

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

IN THE MATTER OF:)
)
APPLICATION OF KENTUCKY-AMERICAN) CASE NO. 2012-00393
WATER COMPANY FOR ISSUANCE OF)
INDEBTEDNESS AND CONTINUED)
PARTICIPATION WITH AMERICAN WATER)
CAPITAL CORP.)

APPLICATION OF KENTUCKY-AMERICAN WATER COMPANY

Pursuant to KRS 278.300, Kentucky-American Water Company (“Kentucky American Water”) submits this Application for authorization to issue indebtedness and for continued participation in the borrowing program with American Water Capital Corp. (“AWCC”) and 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

\$595,053,849 (this number includes construction work in progress but excludes utility plant for wastewater service) as of July 31, 2012.

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 \$3,758,414 as of July 31, 2012.

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 March 30, 2011, Kentucky American Water filed an Application seeking approval for continued participation in the borrowing program with AWCC in what became Case No. 2011-00115 (*In the Matter of: Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corp.*). In that case, on May 26, 2011, 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 26, 2011 Order also authorized Kentucky American Water to issue securities in the form of notes or debentures in an aggregate amount of \$26,900,000 from time to time prior to December 31, 2012 for the purpose of refinancing short-term and to meet other internal cash requirements. 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 American Water Works 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. 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 Works Company, Inc. A copy of the Certificate of Incorporation of AWCC is attached as Exhibit No. 5.

9. As Exhibit No. 4 shows, as of July 31, 2012, Kentucky American Water had outstanding short-term debt in the amount of \$10,908,133 payable to AWCC and nine 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) 6.593% series in the amount of \$47,000,000 due October 15, 2037; (5) 6.870% series in the amount of \$3,100,000 due March 29, 2011 (annual sinking fund of \$3.1 million); (6) 6.250% series in the amount of \$45,390,000 due June 1, 2039; (7) 5.625% series in the amount of \$26,000,000 due September 1, 2039; (8) 5.375% series in the amount of \$26,000,000 due June 1, 2040; and (9) 5.050% series in the amount of \$20,000,000 due October 15, 2037.

10. It is anticipated that Kentucky American Water will require five permanent long-term debt financings before the end of 2014, the first of which is planned to occur in November 2012 by the issuance of \$8,000,000 of new long-term debt. Anticipated additional long-term debt issuances include \$3,000,000 in March 2013, \$3,000,000 in November 2013, \$3,000,000 in March 2014, and \$3,000,000 in November 2014. The sum total of these financings is \$20,000,000. All the proceeds from these financings will be used to refinance short-term debt necessary to (i) fund construction expenditures, and (ii) meet other internal cash requirements.

11. The long-term debt issuances discussed above 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 anticipates infusion of additional equity (via paid-in-capital rather than issuance of additional shares) of \$4,000,000 in December 2012, \$2,000,000 in 2013 and \$2,000,000 in 2014 by its parent company, American Water Works Company, Inc.

12. 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 may be anywhere from three 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. The securities evidencing the long-term indebtedness will be at market or lower than market all-in cost. Similarly, the security will have similar terms with that issued by AWCC.

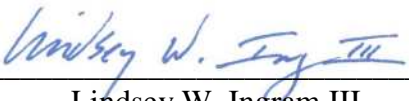
13. Kentucky American Water seeks approval for its continued participation in the AWCC borrowing program and for authority to enter into contracts, including one or more loan agreements, so that it may obtain the funding it needs prior to December 2014 at less cost than would be otherwise available and so that it may be assured of a readily available source of funds. The requested continued participation will allow Kentucky American Water to meet its long-term debt needs (through December 2014) totaling \$20,000,000 as described above.

14. Kentucky American Water's participation in the AWCC borrowing program does not preclude it from either borrowing from or obtaining financial services from any third party that can offer a better competitive rate.

15. 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.

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

BY: 

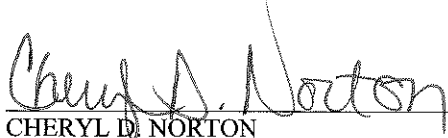
Lindsey W. Ingram III
Attorneys for Kentucky-American Water Company

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COMMONWEALTH OF KENTUCKY)

COUNTY OF FAYETTE)

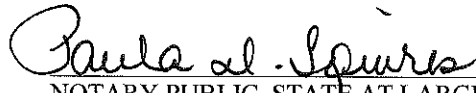
After having been duly sworn, Cheryl D. Norton states that she is President of Kentucky-American Water Company, that she has knowledge of the matters set forth in this Application, that she has been designated by Kentucky-American Water Company to sign and file the Application on its behalf, and that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



CHERYL D. NORTON

Subscribed and sworn to before me by Cheryl D. Norton this the 30th day of August, 2012.

