference pursuant to 807 KAR 5:001 Section 11(2)(b).

8. AWCC is a wholly-owned subsidiary of American Water and is a corporation organized under the laws of the state of Delaware. On November 21, 2006, a \$700 million Commercial Paper ("CP") Program with a committed revolving credit facility backstop of \$800 million, (collectively, the "Working Capital Facility") was approved and implemented. On December 18, 2008, an additional \$40 million was committed to this line, bringing the total available line to \$840 million. The Working Capital Facility will be used by AWCC to fund the working capital needs of its regulated Business Partners, Parent Company, and the Service Company. The maximum total available credit with AWCC for the above entities is \$840 million. \$150 million of the committed revolving credit facility is available for letters of credit ("L/C's"). It has obtained funds from a syndicated bank credit line for short-term loans and from its own debt securities, all with the support of American Water. A copy of the Certificate of Incorporation of AWCC is attached as Exhibit No. 5.

9. As Exhibit No. 4 shows, as of January 31, 2009, Kentucky American Water had outstanding short-term debt in the amount of \$56,383,691 payable to AWCC and five long-term debt issues: (1) 6.960% series in the amount of \$7,000,000 due December 1, 2023; (2) 7.150% series in the amount of \$7,500,000 due February 1, 2027; (3) 6.990% series in the amount of \$9,000,000 due June 1, 2028; (4) 6.590% series in the amount of \$47,000,000 due October 15, 2037; and (5) 6.870% series in the amount of \$9,300,000 due March 29, 2011 (annual sinking fund of \$3.1 million).

10. Prior to December 31, 2010, Kentucky American Water will require additional short-term debt borrowings primarily driven by the construction costs related to the Kentucky River Station II Project (“KRS II”).¹ It is also anticipated that Kentucky American Water will require four permanent long-term debt financings, the first of which is planned to occur in May 2009 by the issuance of \$45,500,000 of new long-term debt. Anticipated additional long-term debt issuances are: \$26,000,000 in November 2009; \$14,000,000 in May 2010; and \$19,000,000 in October 2010. The sum total of these financings is \$104,500,000. The proceeds from these financings will be used to refinance short-term debt needed to meet internal cash requirements for: (i) construction and funding for KRS II, (ii) fund other construction expenditures, and (iii) meet other internal cash requirements. The record in Case No. 2007-00134 contains the information required by 807 KAR 5:001 Section 11(1)(d) and Section 11(2)(c), including the engineering plans for the KRS II facilities and the construction contracts related thereto and are incorporated herein by reference.

11. Pursuant to KRS 103.286 and 200 KAR 15:010, Kentucky American Water has sought and received a state tax-exempt cap allocation in order to maximize the amount of tax-exempt debt that can be obtained in the long-term debt financing plan described above. Kentucky American Water, acting for itself and by any of its corporate or other affiliates, including AWCC, has entered into a Memorandum of Agreement with Owen County, Kentucky for the possible issuance of tax-exempt bonds. In connection with that effort, Kentucky American Water submitted its application for the tax-exempt cap allocation to the Kentucky Private Activity Bond Allocation Committee. The application was approved and Kentucky American Water received an allocation of \$45,393,067 from the available local issuer pool (see

¹ The Commission issued a Certificate of Public Convenience and Necessity for this Project in Case No. 2007-00134 (April 25, 2008 Order).

pool (see Exhibit No. 6). Having received that allocation, Kentucky American Water, AWCC and Owen County will pursue the issuance of tax-exempt bonds that are authorized by such an allocation in order to minimize to the fullest extent possible the cost of the KRS II facilities. The proceeds of the bonds may be loaned by Owen County to AWCC, who, in turn, would loan them to Kentucky American Water.² The issuance of the tax-exempt bonds must be completed no later than June 24, 2009 pursuant to 200 KAR 15:010 (see Exhibit No. 6). Therefore, Kentucky American Water respectfully requests a decision from the Commission on this application as soon as possible and prior to May 24, 2009 if possible.

12. Kentucky American Water requests authority to assume certain obligations under various agreements in connection with the proposed issuance of one or more series of Owen County KRS II Revenue Bonds (the “KRS II Bonds”). As stated above, the proceeds of the KRS II Bonds would be loaned to AWCC for the beneficial use of Kentucky American Water, and all such proceeds would then be immediately loaned to Kentucky American Water to provide permanent financing for a portion of the KRS II facilities.

13. In connection with the KRS II Bonds, Kentucky American Water and/or AWCC would assume certain obligations under one or more loan agreements with Owen County, Kentucky, and may enter into one or more guaranty agreements or other similar undertakings

² The Commission has previously approved similar tax-exempt financings. See Case No. 2007-00155 (*In the Matter of: The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*), Order of April 30, 2007, Case No. 2006-00414 (*In the Matter of: The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*), Order of November 20, 2006, Case No. 2006-00187 (*In the Matter of: The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*), Order of June 16, 2006, Case No. 2005-00183 (*In the Matter of: The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*), Order of June 20, 2005 and Case No. 2005-00357 (*In the Matter of: The Application of Kentucky Utilities Company for an Order Authorizing the Issuance of Securities and the Assumption of Obligations*), Order of October 14, 2005.

guaranteeing repayment of all or any part of the obligations under one or more series of KRS II Bonds for the benefit of the holders of such bonds. Additionally, in connection with the KRS II Bonds, Kentucky American Water will issue one or more Promissory Notes to AWCC under and pursuant to the Financial Services Agreement between AWCC and Kentucky American Water that has been previously approved by the Commission.

14. Owen County has the power, pursuant to the provisions of the Industrial Building Revenue Bond Act, KRS 103.200 to 103.285, to enter into the transactions contemplated by the loan agreements(s) and to carry out its obligations thereunder by issuing and selling negotiable KRS II Bonds and lending the proceeds from the sale of such bonds to AWCC and/or Kentucky American Water to finance the KRS II facilities.

15. Exhibit No. 7 to this Application consists of copies of the Owen County Fiscal Court Resolution authorizing issuance of the bonds referenced above, as well as a copy of the Memorandum of Agreement between Owen County and Kentucky American Water and/or its affiliates.

16. The long-term debt issuances discussed above (regardless of whether they are taxable or tax-exempt) will be required to reduce short-term debt at the time of their respective issuances. In order to continue to maintain a reasonable relationship of long-term debt to common equity, Kentucky American Water has received or anticipates infusion of additional equity (via paid-in-capital rather than issuance of additional shares) of: \$22,500,000 in March 2009 (received); \$10,000,000 in October 2009; \$16,000,000 in March 2010; and \$5,000,000 in October 2010, by its parent company, American Water Works Company, Inc..

17. The maturity of the long-term issuances via AWCC will not be more than 50 years from the nominal date of issue, with the expectation that the maturity dates can be

anywhere from five to 35 years, depending upon market conditions. The interest rate will be determined by market conditions at the time of issuance. The interest will be payable on the same dates as AWCC must pay its corresponding interest payment on the borrowings from which the proceeds of the loans to Kentucky American Water will be derived. This is expected to be monthly, quarterly or semiannually and is subject to final negotiation. These obligations will be unsecured and will therefore rank on parity with Kentucky American Water's unsecured creditors and will not have the benefit of any security afforded by Kentucky American Water's General Mortgage Indenture. The securities evidencing the long-term indebtedness will have the same callability and conversion features as AWCC obtains in connection with its borrowings from which the proceeds of the loans to Kentucky American Water will be derived. These may include provisions for the redemption at the option of AWCC or tender at the option of the purchaser as may be negotiated with the agent or purchasers of the securities evidencing the indebtedness. There will be no maintenance and depreciation requirements unless the borrowings are made on a tax-exempt basis; such provisions are usually then required. The securities will reflect whatever sinking or other fund provision requirements AWCC can obtain from its lenders; however, it is not expected that there will be any sinking or other fund provisions.

18. Kentucky American Water seeks approval for its continued participation in the AWCC borrowing program and for authority to enter into contracts, including one or more loan agreements, so that it may obtain the funding it needs prior to December 2010 at less cost than would be otherwise available and so that it may be assured of a readily available source of funds. The requested continued participation will allow Kentucky American Water to its long-term debt

needs (through 2010) totaling \$104,500,000 as described above, a substantial portion of which will be on a tax-exempt basis.

19. Kentucky American Water's participation in the AWCC borrowing program does not preclude it from either borrowing from or obtaining financial services from third parties. Kentucky American Water is not required to borrow any amount from AWCC and it may terminate its participation in the program upon adequate notice.

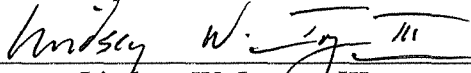
20. Kentucky American Water's continued participation with AWCC is for a lawful object within the corporate purposes of Kentucky American Water. Its participation is necessary and appropriate for and consistent with the proper performance by Kentucky American Water of its services and will not impair its ability to perform services and is reasonably necessary and appropriate for such purposes.

WHEREFORE, Kentucky American Water requests that the Commission, pursuant to the authority contained in KRS 278.300, authorize Kentucky American Water to continue its participation in the AWCC borrowing program so that the long-term financing needs described in this Application can be met.

A.W. Turner, Jr., General Counsel
Kentucky-American Water Company
2300 Richmond Road
Lexington, Kentucky 40502

and

STOLL KEENON OGDEN PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-1801
Telephone: (859) 231-3000

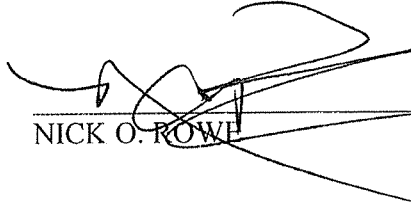
BY: 

Lindsey W. Ingram III
Attorneys for Kentucky-American Water Company

COMMONWEALTH OF KENTUCKY)

COUNTY OF FAYETTE)

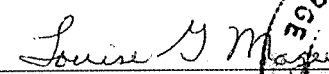
After having been duly sworn, Nick O. Rowe states that he is President of Kentucky-American Water Company, that he has knowledge of the matters set forth in this Application, that he has been designated by Kentucky-American Water Company to sign and file the Application on its behalf, and that he has read the Application and that the statements contained in it are true.




