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July 23, 2009

HAND DELIVERED

RECEIVED

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

JUL 23 2009

**PUBLIC SERVICE
COMMISSION**

Re: Case No. 2009-00156

Dear Mr. Derouen:

The Commission's May 29, 2009 Order in the above-referenced matter authorizes Kentucky American Water ("KAW") to continue in the American Water Capital Corporation ("AWCC") borrowing program and to issue long-term debt in the total amount of \$104.5 million prior to November 1, 2010. A portion of the \$104.5 million that was approved included approximately \$45 million worth of tax-exempt private activity bonds, which have now been issued.

Another portion of the \$104.5 million that was approved was a planned issuance of \$26 million of long-term debt later this year. At the time KAW filed its Application and when the May 29, 2009 Order was issued, KAW expected the \$26 million issuance to be a more traditional taxable loan from AWCC to KAW. However, in late June, KAW became aware of an unusual opportunity to take part in another tax-exempt bond issuance. Therefore, KAW applied for and was awarded \$26 million of additional state ceiling for private activity bonds that had just become available. Enclosed please find confirmation from the Kentucky Private Activity Bond Allocation Committee of the award. This award paves the way for a possible second tax-exempt bond issuance of up to \$26 million for expenses incurred in connection with KAW's Kentucky River Station II project in Owen County, Kentucky. Please note that the bond issuance must close no later than September 28, 2009. If all goes according to plan, closing will happen in late August or early September.

Although KAW and the Commission were unaware of the possibility of a second bond issuance during consideration of the original Application in this docket, the Commission's May 29, 2009 Order appears to authorize it. First, the Commission's Order authorizes a total of \$104.5 million in debt. The proposed second bond issuance of \$26 million would simply replace

Jeff Derouen
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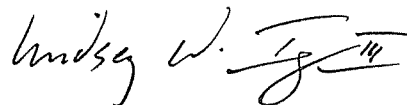
the November 2009 taxable debt that was described in KAW's Application and approved by the Commission. Second, Ordering Paragraph 3 of the Commission's Order authorizes KAW to enter into "any guaranty agreement or similar undertaking guaranteeing repayment of any private activity bonds that Owen County issues in Calendar Year 2009 for the specific purpose of defraying some or all of the costs of the KRS II project." The proposed \$26 million bond issuance will meet all of the criteria in that Ordering Paragraph. Thus, it appears that the Commission has already authorized the \$26 million bond issuance. However, out of an abundance of caution and because the Commission did not have the knowledge of a second private activity bond issuance for \$26 million, we want to be absolutely certain that the Commission agrees that no further authority is necessary. Therefore, we ask for and would appreciate confirmation of that agreement.

Alternatively, if the Commission believes that further authority is necessary for the \$26 million issuance, we ask for that authority. For the same reasons the Commission approved the first \$45 million tax-exempt issuance (lower debt cost that will lead to a direct savings to KAW's customers), the Commission should authorize the \$26 million issuance.

Due to the tight timeline associated with private activity bonds and the need for Commission authority in order for the bond issuance procedures to move forward, we would be most appreciative if the Commission could respond to this letter by August 14. Thank you in advance for your consideration, and, as always, please let me know if you have any questions or concerns.

Very truly yours,

Stoll Keenon Ogden PLLC



Lindsey W. Ingram III

Enclosure

cc: David S. Samford
A.W. Tuner, Jr.
Gerald E. Wuetcher

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**Office of Financial Management
Finance and Administration Cabinet**

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Governor

Jonathan Miller
Secretary

F. Thomas Howard
Executive Director

June 30, 2009

Mr. Spencer E. Harper, Jr.
Stoll Keenon Ogden PLLC
500 West Jefferson Street, 2000 PNC Plaza
Louisville, Kentucky 40202

Re: Private Activity Bond Allocation Committee -- 2009 Lottery Pool Applicants

Dear: Mr. Harper:

Per the attached confirmation, the Kentucky Private Activity Bond Allocation Committee ("KPABAC") has allocated a portion of the state ceiling to the identified company/issuer from the 2009 Lottery Pool. Pursuant to 200 KAR 15:010, the bond issue must close within 90 days (September 28, 2009) to qualify under the CY2009 cap. A Notice of Issuance must be filed with KPABAC following placement of the bonds.

Kentucky-American Water Company

\$26,000,000.00

Please contact the Office of Financial Management at (502) 564-2924 if you have any questions.

Sincerely,

F. Thomas Howard
Executive Director

Attachments



CONFIRMATION NO.: 1
DATE: June 30, 2009

CONFIRMATION OF ALLOCATION OF STATE CEILING

KENTUCKY PRIVATE ACTIVITY BOND ALLOCATION COMMITTEE

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

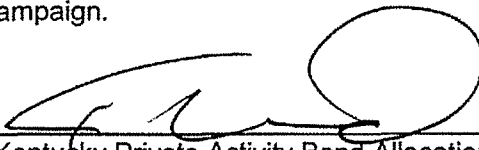
Issuer Name: County of Owen
Borrower/User: Kentucky-American Water Company
Bond Counsel: Spencer E. Harper, Jr.
Address: 500 West Jefferson Street, 2000 PNC Plaza
City: Louisville, Kentucky 40202

Confirmation Type:
 Original
 Renewal
 Supplemental

Confirmation is hereby given that \$26,000,000 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: September 28, 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