My Commission expires: JAN 3, 2015



NOTARY PUBLIC, STATE AT LARGE, KY.

PAULA I. SQUIRES
Notary Public-State at Large
KENTUCKY - Notary ID # 434052
My Commission Expires January 03, 2015

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").

BACKGROUND

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:

AGREEMENT

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.

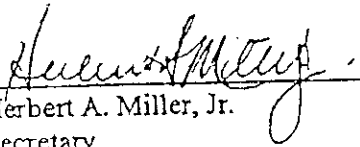
9. Termination. The Company may terminate its participation in this Agreement by giving ten (10) days prior written notice of such termination to AWCC; and (b) AWCC may terminate this Agreement by giving ninety (90) days prior written notice of such termination to the Company. Termination of this Agreement 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.

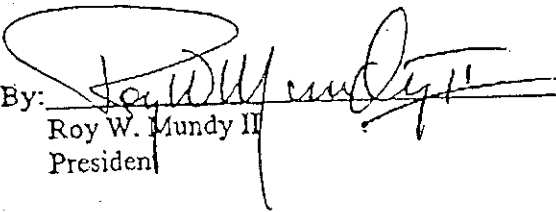
10. Copies. This Agreement may be executed by the parties in one or more copies and each executed copy shall be considered an original.

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:

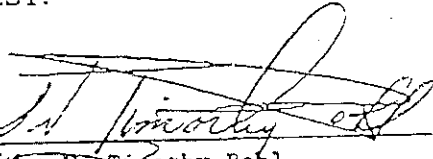
KENTUCKY-AMERICAN WATER COMPANY

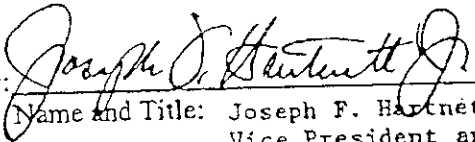
By: 
Herbert A. Miller, Jr.
Secretary

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:


Executive Director

nty

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. 2011-00115
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 AWCC borrowing program, and the issuance of securities in the form of notes or debentures in the amount of \$26.9 million prior to December 31, 2012.

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

¹ Kentucky-American filed its application on March 31, 2011. No persons have sought intervention in this matter.

² KRS 278.010(3)(d).

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. AWCC is a wholly-owned subsidiary of American Water and is a corporation organized under the laws of Delaware.

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 enters into an agreement with AWCC, a wholly owned subsidiary of American Water, for financial services. AWCC arranges 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 provides AWCC with an estimate of its future borrowing requirements. AWCC then arranges borrowing commitments and programs to meet these commitments. The liability of each participant in the program is limited to its individual debt. All loans to the program participants are unsecured.

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

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

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

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, 2005.⁵ In Case No.'s 2006-00418⁶ and 2009-00156,⁷ the Commission authorized Kentucky-American's continued participation in the AWCC borrowing program.

AWCC has in place a \$700 million Commercial Paper Program with a committed revolving facility backstop of \$840 million (collectively, the "Working Capital Facility").⁸ The \$840 million Working Capital Facility will be used to fund the working capital needs of American Water, its regulated subsidiaries, and American Water Works Service Company.⁹ Of the committed revolving credit facility, \$150 million is available to AWCC

⁵ Case No. 2000-00189, Order of July 21, 2000 at 3.

⁶ Case No. 2006-00418, Application of Kentucky-American Water Company for Continued Participation with American Water Capital Corp. (Ky. PSC May 8, 2007).

⁷ Case No. 2009-00156, Application of Kentucky-American Water Company for Issuance of Indebtedness and Continued Participation with American Water Capital Corp. (Ky. PSC May 29, 2009).

⁸ Application at 4.

⁹ Id.

for letters of credit.¹⁰ AWCC 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.¹¹

Kentucky-American's continued participation in the AWCC borrowing program will include support of the short-term debt issuances. As of February 28, 2011, Kentucky-American reported outstanding short-term debt in the amount of \$17,282,015 payable to AWCC.¹²

To refinance the short-term debt used to fund various construction projects and to meet other internal cash requirements, Kentucky-American plans two long-term debt issuances prior to December 31, 2012. To maintain a reasonable relationship between long-term debt and common equity, Kentucky-American expects infusions of additional equity from American Water in the form of paid-in capital. Kentucky-American's projected financing and equity requirements for the calendar years 2011 and 2012 are set forth in Table 1 below.