NICK O. ROWE

Subscribed and sworn to before me by Nick O. Rowe this the 13th day of April, 2009.

My Commission expires: August 16, 2012.



NOTARY PUBLIC, STATE AT LARGE, KY.



010311.003026/3623321.4

FINANCIAL SERVICES AGREEMENT

THIS AGREEMENT, dated as of June 15, 2000, by and between Kentucky-American Water Company (the "Company") and American Water Capital Corp. ("AWCC").

B A C K G R O U N D

The Company currently performs its own financial services.

However, the Company has determined that it can obtain these services more efficiently through the consolidation of certain necessary management and staff functions with those performed for other entities that may enter into agreement with AWCC substantially similar to this one ("Co-Participants").

AWCC is dedicated to performing such consolidated functions.

Accordingly, the parties have determined to enter into this Agreement for the provision of financial services by AWCC to the Company and for the proper determination and allocation of the costs of providing such services.

Therefore, the parties agree as follows:

A G R E E M E N T

1. Services. AWCC will provide, either directly or through arrangements with third parties for the benefit of the Company, such financial services as the Company and AWCC may from time to time agree, including but not limited to those more fully described in Appendix I attached to this Agreement.

2. Costs. In consideration of the provision of the services contemplated by paragraph 1, the Company agrees to pay AWCC a portion of the costs and appropriate overhead incurred by AWCC in providing those services, as follows. The costs incurred by AWCC in connection with its bank credit lines and short-term public borrowings will be divided among the Co-Participants in proportion to the maximum principal amount that each Co-Participant requests be made available to it during the course of a year. The costs incurred by AWCC in connection with each long-term borrowing by AWCC will be divided among each Co-Participant in proportion to the principal amount of that borrowing that is loaned to that Co-Participant. AWCC's overhead will be allocated among the Co-Participants in the same proportion as each Co-Participant's long-term and maximum, requested short-term borrowings and investments in a calendar year bear to all of the long and maximum short-term borrowings and investments by all Co-Participants during the same year.

3. Statements. AWCC will prepare and deliver to the Company monthly statements of the services provided by AWCC and amounts payable to AWCC, giving effect to

all the provisions of this Agreement. The Company shall pay the net amount shown on its statement within thirty (30) days after the billing date.

4. Inspection. Upon reasonable notice, AWCC will make available to the Company for its inspection AWCC's books, records, bills, accounts and any other documents which describe or support the costs allocated to the Company under this Agreement.

5. Obligations Not Joint. AWCC and the Company expressly agree: (a) that the obligations of the Company and each Co-Participant to AWCC are several and not joint; (b) that the Company will not be responsible to any Co-Participant, to AWCC or to any assignee or creditor of AWCC for any payment in excess of payments due by the Company to AWCC under this Agreement or a Note in the form attached to this Agreement; and (c) that no Co-Participant will be responsible to the Company, to any other Co-Participant, to AWCC or to any assignee or creditor of AWCC for any payment in excess of payments due by that Co-Participant to AWCC under any agreement substantially similar to this Agreement or under any Note attached to that other agreement. AWCC covenants and agrees that it will require, as a condition to its entering into any such other agreement with a Co-Participant, that such other agreement contains the same provision as that contained in the immediately preceding sentence.

6. Notes. The Company's borrowings under this Agreement will be evidenced by one or more promissory notes in the form of Exhibit A or Exhibit B attached to this Agreement.

7. Non-Exclusivity. Nothing in this Agreement prohibits or restricts the Company from borrowing from third parties, or obtaining services described in this Agreement from third parties, whenever and on whatever terms it deems appropriate.

8. Effectiveness. This Agreement shall be effective as of June 15, 2000, provided that, if prior approval by the regulatory commission of any jurisdiction is required before this Agreement may become effective as to the Company, or before AWCC may provide a particular service hereunder to the Company, this Agreement shall not be effective as to the Company or as to that service, as the case may be, unless and until the required approval has been obtained. Unless and until this Agreement becomes effective as to the Company in whole or in part, the Company shall not be entitled to the benefits of, nor shall it have any rights or duties under, this Agreement. This Agreement may be amended or rescinded only by written instrument signed by the Company and AWCC.

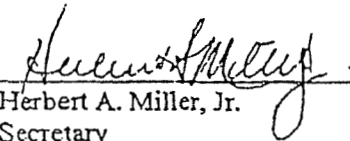
9. Termination. The Company may terminate its participation in this Agreement by giving ten (10) days prior written notice of such termination to AWCC; and (b) AWCC may terminate this Agreement by giving ninety (90) days prior written notice of such termination to the Company. Termination of this Agreement will not affect: (a) the Company's obligations under any Promissory Notes; (b) any party's obligations with respect to any amounts owing under Sections 2 and 3 of this Agreement (including such amounts attributable to obligations of any terminating party under any Promissory Notes that remain outstanding after this Agreement is terminated as to that party); or (c) AWCC's obligations to repay any investments made by a Company pursuant to Appendix I.

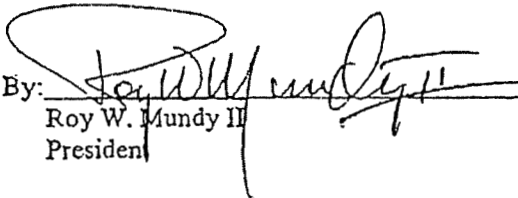
10. Copies. This Agreement may be executed by the parties in one or more copies and each executed copy shall be considered an original.

In witness of the foregoing, each of the Company and AWCC has caused its respective corporate seal to be affixed to this Agreement and has caused this Agreement to be signed on its behalf by its duly authorized officers.

ATTEST:

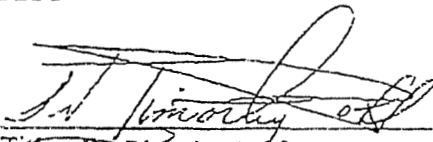
KENTUCKY-AMERICAN WATER COMPANY


By: 
Herbert A. Miller, Jr.
Secretary

By: 
Roy W. Mundy II
President

ATTEST:

AMERICAN WATER CAPITAL CORP.

By: 
Title: ~~W~~ Timothy Pohl
Vice President and Secretary

By: 
Name and Title: Joseph F. Hartnett, Jr.
Vice President and Treasurer

APPENDIX I

DESCRIPTION OF FINANCIAL SERVICES

Set forth below is a list of the services which AWCC agrees to provide to the Company upon its request pursuant to the Agreement to which this Appendix is attached.

1. Short-Term Loans. AWCC will provide Short-Term Loans to the Company pursuant to the terms set forth in the promissory notes to be issued by the Company to AWCC, each substantially in the form attached to this Agreement as Exhibit A.

2. Long-Term Borrowings. AWCC will provide loans other than Short-Term Loans to the Company pursuant to the terms set forth in the promissory notes to be issued by the Company to AWCC, each substantially in the form attached hereto as Exhibit B.

3. Cash Management. Cash not required by the Company to pay its daily disbursements or to pay when due the principal of and interest on, the Company's borrowings from AWCC other than Short-Term Loans will be used by AWCC first to reduce the outstanding principal balance of the Company's Short-Term Loans owing to AWCC and any excess will be deemed to be invested with AWCC and will earn a daily rate of interest that is equal to the interest income earned by AWCC on those funds. Upon the request of that Company, AWCC shall execute one or more promissory notes in favor of the Company, in form and substance substantially similar to the Promissory Note attached as Exhibit A to the Agreement as evidence of such investment.

EXHIBIT A
PROMISSORY NOTE
FOR SHORT-TERM LOANS

\$ _____, 2000

FOR VALUE RECEIVED, [NAME OF COMPANY], a _____ corporation (herein "Borrower") hereby promises to pay ON DEMAND to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at Voorhees, New Jersey or such other place as Lender may from time to time designate, the principal sum of _____ dollars (\$ _____) (the "Maximum Principal Sum"), or such lesser amount as shall equal the aggregate unpaid principal amount of the loans made by Lender to Borrower (other than loans evidenced by a promissory note under which the principal amount is due and payable in one or more scheduled installments more than one year after the date of its issue), together with interest thereon from the date hereof until paid in full. Interest will be charged on the unpaid outstanding principal balance of this Note at a rate per annum equal to Lender's actual cost of funds to make such loan, such rate to change as Lender's actual cost of funds changes. Interest on borrowings shall be due and payable on the first business day of each month, commencing with the first business day of the month after the month in which this Note is executed. In the absence of manifest error, the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

Borrower may borrow, repay and reborrow hereunder in amounts which do not, in the aggregate outstanding at any time, exceed the Maximum Principal Sum.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, *dissolution or liquidation of law or statute*, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of

Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of the parties hereto.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

[BORROWER]

By: _____
Name and Title:

EXHIBIT B
PROMISSORY NOTE
FOR LONG-TERM BORROWINGS

\$ _____, 2000

FOR VALUE RECEIVED, [NAME OF COMPANY], a _____ corporation (herein "Borrower") hereby promises to pay to the order of American Water Capital Corp., a Delaware corporation ("Lender"), in same day funds at its offices at _____ or such other place as Lender may from time to time designate, the principal sum of _____ dollars (\$ _____), together with interest thereon from the date hereof until paid in full. Interest shall be charged on the unpaid outstanding principal balance hereof at a rate per annum equal to the rate paid and to be paid by Lender with respect to the borrowings it made in order to provide funds to Borrower hereunder. Interest on borrowings shall be due and payable in immediately available funds on the same business day on which the Lender must pay interest on the borrowings it made in order to provide funds to the Borrower hereunder. The principal amount hereof shall be due and payable hereunder at such times and in such amounts and in such installments hereunder as the Lender must pay with respect to the borrowings it made in order to provide funds to the Borrower hereunder. Lender has provided Borrower with a copy of the documentation evidencing the borrowings made by Lender in order to provide funds to Borrower hereunder. In the absence of manifest error, such documentation and the records maintained by Lender of the amount and term, if any, of borrowings hereunder shall be deemed conclusive.

