

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

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

ORDER

On May 29, 2009, the Commission authorized Kentucky-American Water Company ("Kentucky-American") to continue its participation in the American Water Capital Corporation ("AWCC") borrowing program and authorized the issuance of securities in the form of notes or debentures in the amount of \$104.5 million prior to November 1, 2010. Approximately \$45.4 million of this amount involved the proceeds of private activity bonds that Owen County will lend to AWCC, which, in turn, will lend that amount to Kentucky-American to permanently finance a portion of the costs associated with the construction of Kentucky River Station II facilities.

On July 23, 2009, Kentucky-American advised the Commission in writing that the Kentucky Private Activity Bond Allocation Committee had allocated an additional portion of Kentucky's state ceiling for private activity bonds in the amount of \$26 million to Kentucky-American. As had been the case with the earlier allocation, Owen County would issue the tax-exempt private activity bonds and then lend the bond proceeds to AWWC, which will then lend those proceeds to Kentucky-American. These proceeds will displace a portion of the \$104.5 million that AWCC had intended to procure through the issuance of taxable securities.

In its written notice to the Commission, Kentucky-American takes the position that no Commission approval of the modifications is required since the Commission's Order expressly authorized Kentucky-American "to enter into any guaranty agreement or similar undertaking guaranteeing repayment of the proceeds 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."¹ Kentucky-American further requests that the Commission grant additional authorization if the Commission determines that such authority is needed. The Commission shall consider Kentucky-American's notice as a motion for clarification.

Having reviewed Kentucky-American's notice and the other evidence of record, the Commission finds that our Order of May 29, 2009 provides sufficient authorization for Kentucky-American to execute the necessary agreements related to the second issuance of tax-exempt private activity bonds and for any additional issuances of such bonds when the purpose of such issuance is to displace a portion of the \$104.5 million long-term debt that is the subject of that Order. In those circumstances, no additional authorization is necessary.

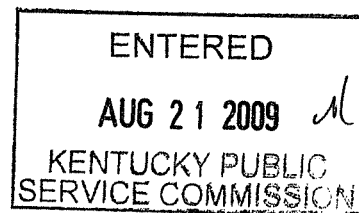
We further find that Kentucky-American should be required to provide the Commission with prior notice of any additional changes in the authorized debt issuance that involve the issuance of tax-exempt private activity bonds.

¹ Order of May 29, 2009 at 7.

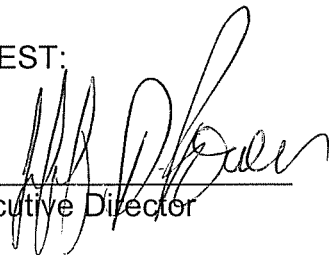
IT IS THEREFORE ORDERED that:

1. No additional Commission authorization is required for Kentucky-American to execute any necessary agreements related to the proposed second issuance of tax-exempt private activity bonds.
2. Should any additional portions of the \$104.5 million of long-term debt issuance that this Commission authorized in our Order of May 29, 2009 involve the issuance of tax-exempt private activity bonds, Kentucky-American shall advise the Commission in writing of such issuance at least 30 days prior to executing any guarantees related to such issuance.
3. All provisions of the Commission's Order of May 29, 2009 not in conflict with the provisions of this Order shall remain in full force and effect.

By the Commission



ATTEST:



Executive Director

Honorable Lindsey W Ingram, III
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