Table 1: Financing and Equity Requirements		
Projected Month of Debt Issuance or Equity Infusion	Financing	Equity
May 2011	\$ 23.5 Million	\$ 6.532 Million
May 2012	\$ 3.4 Million	-0-
October 2012	-0-	\$ 1.0 Million

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

¹⁰ Id.

¹¹ Id.

¹² Id.

1. Kentucky-American's continued participation in the borrowing program with AWCC under the terms of the Financial Services Agreement that was executed with AWCC on June 15, 2000 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.

2. Kentucky-American's proposed issuance of securities in the form of notes or debentures in an aggregate amount of \$26.9 million for the purpose of refinancing the short-term debt used to fund various construction projects and to meet other internal cash requirements 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. 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 advise the Commission in writing 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 \$26.9 million refunding or refinancing.

IT IS THEREFORE ORDERED that:

1. Kentucky-American is authorized to continue participating in the AWCC borrowing program under the terms of the Financial Services Agreement that it executed with AWCC on June 15, 2000.

2. Kentucky-American is authorized to issue to AWCC securities in the form of notes or debentures in an aggregate amount of \$26.9 million from time to time prior to December 31, 2012 for the purpose of refinancing the short-term debt used to fund various construction expenditures and to meet other internal cash requirements.

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 with this debt issuance the total amount does not exceed that authorized in this Order.

4. For all securities or evidences of indebtedness that have a term exceeding two 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.

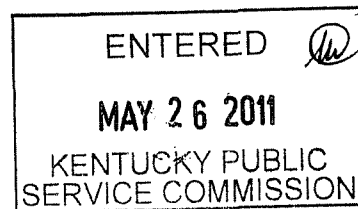
5. Kentucky-American shall obtain Commission approval prior to the issuance of any security or long-term evidences of indebtedness not specifically set forth in its application and included in the \$26.9 million approved herein.

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

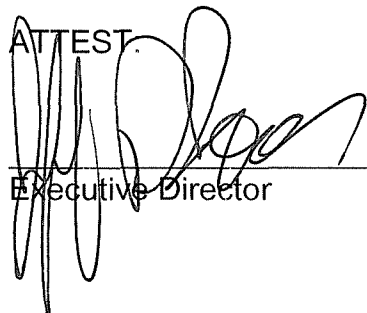
7. Kentucky-American's failure to comply with Ordering Paragraph 3 of this Order when issuing any security or long-term evidences of indebtedness as part of the AWCC Borrowing Program shall be deemed an issuance of a security or long-term evidences of indebtedness without prior Commission authorization 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 accepted.

By the Commission



ATTEST.


Executive Director

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

(as of July 31, 2012 except where noted)

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

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
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(2) The amounts and kinds of stock of the Applicant issued and outstanding as of July 31, 2012 are as follows:

Preference Stock, par value \$100 per share:

8.47% Series	45,000 Shares
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Common Stock, no par value	1,567,391 Shares
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(3) 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 \$230,173,051 as of July 31, 2012. 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 July 31, 2012, \$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	September 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 December 31, 2011

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

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

<u>Payee</u>	<u>Date of Issue</u>	<u>Interest Rate*</u>	<u>7/31/12 Amount Outstanding</u>	<u>Maturity Date</u>	<u>Interest paid 12 mos. ended 12/31/11</u>
AWCC	January 1, 2005	Variable	\$10,908,133	Revolver	\$72,584

* 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>7/31/2012 Amount Outstanding</u>	<u>Maturity Date</u>	<u>Interest paid 12 mos. ended 12/31/11</u>
AWCC	Oct 22, 2007	6.593%	\$47,000,000	Oct 15, 2037	\$3,098,710
AWCC	March 29, 2001	6.870%	\$ 3,100,000	March 29, 2011	\$ 106,485
AWCC	June 23, 2009	6.250%	\$45,390,000	June 1, 2039	\$2,836,875
AWCC	Sept 10, 2009	5.625%	\$26,000,000	Sept 1, 2039	\$1,462,500
AWCC	June 24, 2010	5.375%	\$26,000,000	June 1, 2040	\$1,397,500
AWCC	Nov 21, 2011	5.050%	\$20,000,000	Oct 15, 2037	\$0.00

(7) Indebtedness other than identified on this exhibit does not exist.