The occurrence of one or more of any of the following shall constitute an event of default hereunder:

(a) Borrower shall fail to make any payment of principal and/or interest due hereunder or under any other promissory note between Lender and Borrower within five business days after the same shall become due and payable, whether at maturity or by acceleration or otherwise;

(b) Borrower shall apply for or consent to the appointment of a receiver, trustee or liquidator of itself or any of its property, admit in writing its inability to pay its debts as they mature, make a general assignment for the benefit of creditors, be adjudicated a bankrupt or insolvent or file a voluntary petition in bankruptcy or a petition or an answer seeking reorganization or an arrangement with creditors or to take advantage of any bankruptcy, reorganization, insolvency, readjustment of debt, dissolution or liquidation of law or statute, or an answer admitting the material allegations of a petition filed against it in any proceeding under any such law, or if action shall be taken by Borrower for the purposes of effecting any of the foregoing; or

(c) Any order, judgment or decree shall be entered by any court of competent jurisdiction, approving a petition seeking reorganization of Borrower or all or a substantial part of the assets of Borrower, or appointing a receiver, trustee or liquidator of Borrower or any of its property, and such order, judgment or decree shall continue unstayed and in effect for any period of sixty (60) days.

Upon the occurrence of any event of default, the entire unpaid principal sum hereunder plus all interest accrued thereon plus all other sums due and payable to Lender hereunder shall, at the option of Lender, become due and payable immediately. In addition to the foregoing, upon the occurrence of any event of default, Lender may forthwith exercise singly, concurrently, successively or otherwise any and all rights and remedies available to Lender by law, equity, statute or otherwise.

Borrower hereby waives presentment, demand, notice of nonpayment, protest, notice of protest or other notice of dishonor in connection with any default in the payment of, or any enforcement of the payment of, all amounts due hereunder. To the extent permitted by law, Borrower waives the right to any stay of execution and the benefit of all exemption laws now or hereafter in effect.

Following the occurrence of any event of default, Borrower will pay upon demand all costs and expenses (including all amounts paid to attorneys, accountants, and other advisors employed by Lender), incurred by Lender in the exercise of any of its rights, remedies or powers hereunder with respect to such event of default, and any amount thereof not paid promptly following demand therefor shall be added to the principal sum hereunder and will bear interest at the contract rate set forth herein from the date of such demand until paid in full. In connection with and as part of the foregoing, in the event that this Note is placed in the hands of an attorney for the collection of any sum payable hereunder, Borrower agrees to pay reasonable attorneys' fees for the collection of the amount being claimed hereunder, as well as all costs, disbursements and allowances provided by law.

If for any reason one or more of the provisions of this Note or their application to any entity or circumstances shall be held to be invalid, illegal or unenforceable in any respect or to any extent, such provisions shall nevertheless remain valid, legal and enforceable in all such other respects and to such extent as may be permissible. In addition, any such invalidity, illegality or unenforceability shall not affect any other provisions of this Note, but this Note shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

This Note inures to the benefit of Lender and binds Borrower and Lender's and Borrower's respective successors and assigns, and the words "Lender" and "Borrower" whenever occurring herein shall be deemed and construed to include such respective successors and assigns.

This Promissory Note is one of the promissory notes referred to in the Financial Services Agreement dated as of June 15, 2000 between Borrower and Lender to which reference is made for a statement of additional rights and obligations of Lender and Borrower.

IN WITNESS WHEREOF, Borrower has executed this Promissory Note the day and year first written above.

[BORROWER]

By: _____
Name and Title:

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

THE APPLICATION OF)
KENTUCKY-AMERICAN WATER)
COMPANY FOR APPROVAL OF) CASE NO. 2000-189
PARTICIPATION IN)
BORROWING PROGRAM)

O R D E R

On May 5, 2000, Kentucky-American Water Company ("Kentucky-American") filed an application for Commission approval to participate in a borrowing program. This program has been made available to Kentucky-American through its parent corporation, American Water Works Company, Inc. ("American Water Works"). As a participant in the program, Kentucky-American must enter into a Financial Services Agreement with American Water Works Financing Corporation. On May 12, 2000, Kentucky-American amended its application to reflect the change in the name of American Water Works Financing Corporation to American Water Capital Corporation ("AWCC").

Kentucky-American seeks to enter into this agreement in conjunction with each of American Water Works' subsidiaries as well as American Water Works. It is anticipated that AWCC could obtain more advantageous funding for the individual participants by utilizing the borrowing power and combined borrowing efficiency of all of the participants in the borrowing program.

AWCC, a wholly owned subsidiary of American Water Works, will obtain its funds primarily from two sources. It will arrange for a syndicated bank credit line to provide short-term loans and it will register its own debt securities for sale in the public market by filing a shelf registration with the United States Securities and Exchange Commission. Based on estimated borrowing requirements provided by each program participant for the coming year as well as future needs, AWCC will arrange borrowing commitments and borrowing programs to provide funds necessary to meet those requirements.¹

As a participant in the borrowing program, Kentucky-American will obtain short-term and long-term loans from AWCC. Kentucky-American expects to periodically issue, prior to December 31, 2005, securities in the form of notes or debentures for the purpose of refunding/refinancing certain outstanding debt in the aggregate principal amount of \$41,500,000. Kentucky-American also intends to borrow funds from AWCC to finance its construction program and the acquisition of other utility systems.

The Commission, having reviewed the evidence of record and being otherwise sufficiently advised, finds that:

1. Kentucky-American's entry into the Financial Services Agreement and participation in the borrowing program with AWCC is for a lawful object within the corporate purposes of its utility operation, is necessary and appropriate for and consistent with the

¹ For a complete description of the financial arrangements between AWCC and the American Water Works subsidiaries who are parties to the Financial Services Agreement and who participate in the borrowing program and the benefits that these arrangements confer, see Illinois-American Water Company, Docket No. 00-0306 (Ill. C.C. May 18, 2000) at 2-5.

proper performance of the utility's service to the public and will not impair its ability to perform that service, and is reasonable, necessary, and appropriate for such purposes.

2. Kentucky-American's proposed issuance of securities in the form of notes or debentures in an aggregate amount of \$41,500,000 for the purpose of refunding/refinancing existing short-term and long-term debt is reasonable and consistent with the performance of its service to the public and should be approved.

3. The specific terms and conditions of each issuance under the borrowing program set forth in the Agreement are not known at this time. Therefore, Kentucky-American should be required to inform the Commission of the terms and conditions of each issuance covered by the borrowing program.

4. Kentucky-American should obtain Commission approval prior to the issuance of any security or long-term evidence of indebtedness not specifically set forth in its application and included in the \$41,500,000 refunding/refinancing.

IT IS THEREFORE ORDERED that:

1. Kentucky-American is authorized to enter into the Financial Services Agreement with AWCC and to participate in its borrowing program.

2. Kentucky-American is authorized to issue securities in the form of notes or debentures in an aggregate amount of \$41,500,000 from time to time prior to December 31, 2005 for the purpose of refunding/refinancing existing short-term and long-term debt.

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

4. For all securities or evidences of indebtedness that have a term exceeding 2 years and that are issued under the Financial Services Agreement's borrowing program, Kentucky-American shall file a report detailing the terms and conditions of the particular securities issued. Kentucky-American shall include an analysis showing that the interest rate for the securities was the most reasonable under the circumstances at the time of issuance. This report shall be filed with the Commission within 10 days of the completion of the issuance.

5. Kentucky-American shall obtain approval from the Commission prior to the issuance of any security or long-term evidence of indebtedness not specifically identified in its application and included in the \$41,500,000 refunding/refinancing approved herein.

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein accepted.

Done at Frankfort, Kentucky, this 21st day of July, 2000.

By the Commission

ATTEST:

W. H. Bowen
Executive Director

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY-AMERICAN)
WATER COMPANY FOR CONTINUED) CASE NO. 2006-00418
PARTICIPATION WITH AMERICAN WATER)
CAPITAL CORP.)

ORDER

Kentucky-American Water Company ("Kentucky-American") has applied for authorization to continue its participation in the American Water Capital Corporation ("AWCC") borrowing program.¹ By this Order, we authorize Kentucky-American's continued participation in the program, subject to certain conditions, and the issuance of securities in the form of notes or debentures in the amount of \$61.5 million prior to December 31, 2007.

Kentucky-American, a Kentucky corporation, owns and operates facilities that treat and distribute water to the public for compensation in Bourbon, Clark, Fayette, Gallatin, Grant, Harrison, Jessamine, Owen, Scott, and Woodford counties, Kentucky. It provides wholesale water service to Harrison County Water Association, Jessamine-South Elkhorn Water District, and the cities of Georgetown, Midway, North Middletown,

¹ Kentucky-American filed its application with the Commission on August 28, 2006. The Attorney General ("AG") subsequently sought and was granted leave to intervene in this proceeding. On November 20, 2006, the Commission continued the period for review of this application beyond 60 days and set this matter for hearing. After completion of discovery, Kentucky-American and the AG waived a hearing in this matter. The matter stood submitted for decision on January 28, 2007.

Nicholasville, Versailles, and Winchester. It is a utility subject to Commission jurisdiction.²

American Water Works Company ("American Water"), a Delaware corporation whose operating subsidiaries provide water, wastewater and other water resource management services in 29 states and Canada, currently owns all outstanding shares of Kentucky-American stock.

In 2000 Kentucky-American sought Commission authorization to participate in a borrowing program that American Water made available to each of its subsidiaries.³ Under this program, each American Water subsidiary entered into an agreement with AWCC, a wholly owned subsidiary of American Water, for financial services. AWCC would arrange for a syndicated bank credit line to provide for short-term loans and register its own debt securities for sale in the public market by filing shelf registration with the Securities and Exchange Commission. Each participant would provide AWCC with an estimate of its future borrowing requirements. AWCC would arrange borrowing commitments and programs to meet these commitments. The liability of each participant in the program was limited to its individual debt. All loans to the program participants were unsecured.

