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PUBLIC SERVICE  
COMMISSION

COMMONWEALTH OF KENTUCKY  
BEFORE THE 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.	)	

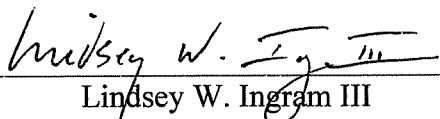
ORDERING PARAGRAPH 5 REPORT

In accordance with Ordering Paragraph 5 of the Commission's May 29, 2009 Order in this matter, Kentucky American Water provides the attached report detailing the terms and conditions of the \$26,000,000 private activity bond issuance the Commission authorized in its May 29, 2009 and August 21, 2009 Orders. The attached also provides an analysis showing the interest rate for the bond issuance was the most reasonable at the time of issuance as proven by an annual savings of \$135,200.

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BY:   
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**Kentucky American Water Company  
Analysis of Interest Rate on KAWC 5.625% Series, \$26.000 million bond**

**Value Line Information:**

<b>Tax Exempt 25-Bond Index (Rev's)</b>	5.99%	<b>Taxable BBB-rated 25/30 Yr.</b>	6.14%
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**Bond Terms:**

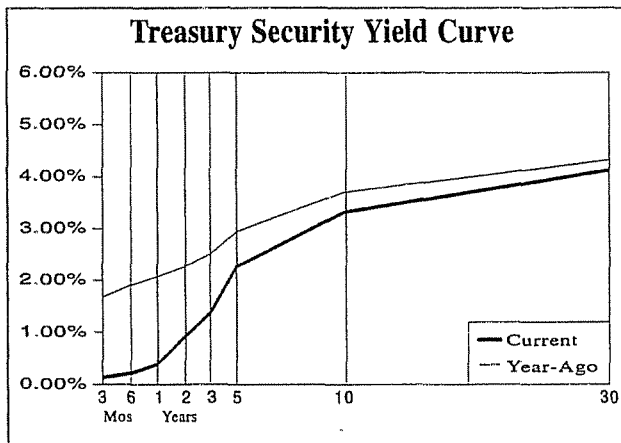
Type	Tax Exempt	Pub. Date 9/11/09
Interest Rate	5.625% fixed	Price Date 9/2/09
Rating	S&P-BBB+; Moody's-Baa2	Basis Point Savings to Taxable Rates
Maturity Term	30 Years	Annual Savings to Published Taxable Bond Rates
Amount	\$26,000,000	
Pricing Date	1-Sep-09	

**Conclusions:**

1. The tax exempt rate obtained by KAW/AWCC on September 1, 2009 was determined by a competitive market bid. The 5.625% rate obtained was lower than the 25 Yr. bond index and in line with the the 25/30 Yr. revenue bond rates published in the Value Line publication of September 11, 2009.
2. The tax exempt rate of 5.625% obtained by KAW/AWCC was a reduction of 0.52% from the Value Line published rate for BBB rated, 25/30 year taxable issues per Value Line's pricing of September 2, generating an annual savings of \$135,200 from the similar taxable bonds normally issued by KAW/AWCC.

## Selected Yields

	TAXABLE			TAX-EXEMPT		
	Recent (9/02/09)	3 Months Ago (6/3/09)	Year Ago (9/03/08)	Recent (9/02/09)	3 Months Ago (6/3/09)	Year Ago (9/03/08)
<b>TAXABLE</b>						
<b>Market Rates</b>						
Discount Rate	0.50	0.50	2.25			
Federal Funds	0.00-0.25	0.00-0.25	2.00			
Prime Rate	3.25	3.25	5.00			
30-day CP (A1/P1)	0.23	0.28	2.88			
3-month LIBOR	0.33	0.64	2.81			
<b>Bank CDs</b>						
6-month	0.42	0.70	1.60			
1-year	0.72	0.92	2.26			
5-year	2.25	1.92	4.15			
<b>U.S. Treasury Securities</b>						
3-month	0.13	0.12	1.68			
6-month	0.21	0.25	1.90			
1-year	0.38	0.44	2.07			
5-year	2.27	2.42	2.95			
10-year	3.31	3.54	3.70			
10-year (inflation-protected)	1.74	1.63	1.64			
30-year	4.12	4.45	4.32			
30-year Zero	4.22	4.53	4.37			
<b>Mortgage-Backed Securities</b>						
GNMA 6.5%	3.92	3.37	5.60			
FHLMC 6.5% (Gold)	3.07	2.89	5.67			
FNMA 6.5%	2.85	2.78	5.48			
FNMA ARM	2.62	2.53	3.89			
<b>Corporate Bonds</b>						
Financial (10-year) A	5.79	6.82	6.69			
Industrial (25/30-year) A	5.43	6.35	6.11			
Utility (25/30-year) A	5.45	6.17	6.13			
Utility (25/30-year) Baa/BBB	6.14	7.83	6.54			
<b>Foreign Bonds (10-Year)</b>						
Canada	3.33	3.36	3.48			
Germany	3.23	3.57	4.14			
Japan	1.32	1.55	1.47			
United Kingdom	3.55	3.79	4.50			
<b>Preferred Stocks</b>						
Utility A	6.37	6.10	6.16			
Financial A	5.94	8.35	6.97			
Financial Adjustable A	5.53	5.53	5.53			



	TAX-EXEMPT		
	Recent (9/02/09)	3 Months Ago (6/3/09)	Year Ago (9/03/08)
<b>Bond Buyer Indexes</b>			
20-Bond Index (GOs)	4.53	4.61	4.68
25-Bond Index (Revs)	5.99	5.53	5.17
<b>General Obligation Bonds (GOs)</b>			
1-year Aaa	0.40	0.40	1.58
1-year A	0.90	1.13	1.68
5-year Aaa	1.80	2.02	2.74
5-year A	2.24	3.45	2.84
10-year Aaa	2.93	3.01	3.55
10-year A	3.30	4.55	3.75
25/30-year Aaa	4.36	4.64	4.69
25/30-year A	4.82	6.16	5.07
<b>Revenue Bonds (Revs) (25/30-Year)</b>			
Education AA	5.30	6.20	4.85
Electric AA	5.40	6.25	4.80
Housing AA	5.55	6.55	5.15
Hospital AA	5.60	6.50	5.25
Toll Road Aaa	5.35	6.30	4.80

## Federal Reserve Data

<b>BANK RESERVES</b>						
(Two-Week Period; in Millions, Not Seasonally Adjusted)						
	Recent Levels			Average Levels Over the Last...		
	8/26/09	8/12/09	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	794546	708501	86045	756262	762985	613020
Borrowed Reserves	327647	340534	-12887	394750	486512	508084
Net Free/Borrowed Reserves	466899	367967	98932	361512	276473	104936

<b>MONEY SUPPLY</b>						
(One-Week Period; in Billions, Seasonally Adjusted)						
	Recent Levels			Growth Rates Over the Last...		
	8/17/09	8/10/09	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1658.2	1663.6	-5.4	17.9%	13.1%	19.9%
M2 (M1+savings+small time deposits)	8312.4	8318.3	-5.9	-1.5%	1.1%	8.1%