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

Common Stock

<u>12 Mos. Ended December 31</u>	<u>Rate per Share</u>	<u>Number of Shares Outstanding</u>	<u>Amount</u>
2007	2.66	1,567,391	4,169,260
2008	3.83	1,567,391	6,003,108
2009	5.17	1,567,391	8,103,411
2010	5.70	1,567,391	8,934,129
2011	8.66	1,567,391	13,573,606

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>
2007	8.47	45,000	381,150
2008	8.47	45,000	381,150
2009	8.47	45,000	381,150
2010	8.47	45,000	381,150
2011	8.47	45,000	381,150

(9) Applicant's Balance Sheet as of July 31, 2012 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.

83500 American Water Works Company 1
 81012852 Kentucky-American Water-Co 12 08/20/12
 BRYAN Total Company (USGAAP) 16:00:50
 Comparative Balance Sheet
 For the Period Ending 07/31/2012

Kentucky-American Water Co.

	Description	Current Year	Prior Year
ASSETS			
1	Utility plant	584,286,423	573,717,580
2	Construction work in progress	14,525,839	6,505,522
3	Accumulated depreciation	109,012,500	103,533,457
4	Utility plant acquisition adjustment	245,984	254,013
5	Other utility plant adjustments		
6	Sub-total Utility Plant	490,045,746	476,943,658
7	Non-Utility property	249,738	270,193
8	Other investments		
Current Assets		626,512	386,043
10	Cash and cash equivalents		
11	Temporary investments	4,433,665	4,092,640
12	Customer accounts receivable	367,945	491,930
13	Allowance for uncollectible accounts	4,925,572	4,867,113
14	Unbilled revenues		
15	Pre-refund due from assoc. companies	395,829	516,909
16	Miscellaneous receivables	805,685	671,739
17	Materials and supplies	597,032	531,745
19	Other		
20	Sub-total	11,416,350	10,574,259
22	Deferred debits	1,762,544	1,833,070
23	Debt and preferred stock	250,593	439,529
24	Expense of rate proceeding	52,204	52,204
25	Prelim survey & invest charges	6,841,757	7,253,411
26	Reg Asset-income tax recovery	5,383,298	4,345,740
27	Other		
29	Sub-total	14,290,396	13,923,954
30	Total Assets	516,002,230	501,712,064
CAPITAL AND LIABILITIES			
32	Common Stock	36,568,777	36,568,777
34	paid in capital	78,804,133	74,729,789
35	Retained Earnings	46,349,476	43,053,920
36	Unearned Compensation		
37	Reacquired C/S & Accum Comp Inc		
38	Total common equity	161,722,386	154,352,486
39	Preferred stock	192,390,000	1,445,600
40	Long term debt		172,390,000
41	Total capitalization	354,112,386	328,188,086
42	Current liabilities	10,908,133	18,880,436
43	Bank debt		
44	Current portion of LTD	2,385,882	3,316,236
45	Accounts payable	3,010,763	6,985,244
46	Taxes accrued		2,716,180
47	Interest accrued		
48	Customer deposits		
49	Dividends declared	4,085,947	3,914,484
51	Other		
52	Sub-total	17,824,524	21,842,092
54	Deferred credits	12,259,102	12,187,335
55	Customer adv. for construction	59,832,209	70,278,013
56	Deferred income taxes	829,158	913,955
57	Deferred investment tax credits	16,803,532	15,902,697
58	Reg liab-inc.tax.refund thru rates	2,848,350	2,932,531
59	Other	92,572,351	102,214,531
60	Sub-total	51,492,969	49,467,356
62	Contributions in aid of construction	516,002,230	501,712,065
	Total capital and liabilities	516,002,230	501,712,065

83500 American Water Works Company
 610121ST Kentucky-American Water-Co 12
 TNKY15 Total Company (USGRAP)
 Income Statement 12 Month Ended
 For the Period Ending 07/31/2012

Kentucky-American Water Co.