In support of its application, Kentucky-American asserted that pooling the borrowing requirements of American Water and its subsidiaries would result in lower

² KRS 278.010(3)(d).

³ Case No. 2000-00189, The Application of Kentucky-American Water Company for Approval of Participation in the Borrowing Program (Ky. PSC July 21, 2000).

capital costs. Because the issuance costs⁴ associated with debt instruments will generally remain constant regardless of the size of the issuance, the pooling of long-term debt requirements would produce a reduced pro rata share of issuance costs for the program participants. Kentucky-American further asserted that larger sized debt issuances in the public market produced more favorable terms because lenders of larger loans are able to share their risk with others.

After considering Kentucky-American's application, the Commission found that Kentucky-American's entry into the proposed Financial Services Agreement ("Agreement") was appropriate for its provision of utility service and authorized Kentucky-American to enter into the Agreement and to issue securities in the form of notes or debentures in the amount of \$41.5 million prior to December 31, 2005.

In January 2003, RWE Aktiengesellschaft ("RWE") acquired indirect control of American Water through the purchase of American Water's common stock.⁵ While Kentucky-American has continued to participate in the AWCC's borrowing program, AWCC ceased obtaining funds through outside sources and instead obtained its funding through direct loans from RWE.⁶

⁴ Placement fees and legal fees are examples of issuance costs.

⁵ See Case No. 2002-00317, The Joint Petition of Kentucky-American Water Company, Thames Water Aqua Holdings GmbH, RWE Aktiengesellschaft, Thames Water Aqua US Holdings, Inc., Apollo Acquisition Company and American Water Works Company, Inc. for Approval of a Change of Control of Kentucky-American Water Company (Ky. PSC Dec. 20, 2002).

⁶ Application at ¶ 10.

RWE now intends to divest itself of its holdings in American Water⁷ and to terminate its support of AWCC. Once RWE has secured the necessary regulatory approvals for the sale of the American Water common stock, it will call the notes that support AWCC short-term debt; Kentucky-American's 5.65 percent Long-term Debt Series; and Kentucky-American's 4.75 percent Long-term Debt Series.

To address RWE's actions and to meet additional capital requirements, Kentucky-American plans several debt issuances prior to December 31, 2007. Kentucky-American's projected financing requirements for the calendar year 2007 are set forth in Table 1. Kentucky-American proposes to refinance those debt instruments affected by RWE's withdrawal of support with a \$41 million long-term debt issuance in May 2007. To maintain a reasonable relationship between long-term debt and common equity, it expects to make capital issuances in November 2006 and September 2007 of \$8 million and \$5.6 million, respectively.

TABLE 1

Projected Month of Debt Issuance	Subject of Refinancing	Principal Amount
May 2007	Short-term Debt 5.65% Series of Long-term Debt 4.75% Series of Long-term Debt	\$ 41.1 Million
November 2007	Short-term Debt	\$ 12.0 Million
September 2007	Short-term Debt	\$ 8.4 Million

In addition to the long-term borrowings, Kentucky-American's participation in the AWCC borrowing program will include support of the short-term debt issuances. AWCC

⁷ Case No. 2006-00197, The Joint Petition of Kentucky-American Water Company, Thames Water Aqua Holdings GmbH, RWE Aktiengesellschaft, Thames Water Aqua U.S. Holdings, Inc. and American Water Works Company, Inc. for Approval of a Change in Control of Kentucky-American Water Company (Ky. PSC April 16, 2007).

has closed on an \$800 million revolving credit facility to serve as a back-up to its commercial paper program and plans to begin issuing the new commercial paper in the near future. The new commercial paper program is expected to have average outstanding borrowing of \$450 million with maturities between one day and 90 days. AWCC expects this program to result in \$158,000 in annual savings to AWCC over the present arrangement.⁸

The record in this proceeding clearly demonstrates that Kentucky-American's continued participation in the AWCC borrowing program will result in a reduction to the cost of Kentucky-American's short-term and long-term debt, which will ultimately benefit Kentucky-American's ratepayers. Kentucky-American estimates that, as a result of its past participation in the AWCC borrowing program, it will realize future annual net savings of \$286,159.⁹ From 2001 through 2006 Kentucky-American realized net cumulative savings of \$1.23 million.¹⁰

The Commission finds that Kentucky-American's past actions require greater Commission oversight of Kentucky-American's future participation in the AWCC Borrowing Program. During the period from July 21, 2001, to the present, Kentucky-American issued \$53,000,000¹¹ - \$12,500,000 more than we authorized.¹² To avoid

⁸ Kentucky-American's Response to AG Request for Information, Item 1-2.

⁹ Kentucky-American's Response to Commission Staff's First Information Request, Item 1.

¹⁰ Id.

¹¹ Issuance of 3/29/2001	\$15,500,000
Issuance of 6/12/2002	\$24,000,000
Issuance of 3/1/2004	<u>\$14,000,000</u>
Total Issuances	<u>\$53,500,000</u>

¹² \$53,500,000 - \$41,000,000 = \$12,500,000.

any repetition of this conduct, we condition our approval of Kentucky-American's continued participation in the AWCC Borrowing Program upon Kentucky-American providing at least 15 days prior written notice to the Commission of the issuance of any long-term debt in conjunction with the AWCC Borrowing Program. In such notice, Kentucky-American's President and Treasurer shall certify under oath the amount of the issuance and that the debt issuance does not exceed the total amount authorized in this Order.

The Commission, having reviewed the evidence of record and being otherwise sufficiently advised, finds that:

1. Kentucky-American's entry into the Agreement and participation in the borrowing program with AWCC are for a lawful object within the corporate purposes of its utility operation, are necessary and appropriate for and consistent with the proper performance of the utility's service to the public and will not impair its ability to perform that service, and are reasonable, necessary, and appropriate for such purposes.

2. Kentucky-American's proposed issuance of securities in the form of notes or debentures in an aggregate amount of \$61,500,000 for the purpose of refunding or refinancing existing short-term and long-term debt is for a lawful object within the corporate purposes of its utility operation, is necessary and appropriate for and consistent with the proper performance of the utility's service to the public and will not impair its ability to perform that service, and is reasonable, necessary, and appropriate for such purposes and should be approved.

3. At least 15 days prior to Kentucky-American's issuance of any notes or debentures that have been authorized herein, Kentucky-American should notify the Commission in writing of the proposed issuance. In this notice, Kentucky-American's

President and Treasurer should certify under oath the amount of the issuance and that the debt issuance does not exceed the total amount authorized in this Order.

4. The specific terms and conditions of each issuance under the borrowing program set forth in the Agreement are not known at this time. Therefore, Kentucky-American should be required to inform the Commission of the terms and conditions of each issuance covered by the borrowing program.

5. Kentucky-American should obtain Commission approval prior to the issuance of any security or long-term evidences of indebtedness not specifically set forth in its application and included in the \$61,500,000 refunding or refinancing.

IT IS THEREFORE ORDERED that:

1. Kentucky-American is authorized to enter into the Agreement with AWCC and to participate in its borrowing program.

2. Kentucky-American is authorized to issue securities in the form of notes or debentures in an aggregate amount of \$61,500,000 from time to time prior to December 31, 2007 for the purpose of refunding or refinancing existing short-term and long-term debt.

3. At least 15 days prior to Kentucky-American's issuance of any notes or debentures that have been authorized herein, Kentucky-American shall notify the Commission in writing of the proposed issuance. In this notice, Kentucky-American's President and Treasurer shall certify under oath the amount of the issuance and that the debt issuance does not exceed the total amount authorized in this Order.

4. For all securities or evidences of indebtedness that have a term exceeding 2 years and that are issued under the Agreement's borrowing program, Kentucky-American shall file a report detailing the terms and conditions of the particular securities issued. It shall include an analysis showing that the interest rate for the securities was the most reasonable under the circumstances at the time of the issuance. This report shall be filed with the Commission within 10 days of the completion of the issuance.

5. Kentucky-American shall obtain Commission approval prior to the issuance of any security or long-term evidences of indebtedness not specifically set forth in its application and included in the \$61,500,000 refunding or refinancing.

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

7. Kentucky-American's failure to comply with Ordering Paragraph 3 of this Order when issuing any security or long-term evidences of indebtedness as part of the AWCC Borrowing Program shall be deemed an issuance of a security or long-term evidences of indebtedness without prior Commission authorization and shall subject Kentucky-American and its officials to the penalties of KRS 278.990(1).

Nothing contained herein shall be deemed a warranty of the Commonwealth of Kentucky, or any agency thereof, of the financing herein authorized.

Done at Frankfort, Kentucky, this 8th day of May, 2007.

By the Commission

ATTEST:

Executive Director

**FINANCIAL STATEMENT
OF
KENTUCKY-AMERICAN WATER COMPANY**

(as of January 31, 2009 except where noted)

(1) The amount and kinds of stock of the Applicant authorized are as follows:

Cumulative Preferred Stock, par value \$100 per share:

Series B, 5 - $\frac{3}{4}$ %	5,000 Shares
Series C, 5 - $\frac{1}{2}$ %	5,000 Shares
Series D, 5%	6,000 Shares
Unclassified	5,000 Shares

Preference Stock, par value \$100 per share:

8.47% Series	45,000 Shares
Unclassified	85,000 Shares

Common Stock, no par value 2,000,000 Shares

(2) The amounts and kinds of stock of the Applicant issued and outstanding as of January 31, 2009 are as follows:

Cumulative Preferred Stock, par value \$100 per share:

Series B, 5 - $\frac{3}{4}$ %	3,888 Shares
Series C, 5 - $\frac{1}{2}$ %	4,860 Shares
Series D, 5%	5,808 Shares

Preference Stock, par value \$100 per share:

8.47% Series	45,000 Shares
--------------	---------------

Common Stock, no par value 1,567,391 Shares

(3) The Cumulative Preferred Stock is cumulative as to dividends. If dividends on the Cumulative Preferred Stock shall be in arrears and such arrears shall aggregate an amount equal to or in excess of four (4) quarterly dividends upon such stock, the number of directors then constituting the Board of

Directors shall be increased by two (2) and the holders of the Preferred Stock voting separately as a class shall be entitled to elect the two (2) additional directors.