Description	12 Month Actual	12 Month Plan	Variance	12 Month Previous	Annual Forecast
1 OPERATING REVENUES					
2 Water	61,766,896	82,207,438	440,542-	80,036,628	81,579,158
3 Sewer	302,592	308,936	6,344-	308,467	313,000
4 Other	3,281,029	2,689,125	591,904	3,183,387	2,256,424
5 Management					
6 Total Revenues	85,350,517	85,205,499	145,018	83,528,482	84,148,582
7 OPERATIONS & MAINTENANCE EXPENSE					
8 Labor	7,524,968	7,749,655	224,687-	7,511,520	7,732,593
9 Purchased Water	353,814	450,470	103,344	177,040	340,143
10 Fuel & Power	3,775,734	4,056,609	280,875-	3,922,882	4,087,979
11 Chemicals	1,828,262	1,917,350	89,088-	1,974,390	1,885,120
12 Waste Disposal	355,974	309,222	46,752	244,437	275,492
13 Management Fees	8,034,811	8,590,626	555,815-	8,448,028	8,885,009
14 Group Insurance	2,040,890	2,211,071	170,181-	2,223,849	2,081,127
15 Pensions	967,479	1,012,276	44,797-	983,781	1,034,796
16 Regulatory Expense	213,122	278,908	65,786-	510,922	212,940
17 Insurance Other Than Group	621,412	655,364	33,952-	609,135	641,544
18 Customer Accounting	1,580,937	1,916,285	335,348-	2,079,122	1,891,306
19 Rents	45,498	36,722	8,776	34,036	35,352
20 General Office Expense	723,115	724,082	967-	724,354	758,825
21 Miscellaneous	3,322,551	3,415,303	92,752-	3,419,154	3,329,422
22 Other Maintenance	1,575,381	1,584,170	8,789-	1,951,501	1,779,313
23 Total Maintenance & Operations Expense	32,963,948	34,708,113	1,744,165-	34,814,151	34,970,961
27 Depreciation	9,166,900	9,477,328	310,428-	8,256,427	9,493,167
28 Amortization	2,208,884	1,949,584	259,300	2,230,906	2,210,420
29 General Taxes	4,478,572	4,932,706	454,134-	5,235,625	4,918,032
30 State Income Taxes	1,591,227	1,346,159	245,068	1,445,206	1,264,666
31 Federal Income Taxes	8,891,506	7,509,742	1,381,764	8,109,006	6,820,637
32 Tax Savings Acquisition Adjustment					
33 Total Operating Expenses	59,301,037	59,923,632	622,595-	60,091,321	59,677,883
34 Utility Operating Income	26,049,480	25,281,867	767,613	23,437,161	24,470,699
35 OTHER INCOME & DEDUCTIONS					
36 Non-Operating Rental Income					
37 Dividend Income-Common					
38 Dividend Income-Preferred					
39 Interest Income					
40 AFUDC Equity	573,300	424,242	149,058	539,048	428,552
42 M & J Miscellaneous Income	19,084,553	18,602-	19,103,155	175,876	
43 Gain/(Loss) on Disposition	18,600		18,600		
45 Total Other Income	19,676,453	405,640	19,270,813	715,437	428,552
46 Miscellaneous Amortization					
47 Tax Savings Acquisition Adjustment					
48 Misc. Other Deductions	19,428,240	302,400	19,125,840	557,027	339,000
49 General Taxes	709,273-		709,273-	22,813-	
50 State Income Taxes	3,889,177-		3,889,177-	125,090-	
51 Federal Income Taxes					
52 Total Other Deductions	14,829,365	302,400	14,526,965	408,699	339,000
53 Total Other Income	4,847,088	103,240	4,743,848	306,738	89,552
54 Income Before Interest Charges	30,896,568	25,385,107	5,511,461	23,743,899	24,560,251
55 INTEREST CHARGES					
56 Interest on Long-Term Debt	11,400,164	12,195,946	795,782-	10,064,741	12,290,458
57 Amortization and Debt Expense	70,525	60,774	9,751	112,491	66,891
58 Interest-Short Term Bank Debt	72,942	65,587	7,355	83,628	54,175
59 Other Interest Expense	4	4		1,156	
60 AFUDC-Debt	268,707-	333,462-	64,755-	271,806-	328,749-
61 Total Interest Charges	11,274,928	11,988,845	713,917-	9,990,210	12,082,775
62 Net Income	19,621,640	13,396,262	6,225,378	13,753,689	12,477,476
64 Preferred Dividend Declared	72,235	80,500	8,265-	77,626	78,000
65 Net Income to Common Stock	19,549,405	13,315,762	6,233,643	13,676,063	12,399,476

CERTIFICATE OF INCORPORATION
OF
AMERICAN WATER CAPITAL CORP.

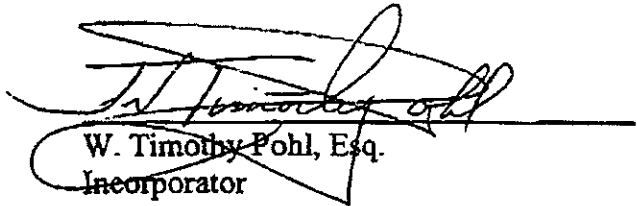
The undersigned, for the purpose of forming a corporation pursuant to the General Corporation Law of the State of Delaware, does hereby state as follows:

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