The Cumulative Preferred Stock is redeemable at any time upon thirty (30) days' notice at the following prices: the Series B at \$101 per share; the Series C at \$100.50 per share; and the Series D at \$100.

The Cumulative Preferred Stock, Series B, Series C and Series D are redeemable at par (\$100) in cases of (a) governmental or municipal acquisition of the Applicant's facilities or common stock, or (b) upon liquidation or dissolution of the Applicant.

The Preference Stock is cumulative as to dividends. If dividends on the Preference Stock shall be in arrears and such arrears shall aggregate an amount equal to or in excess of eight (8) quarterly dividends upon such stock, the number of directors then constituting the Board of Directors shall be increased by one (1) and the holders of the Preference Stock voting separately as a class shall be entitled to elect the one (1) additional director.

The shares of the 8.47% Preference Stock may be redeemed at any time, or from time to time, on or after December 1, 2001 at the option of the Company, in whole or in part, upon payment of a redemption price equal to the sum of \$100 per share plus a premium equal to the Make-Whole Premium as defined in the Articles of Incorporation.

At any time during the period of twelve (12) consecutive calendar months beginning on December 1, 2011 and ending November 30, 2012, both dates inclusive, and during each like period of twelve (12) consecutive calendar months thereafter so long as any shares of the 8.47% Series remain outstanding, the Company may at its option redeem up to and including, but not exceeding, four thousand five hundred (4,500) shares of the 8.47% Series at a redemption price equal to the sum of \$100 per share.

All then outstanding shares of the 8.47% Series shall be redeemed by the Company on December 1, 2036 at a redemption price equal to the sum of \$100 per share.

(4) The following are the only mortgages on the property of the Applicant:

General Mortgage Indenture dated as of May 1, 1968, executed by the Applicant to The Fidelity Bank (now US Bank), as Trustee, and supplemental indentures thereto dated as of December 1, 1970 (as supplemented on

December 17, 1970); September 1, 1974; November 1, 1977; December 1, 1982; June 1, 1983; August 1, 1985; January 1, 1987; September 1, 1988; October 1, 1989; November 1, 1990; December 1, 1991; December 1, 1992; December 1, 1993; September 1, 1995; February 1, 1997, and June 1, 1998.

The Indenture of Mortgage provides for the issue of General Mortgage Bonds which together with all other long-term debt cannot exceed 65% of Applicant's total capitalization, which percentage is \$153,314,728 as of February 16, 2009. The amount of indebtedness actually secured by a lien on all the property owned or hereafter acquired by the Company is \$23,500,000. There are no sinking fund provisions associated with the General Mortgage Bonds.

- (5) At January 31, 2009, \$23,500,000 in General Mortgage Bonds were issued and outstanding.

General Mortgage Bonds:

Principal amount authorized by Indenture:

No maximum limit of bonds fixed

Name of utility issuing bonds:

All bonds were issued by Kentucky-American Water Company

Principal amount issued and outstanding:

<u>GMB:</u>	<u>Issued</u>	<u>Outstanding</u>
6.96% Series	\$ 7,000,000	\$ 7,000,000
7.15% Series	7,500,000	7,500,000
6.99% Series	9,000,000	9,000,000

Date of issue (nominal date):

6.96% Series	December 1, 1993
7.15% Series	February 14, 1997
6.99% Series	June 1, 1998

Rate of interest:

6.96% Series	6.96%
7.15% Series	7.15%
6.99% Series	6.99%

Date of maturity:

6.96% Series	December 1, 2023
7.15% Series	February 1, 2027
6.99% Series	June 1, 2028

Security: All outstanding General Mortgage Bonds are secured by the lien of the General Mortgage Indenture upon all property of the Company.

Interest paid during the 12 months ended January 31, 2009:

6.96% Series	\$	487,200.00
7.15% Series		536,250.00
6.99% Series		629,100.00

(6) Notes are payable to AWCC and bear interest as listed below.

<u>Payee</u>	<u>Date of Issue</u>	<u>Interest Rate*</u>	<u>1/31/09 Amount Outstanding</u>	<u>Maturity Date</u>	<u>Interest paid 12 mos. ended 1/31/09</u>
AWCC	January 1, 2005	Variable	\$56,383,691	Revolver	\$726,103

* Interest is calculated at outstanding commercial paper average rates and at the LIBOR market index average rate plus premium per the line of credit agreements.

<u>Payee</u>	<u>Date of Issue</u>	<u>Interest Rate*</u>	<u>1/31/09 Amount Outstanding</u>	<u>Maturity Date</u>	<u>Interest paid 12 mos. ended 1/31/09</u>
AWCC	June 12, 2007	6.59%	\$47,000,000	October 15, 2037	\$3,097,300
AWCC	March 29, 2001	6.87%	\$9,300,000	March 29, 2011	\$ 638,910

(7) Except for accounts payable and payroll issued and not yet presented for payment, indebtedness other than identified on this exhibit does not exist.

(8) Dividends were paid by the Applicant during the five previous fiscal years as follows:

Common Stock

12 Mos. Ended <u>December 31</u>	Rate per <u>Share</u>	Number of <u>Shares Outstanding</u>	<u>Amount</u>
2004	1.22	1,567,391	1,912,217
2005	1.10	1,567,391	1,724,130
2006	1.28	1,567,391	2,006,260
2007	2.66	1,567,391	4,169,260
2008	3.83	1,567,391	6,003,108

Cumulative Preferred Stock, Series B, 5 – ¾%

12 Mos. Ended <u>December 31</u>	Rate per <u>Share</u>	Number of <u>Shares Outstanding</u>	<u>Amount</u>
2004	5.75	4,642	26,692
2005	5.75	3,918	22,529
2006	5.75	3,918	22,529
2007	5.75	3,918	22,529
2008	5.75	3,888	22,356

Cumulative Preferred Stock, Series B, 5 – ½%

12 Mos. Ended <u>December 31</u>	Rate per <u>Share</u>	Number of <u>Shares Outstanding</u>	<u>Amount</u>
2004	5.50	4,947	27,209
2005	5.50	4,889	26,890
2006	5.50	4,883	26,856
2007	5.50	4,883	26,856
2008	5.50	4,860	26,730

Cumulative Preferred Stock, Series D, 5%

<u>12 Mos. Ended December 31</u>	<u>Rate per Share</u>	<u>Number of Shares Outstanding</u>	<u>Amount</u>
2004	5.00	5,896	29,480
2005	5.00	5,866	29,330
2006	5.00	5,866	29,330
2007	5.00	5,866	29,330
2008	5.00	5,808	29,040

Preference Stock, 8.47% Series

<u>12 Mos. Ended December 31</u>	<u>Rate per Share</u>	<u>Number of Shares Outstanding</u>	<u>Amount</u>
2004	8.47	45,000	381,150
2005	8.47	45,000	381,150
2006	8.47	45,000	381,150
2007	8.47	45,000	381,150
2008	8.47	45,000	381,150

- (9) Applicant's Balance Sheet as of January 31, 2009 and a statement of Applicant's earnings and expenses for the twelve months ended on such date are shown on Exhibit A, Schedule 1 and Schedule 2, respectively, which are annexed hereto.

American Water Works Company
Kentucky-American Water Co 12
Total Company (USGAP)
Comparative Balance Sheet
For the Period Ending 01/31/2009

83500
GL012BSY

Kentucky-American Water Co.

Description	Current Year	Prior Year
ASSETS		
1 Utility Plant	370,915,559	345,208,808
2 Construction work in progress	59,967,208	21,725,486
3 Accumulated depreciation	84,753,298	80,472,762
4 Utility plant acquisition adjustment	303,092	325,011
5 Other utility plant adjustments		
6 Sub-total Utility Plant	346,438,221	286,786,543
7 Non-Utility property	270,193	270,193
8 Other investments		
Current Assets	177,359	200,774
10 Cash and cash equivalents	2,578,074	2,086,261
11 Temporary investments	2,321,415	177,216
12 Customer accounts receivable	266,019	2,523,181
13 Allowance for uncollectible accounts		362,268
14 Unbilled revenues	346,010	174,072
15 FTR refund due from assoc. companies	680,555	611,560
16 Miscellaneous receivables	902,335	198,288
17 Materials and supplies		
19 Other	6,739,729	6,049,588
20 Sub-total	787,986	838,578
22 Deferred debits	594,761	452,131
23 Debt and preferred stock	125,657	125,657
24 Expense of rate proceeding	6,504,427	6,378,511
25 Prelim survey & invest. charges	4,455,878	5,379,709
26 Reg Asset-Income tax recovery		
27 Other	12,468,719	13,074,586
29 Sub-total	365,916,862	306,180,910
30 Total Assets	36,568,777	36,568,777
CAPITAL AND LIABILITIES	24,132,808	8,556,219
32 Common Stock	33,027,936	30,305,741
33 Paid in Capital		
34 Retained Earnings		
35 Unearned Compensation		
36 Reacquired C/S & Accum		
37 Reacquired equity	93,729,521	74,930,837
38 Total common equity	1,455,600	1,455,700
39 Preferred stock	81,200,000	81,300,000
40 Long term debt		
41 Total capitalization	176,385,121	160,697,537
42 Current liabilities	56,383,691	19,803,451
43 Bank debt	3,100,000	3,100,000
44 Portion of LTD	8,784,764	4,394,776
45 Accounts Payable	129,612	2,602,149
46 Taxes accrued	1,631,645	1,641,915
47 Interest accrued		
48 Customer deposits	5,823,326	3,114,789
49 Other	75,593,814	34,657,080
51 Dividends declared		
52 Sub-total	12,163,409	14,292,071
54 Deferred credits	38,092,928	31,910,745
55 Customer adv. for construction	1,059,806	12,450,944
56 Deferred income taxes	2,977,897	3,571,452
57 Deferred investment tax credits	67,150,354	67,125,114
58 Reg. liab-inc. tax.refund thru rates	46,787,573	43,701,181
59 Other	365,916,862	306,180,912
60 Sub-total	46,787,573	43,701,181
62 Contributions in aid of construction		
Total capital and liabilities	365,916,862	306,180,912

UNAUDITED

American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAAP)
Income Statement 12 Month Ended
For the period Ending 01/31/2009

Kentucky-American Water Co.

Description	12 Month Actual	12 Month Plan	Variance	12 Month Previous	Annual Forecast
1 OPERATING REVENUES					
2 Water	56,857,603	57,184,099	326,496-	51,093,224	65,223,605
3 Sewer	310,651	280,691	29,960	337,736	341,328
4 Other	2,520,198	1,997,214	522,984	2,257,960	2,225,820
5 Management					
6 Total Revenues	59,688,452	59,462,004	226,448	53,688,920	67,790,753
7 OPERATIONS & MAINTENANCE EXPENSE					
8 Labor	6,606,796	6,741,389	134,593-	5,955,007	6,942,944
9 Purchased Water	1,300,661	566,789	436,128-	394,905	140,661
10 Fuel & Power	3,186,767	2,959,568	227,199	3,018,895	4,030,378
11 Chemicals	1,794,707	1,710,913	83,794	1,695,032	2,665,298
12 Waste Disposal	261,691	289,011	27,320-	257,272	296,614
13 Management Fees	7,990,977	7,360,588	630,389	7,586,934	7,598,202
14 Group Insurance	1,715,398	1,976,391	260,993-	1,693,370	1,884,996
15 Pensions	688,188	525,569	162,619	597,668	605,748
16 Regulatory Expense	191,123	546,413	355,290-	387,036	279,305
17 Insurance Other Than Group	489,697	725,143	235,446-	579,572	719,016
18 Customer Accounting	1,603,441	1,591,352	12,089	1,395,136	1,724,930
19 Rents	33,430	33,894	464-	32,774	56,748
20 General Office Expense	628,913	471,739	157,174	477,245	3,289,375
21 Miscellaneous	2,898,781	2,913,951	15,170-	2,515,046	3,089,691
22 Other Maintenance	2,683,896	2,348,620	335,276	2,201,345	2,732,193
Total Maintenance & Operations Expense	30,904,466	30,761,330	143,136	28,687,337	33,936,639
27 Depreciation	5,846,489	7,155,134	1,208,645-	6,144,374	7,033,786
28 Amortization	512,803	420,757	92,046	507,227	532,704
29 General Taxes	3,176,143	3,479,940	303,797-	3,044,613	3,598,518
30 State Income Taxes	839,375	651,517	187,858	649,373	819,531
31 Federal Income Taxes	5,029,730	4,313,928	715,802	3,627,549	5,914,584
32 Tax Savings Acquisition Adjustment					
33 Total Operating Expenses	45,409,006	46,782,606	373,600-	42,660,373	51,835,762
34 Utility Operating Income	13,279,446	12,679,398	600,048	11,028,547	15,954,991
35 OTHER INCOME & DEDUCTIONS					
36 Non-Operating Rental Income					
37 Dividend Income-Common					
38 Dividend Income-Preferred					
39 Interest Income	5,843	1,725,017	5,843	125,551	2,837,597
40 AFUDC Equity	1,479,056		245,991-	887,685	
41 M & J Miscellaneous Income	50,475		50,475-	217,759	
42 gain(loss)/on Disposition					
43					
44					
45 Total Other Income	1,535,344	1,725,017	189,673-	1,230,975	2,837,597
46 Miscellaneous Amortization	425-	768	1,193-	425-	768
47 Tax Savings Acquisition Adjustment					
48 Misc Other Deductions	244,235	387,093	142,858-	305,098	336,445
49 General Taxes	7,627-	31,934-	24,307	1,806	27,757-
50 State Income Taxes	33,115-	124,306-	91,191	1,112	108,041-
51 Federal Income Taxes	203,068	231,621	28,553-	307,591	201,415
52 Total Other Deductions	1,332,276	1,493,396	161,120-	923,384	2,636,182
53 Total Other Income	14,611,722	14,172,794	438,928	11,951,931	18,591,173
54 Income Before Interest Charges					
55 INTEREST CHARGES					
56 Interest on Long-Term Debt	5,676,490	5,876,103	199,613-	4,712,990	7,765,096
57 Amortization and Debt Expense	89,647	71,370	18,277	76,285	117,262
58 Interest-Short Term Bank Debt	716,103	1,103,264	387,161-	1,466,649	1,308,150
59 Other Interest Expense	3	3	3	406,099-	1,288,656-
60 AFUDC-Debt	674,296-	783,391-	109,095	406,099-	1,288,656-
61 Total Interest Charges	5,807,947	6,267,346	459,399-	5,849,825	7,901,852
62 Net Income	8,803,775	7,905,448	898,327	6,102,106	10,689,321
63 Preferred Dividend Declared	76,475	426,086	349,611-	76,776	76,132
64					
65 Net Income to Common Stock	8,725,300	7,479,362	1,247,938	6,025,330	10,611,189

CERTIFICATE OF INCORPORATION
OF
AMERICAN WATER CAPITAL CORP.

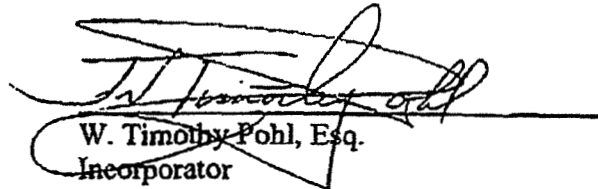
The undersigned, for the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, does hereby state as follows:

1. **Name.** The name of the Corporation is American Water Capital Corp. (the "Company")
2. **Registered Office and Agent.** The address of the Company's registered office in the State of Delaware is Corporation Trust Center, 1209 Orange Street, in the City of Wilmington, County of New Castle. The name of its registered agent at such address is The Corporation Trust Company.
3. **Purpose.** The purposes for which the Company is formed are to engage in any lawful act or activity for which corporations may be organized under the General Corporation Law of Delaware and to possess and exercise all of the powers and privileges granted by such law and any other law of Delaware.
4. **Authorized Capital.** The total number of shares of stock which the Company shall have authority to issue is 10,000 shares, all of which shall be Common Stock of the par value of \$1.00 per share.
5. **Incorporator.** The name and mailing address of the incorporator are as follows: W. Timothy Pohl, 1025 Laurel Oak Road, P.O. Box 1770, Voorhees, NJ 08043.
6. **Term.** The Company is to have perpetual existence.
7. **Bylaws.** The board of directors of the Company shall have the power to adopt, amend or repeal the bylaws of the Company, except as otherwise specifically provided therein.
8. **Elections of Directors.** Elections of directors need not be by written ballot unless the bylaws of the Company shall so provide.
9. **Limitation on Liability.** The directors of the Company shall be entitled to the benefits of all limitations on the liability of directors generally that are now or hereafter become available under the General Corporation Law of Delaware, including, without limitation, as permitted by the provisions of

paragraphs (7) of subsection (b) of § 102 of the Delaware General Corporation Law, as the same may be amended and supplemented. Any repeal or modification of this Section 9 shall be prospective only, and shall not affect, to the detriment of any director, any limitation on the personal liability of a director of the Company existing at the time of such repeal or modification.

10. Right to Amend. Subject to the provisions of this Certificate, the Company reserves the right to amend any provision contained in this Certificate of Incorporation and in any certificate amendatory hereof in the manner now or hereafter prescribed by law, and all rights conferred on stockholders or others hereunder are subject to such reservation.

IN WITNESS WHEREOF, the undersigned, being the incorporator hereinbefore named, as hereunto set his hand, this 11 day of May, 2000.


W. Timothy Pohl, Esq.
Incorporator

CONFIRMATION NO.: 4
DATE: March 27, 2009

CONFIRMATION OF ALLOCATION OF STATE CEILING

KENTUCKY PRIVATE ACTIVITY BOND ALLOCATION COMMITTEE

702 Capitol Avenue, Suite 76
Frankfort, KY 40601
(502) 564-2924


Issuer Name: County of Owen
Borrower/User: Kentucky–American Water Company
Bond Counsel: Spencer E. Harper, Jr.
Address: 500 West Jefferson Street, 2000 PNC Plaza
City: Louisville, Kentucky 40202

Confirmation Type:
 Original
 Renewal
 Supplemental

Confirmation is hereby given that \$45,393,067 of the state ceiling for private activity bonds for the Commonwealth of Kentucky for CY2009 has been allocated to the bond issue described by the above referenced Notice of Intent Number. This Confirmation is numbered and dated and is effective only in accordance with the terms of state and federal law. This allocation has been made from the:

Local Issuer Pool
Available Volume Cap Lottery Pool
State Issuer Pool

This allocation of the state ceiling shall expire on: June 24, 2009 pursuant to the provisions of 200 KAR 15:010. The undersigned officer executing and responsible for this confirmation and allocation hereby swears and certifies under penalty of perjury that the allocation was not made in consideration of any bribe, gift, gratuity or direct or indirect contribution of any political campaign.



Kentucky Private Activity Bond Allocation Committee

RESOLUTION AND ORDER

A RESOLUTION AND ORDER OF THE FISCAL COURT OF THE COUNTY OF OWEN, KENTUCKY, AUTHORIZING THE EXECUTION OF A MEMORANDUM OF AGREEMENT BY AND AMONG THE COUNTY AND KENTUCKY-AMERICAN WATER COMPANY, A KENTUCKY CORPORATION, RELATING TO THE ACQUISITION, CONSTRUCTION AND INSTALLATION OF AN INTAKE AND WATER TREATMENT PLANT IN THE COUNTY; AGREEING TO UNDERTAKE THE ISSUANCE OF REVENUE BONDS AT THE APPROPRIATE TIME TO PAY THE COSTS OF ACQUIRING, CONSTRUCTING AND EQUIPPING SAID FACILITIES; AND TAKING OTHER PRELIMINARY ACTIONS.

WHEREAS, Kentucky-American Water Company, a Kentucky corporation, acting for itself and by any of its corporate or other affiliates (collectively, the "Company"), is a regulated public utility providing water service to the general public and the Company, in furtherance of its duties to serve the public has determined to construct and acquire major water collection, treatment and distribution facilities in Owen County, Kentucky (the "County") consisting of the acquisition, construction and installation of an intake and water treatment plant at Pool No. 3 of the Kentucky River (collectively, the "Project"); and

WHEREAS, as the Company derives substantially all of its income and revenues from water user rates and charges which are paid by the general public and any reduction in the costs to the Company of borrowing moneys for acquisition and construction of the Project will inure directly to the benefit of said water consumers, including citizens of Owen County, Kentucky; and

WHEREAS, the County is authorized by KRS Sections 103.200 to 103.285, inclusive (the "Act") to issue its revenue bonds for the purpose of defraying some or all of the costs of constructing and acquiring the Project; discussions have occurred between the Company and the County incident to the issuance of one or more series of revenue bonds by the County for such purpose; the County has agreed with the Company (which may act for itself, or by any of its corporate or other affiliates) to issue one or more series of such bonds upon compliance by the Company with certain conditions, requirements and obligations, and subject to the approval of the County of the terms of all agreements, ordinances and other documents required incident to said bond issues; and the County has authorized the Company to proceed with the construction and acquisition of the Project, subject to reimbursement of the costs of the Project from the proceeds of such bonds, as, if and when issued; and

WHEREAS, based upon an estimate of the costs of the Project, the County proposes to issue its revenue bonds in one or more series in the estimated amount of \$160,000,000 (the "Bonds"), such Bonds to be sold and delivered by the County to pay the costs of the Project, together with costs incident to the authorization, sale and issuance of the Bonds; and

WHEREAS, the County proposes at the appropriate time to enter into a loan agreement or other financing agreement with the Company with respect to the Project, whereby the Company will covenant and agree to pay amounts sufficient to provide for the payment of principal of, premium, if any, and interest on the Bonds, together with all trustee's and paying agent's fees in connection with the Bonds as the same become due and payable; and

WHEREAS, it is deemed necessary and advisable that a Memorandum of Agreement between the County and the Company be executed setting forth the preliminary agreements of the parties with respect to the construction and acquisition of the Project, the issuance of one or more series of the Bonds to defray the costs thereof and the payments to be made by the Company with respect to the Bonds and the Project;

NOW, THEREFORE, BE IT RESOLVED AND ORDERED BY THE FISCAL COURT OF THE COUNTY OF OWEN, KENTUCKY, AS FOLLOWS:

Section 1. It is hereby found, determined and declared that (i) the recitals set forth in the preambles to this Resolution and Order, which are incorporated in this Section by reference, are true and correct; (ii) the total amount of money necessary to be provided by the County for the acquisition, construction and installation of the Project to be financed by the Bonds and paid for by the Company will be approximately \$160,000,000; (iii) the Company has represented that it has sufficient financial resources to construct and acquire the Project and to place it in operation and to continue to operate, maintain and insure the Project throughout the term of the Bond issue, meeting when due the obligations of the proposed financing agreement; and (iv) sufficient safeguards will be provided by the financing agreement to insure that all money provided by the County from the proceeds of the sale of the Bonds will be expended by way of direct expenditure or reimbursement, solely and only for the purposes of the Project and in accordance with the Act. The Project is described in general terms in Exhibit No. 1 appended hereto and incorporated herein.

Section 2. It is hereby found, determined and declared that the cost of acquiring, constructing and installing the Project will be paid out of the proceeds of one or more series of Bonds and such contributions of the Company as may be necessary to complete the Project, as such Project is defined in the loan or other financing agreement to be executed by and between the County and the Company at the appropriate time pursuant to the Act; that none of the Bonds will be general obligations of the County; that neither the Bonds nor the interest thereon shall constitute or give rise to any indebtedness of the County or any charge against its general credit or taxing power, but that the Bonds and the payment of interest thereon shall be secured and payable solely and only by a pledge of amounts to be paid by the Company under such loan or other financing agreement; and that no part of said costs will be payable out of any general funds, revenues, assets, properties or other contributions of the County.

Section 3. In order to induce the construction and acquisition of the Project in the County with the resultant public benefits which will flow therefrom, it is deemed necessary and advisable that the Memorandum of Agreement hereinafter referred to be approved and executed for and on behalf of the County. Accordingly, the Memorandum of Agreement by and between the Company and the County attached hereto as Exhibit No. 1 is hereby approved and the County Judge/Executive is hereby authorized and directed to execute and deliver said Memorandum of Agreement, and the Fiscal Court Clerk is hereby authorized and directed to attest same.

Section 4. Because the Project will be undertaken, constructed and acquired for the purpose of conforming to the requirements of the Company, and inasmuch as the Company requires for its operations the construction and acquisition of Project facilities which it is particularly and peculiarly equipped to plan and acquire and the Company possesses more expertise in such matters, it is hereby found, determined and declared that construction and acquisition of the Project should be undertaken or caused to be undertaken by the Company. Accordingly, the Company is hereby authorized to formulate and develop plans for the construction and acquisition of the Project, in whole or in part, and to enter into such contracts and undertakings as may be required for the construction and acquisition of the Project, in whole or in part. Reimbursements made to the Company after the receipt of the proceeds of the sale of each series of Bonds by the County shall be subject to approval or certification by a qualified person to be designated by the Company as specified in the loan or other financing agreement to be entered into by the County and the Company at the appropriate time pursuant to the Act.

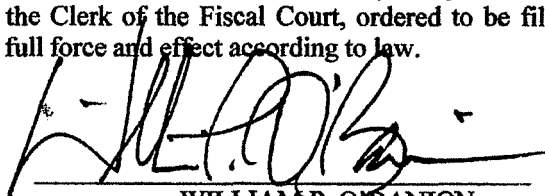
Section 5. No County funds shall be expended on the Project, except such as are derived from Bond proceeds.

Section 6. In adopting this Resolution and Order, it is intended by the Fiscal Court of the County that this Resolution and Order constitute the declaration of intent to reimburse expenditures made by the Company on the Project from the proceeds of the Bonds of the County within the meaning of Treasury Regulations Section 1.150-2.

Section 7. To the extent any resolution, ordinance or part thereof is in conflict herewith, the provisions of this Resolution and Order shall prevail and be given effect.

Section 8. This Resolution and Order shall be in full force and effect from and after its adoption as provided by law.

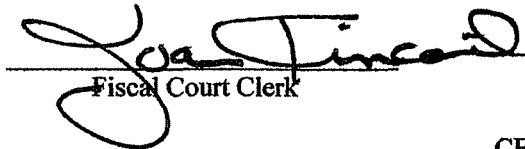
INTRODUCED, SECONDED READ AND ADOPTED AT A DULY CONVENED MEETING OF THE FISCAL COURT OF THE COUNTY OF OWEN, KENTUCKY, held on the ___ day of _____, 2009, on the same occasion signed in open session by the County Judge/Executive as evidence of his approval, attested under seal by the Clerk of the Fiscal Court, ordered to be filed and recorded as required by law, and declared to be in full force and effect according to law.



WILLIAM P. O'BANION
County Judge/Executive

(SEAL)

ATTEST:



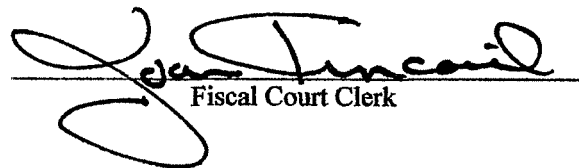
Fiscal Court Clerk

CERTIFICATION

I, the undersigned, do hereby certify that I am the duly qualified and acting Clerk of the Fiscal Court of the County of Owen, Kentucky, and as such Clerk I further certify that the foregoing is a true, correct and complete copy of the Resolution and Order duly adopted by the Fiscal Court of said County at a duly convened meeting held on December 9, 2008, on the same occasion signed by the County Judge/Executive, duly filed, recorded and indexed in my office (pursuant to KRS 67.120(2)) and now in force and effect, and that all action taken in connection with such Resolution and Order was in compliance with the requirements of KRS 61.810 through 61.825, all as appears from the official records of said Fiscal Court in my possession and under my control.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the seal of said County this 13 day of Jan, 2009.

(SEAL)



Fiscal Court Clerk

MEMORANDUM OF AGREEMENT

This MEMORANDUM OF AGREEMENT, made and entered into this 13th day of January, 2009, by and between the COUNTY OF OWEN, KENTUCKY (the "County"), a de jure county and political subdivision of the Commonwealth of Kentucky and KENTUCKY-AMERICAN WATER COMPANY, a Kentucky corporation acting for itself and by any of its affiliates (collectively, the "Company").

1. Recitals.

(a) The Company is a regulated public utility pursuant to Chapter 278 of the Kentucky Revised Statutes, and is engaged in the business of providing water service to the public at large. The Company has determined that in order to properly serve the water use needs of the public in its service area the Company must construct and acquire major additional water facilities, including an intake and major water treatment on Pool No. 3 of the Kentucky River in Owen County, Kentucky (collectively, the "Project").

(b) The Company, based upon extensive study and analysis, has formulated a plan for the construction and acquisition of the Project. The Project will benefit the public by providing an abundant source of potable water at rates and charges which are regulated by the Public Service Commission of Kentucky. The Public Service Commission has approved the construction and acquisition of the Project by the Company.

(c) The Company has proceeded and is proceeding to develop final plans and designs for the acquisition, construction and installation of the Project. The Company estimates that acquisition, construction and installation of the Project will require the expenditure of Company moneys and funds aggregating approximately \$160,000,000. The Project is described in general terms in Exhibit No. 1 appended hereto and incorporated herein.

(d) As the Company is a public utility, depending upon the imposition and collection of water user rates and charges for revenues adequate to operate its facilities, amortize its debts, and provide a reasonable return on capital, and as such water user rates and charges are collected from all users of such services, it is in the best interests of the general public who bear the burden of such water user rates and charges that the interest costs to the Company in respect of borrowing funds necessary for construction and acquisition of the Project be fixed at the lowest possible level. It has been determined that the financing of the Project in whole or in part by the issuance of water system revenue bonds by the County pursuant to KRS Sections 103.200 to 103.285, inclusive, will result in reduction in the interest costs attending the borrowing of money for construction and acquisition of the Project, with resulting public benefits. Therefore, the Company has requested that the County issue its water system revenue bonds pursuant to KRS Sections 103.200 to 103.285, inclusive (the "Bonds") to provide funds to construct and acquire the Project, as herein described, or any portion or portions thereof, and the County has agreed to issue the Bonds for the financing of the Project or any portion or portions thereof. **The Bonds will be paid solely and only by payments made by the Company and the Bonds will not be a general obligation of the County or be paid from any County moneys or assets.** The Bonds may be issued, as requested by the Company, for the entire Project or any portion or portions thereof.

(e) The Company covenants and represents that upon the occasion of each issuance of Bonds pursuant hereto, the issuance of such Bonds will be legal and proper under the statutory laws of Kentucky and the Internal Revenue Code of 1986, as amended, or any successor Code.

(f) The County is authorized by KRS 103.200 to 103.285, inclusive (the "Act"), to issue the Bonds and use the proceeds thereof to finance the costs of construction and acquisition of the Project. The Fiscal Court of the County has found and determined that the Project will accomplish the public purposes of the Act. The County considers that causing the construction and acquisition of the Project for the Company will provide benefits to the County by providing a modern, reliable and adequate supply of pure, potable water to the citizens of the County, and the water consumers in the neighboring service area of the Company, will improve and enhance the environment and benefit the general public, will increase governmental revenues of the County and provide certain employment to County citizens and will lower the Company's ultimate costs in respect of the Project, which in turn will reduce the costs of the Project to the public, which must ultimately bear such costs in the form of water user rates and charges, and will thereby promote the general welfare of the inhabitants of Owen County, Kentucky and the Commonwealth.

(g) It is hereby found, determined and declared that the cost of acquiring, constructing and installing the Project will be paid out of the proceeds of one or more series of Bonds and such financial contributions of the Company as may be necessary to complete the Project, as such Project is defined in the loan or other financing agreement to be executed by and between the County and the Company at the appropriate time pursuant to the Act. None of the Bonds will be general obligations of the County and neither the Bonds nor the interest thereon shall constitute or give rise to any indebtedness of the County or any charge against its general credit or taxing power and the Bonds and the payment of interest thereon shall be secured and payable solely and only by a pledge of amounts to be paid by the Company under the loan or other financing agreement by and between the County and the Company; and no part of said costs will be payable out of any general funds, revenues, assets, properties or other contributions of the County.

(h) The County proposes to issue the Bonds in one or more series to finance the costs of the Project and desires to authorize the Company to proceed with the Project and be reimbursed out of the proceeds of the Bonds for any costs of the Project incurred prior to the issuance of the Bonds.

(i) The County proposes to enter into, as lender, a loan agreement or other financing agreement (the "Agreement") with the Company, as borrower, relating to the Project and the Bonds, whereby the Company will agree to make payments sufficient to provide for the payment of the principal of and premium, if any, and interest on the Bonds and all other costs of the County incurred in connection with the Bonds and the Project.

2. Representations and Undertakings of the Company. The Company represents, undertakes, covenants and agrees as follows:

(a) The Company intends to use the Project or cause it to be used at all times during the term of the Agreement or the sooner termination of the Agreement for the public purposes hereinbefore indicated and recited, in accordance with the Act;

(b) The Company will cause contracts to be entered into for, or will otherwise provide for, the construction and acquisition of the Project;

(c) Prior to or contemporaneously with the delivery of any series of Bonds, the Company will enter into an Agreement with the County under the terms of which the Company will obligate itself to undertake and complete the construction and acquisition of the Project and to pay to the County amounts sufficient in the aggregate to pay the principal of, interest on, and premium, if any, on the Bonds, as and when the Bonds shall become due and payable, such Agreement to contain such other provisions as shall be agreed upon **and be acceptable to each of the County and the Company;**

(d) The Company will protect, **indemnify** and hold harmless the County, all members of the Fiscal Court of the County and all the County's officers, employees and agents from all expense and liability arising from or in connection with the Project and the Bonds, and will pay, or reimburse the County for its payment of, the County's expenses related to the Project or the Bonds; and

(e) The Company will take such further actions and adopt such further proceedings as may be required to implement its aforesaid undertakings or as it may deem appropriate in connection therewith.

3. Undertakings of the County. Subject to the fulfillment of the several conditions herein stated, the County agrees as follows:

(a) It will from time to time authorize or cause to be authorized the issuance and sale of one or more series of Bonds pursuant to the terms of the Act as then in force in an aggregate principal amount approximating \$160,000,000;

(b) It will adopt or cause to be adopted such proceedings and authorize the execution of such documents as may be necessary or acceptable to effect (i) the authorization, issuance and sale of the Bonds upon a negotiated or competitive sale basis, as requested by the Company, to such financial entity or entities as shall be designated by the Company, (ii) the construction and acquisition of the Project, and (iii) the Agreement relating to the Project and the Bonds, all as shall be authorized by law and upon terms which must be mutually satisfactory to the County and the Company;

(c) The aggregate Company payments stipulated under the Agreement shall **at all times** be sufficient (in addition to the covenants of the Company to properly maintain and insure the Project) to pay the principal of, interest on and premium, if any, on all series of Bonds as and when the same become due and payable; and

(d) It will take or cause to be taken such other acts and adopt such further proceedings as may be required to implement the aforesaid undertakings as it may deem appropriate.

4. General Provisions.

(a) All commitments of the County and the Company pursuant to this Memorandum of Agreement are subject to the condition that the County and the Company shall have agreed to

mutually acceptable terms and conditions with respect to the Agreement and all other documents required in connection with the initial series of Bonds.

(b) If the events set forth in (a) of this paragraph do not occur, all obligations of the County hereunder shall thereupon terminate upon written notice thereof by the County to the Company.

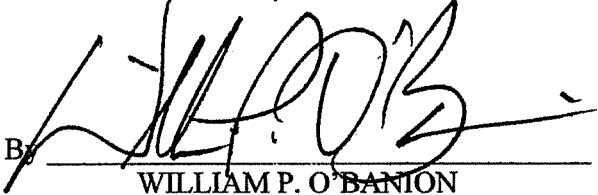
(c) This Memorandum of Agreement and the Resolution and Order approving this Memorandum of Agreement constitute the present intent of the County to issue the aforementioned Bonds at a later date. In executing and delivering this Memorandum of Agreement, it is intended by the Company and the County the Issuer that this Memorandum of Agreement and the County's related Resolution and Order constitute declarations of intent to reimburse expenditures made by the Company on the Project from the proceeds of the Bonds of the County within the meaning of Treasury Regulations Section 1.150-2.

(remainder of page left blank intentionally)

IN WITNESS WHEREOF, the parties hereto have entered into this Memorandum of Agreement by their officers thereunto, in accordance with the laws of Kentucky and Section 1.150-2 of the Code and Treasury Regulations thereunder, being duly authorized on the day and year first above written.

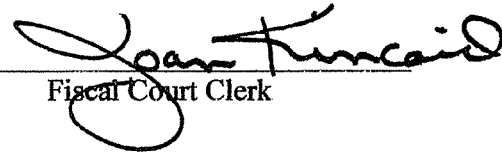
COUNTY OF OWEN, KENTUCKY

(SEAL)

By 

WILLIAM P. O'BANION
County Judge/Executive

ATTEST:


Fiscal Court Clerk

KENTUCKY-AMERICAN WATER
COMPANY

(SEAL)

By _____
(Vice) President

DESCRIPTION OF PROJECT

Kentucky-American Water Company ("Kentucky American Water") has received regulatory approval to construct a 20 million gallons per day ("MGD") water treatment plant, 30.59 miles of transmission main and related facilities to meet its customers' needs. The water treatment plant, which will be known as Kentucky River Station II ("KRS II"), will be located on the Kentucky River near Pool 3 approximately two miles north of Swallowfield along the Franklin and Owen county line. It has an initial design capacity of 20 MGD, but is capable of expansion in 5 MGD increments to 30 MGD. It is a conventional treatment plant that uses rapid mix, flocculation, sedimentation, filtration, and disinfection as treatment. Although a chemical disinfection process primarily will be used, KRS II is designed to accommodate the addition of an ultraviolet light disinfection system. Its main building will contain wet chemistry and microbiology laboratories. It will be equipped with a standby electric generator to permit plant operation even during power outages.

KRS II will draw its water from Pool 3 of the Kentucky River. A raw water intake structure, consisting of intake screens and 150 feet of raw water intake main, will be located on the Kentucky River at Pool 3 in northern Franklin County near the Franklin and Owen county line. A raw water pumping station, consisting of four pumps with an initial reliable design capacity of 24 MGD and an ultimate design capacity of 30 MGD, will pump raw water into the proposed water treatment plant.

To connect KRS II to its Central Division's distribution system, Kentucky American Water will construct approximately 160,000 linear feet of 42-inch ductile iron transmission main. This main will generally follow established transportation corridors of US Highway 127, Kentucky Route 2919, Kentucky Route 1707, Kentucky Route 1202, US Highway 460, and Kentucky Route 1973. The length of the main requires that a booster pumping station and water storage tank be located along the proposed route. Kentucky American Water will construct a 20 MGD booster pumping station that is expandable to 30 MGD.