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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.)	

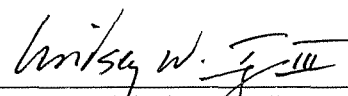
ORDERING PARAGRAPH 5 REPORT

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 June 24, 2010 \$26,000,000 private activity bond issuance the Commission authorized in its May 29, 2009 and August 21, 2009 Orders in this docket and in the Commission's June 10, 2010 Order in Case No. 2010-00232. 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 \$162,500.

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**Kentucky American Water Company
Analysis of Interest Rate on KAWC 5.375% Series, \$26.000 million bond**

Bond Terms:

Type	Tax Exempt
Interest Rate	5.375% fixed
Rating	S&P-BBB+; Moody's-Baa2
Maturity Term	30 Years
Amount	\$26,000,000
Pricing Date	17-Jun-10

Value Line Information:

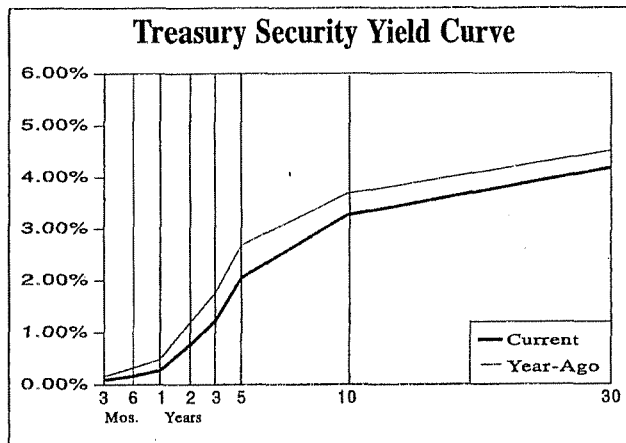
Pub. Date	6/25/2010	Tax Exempt	6.00%
Price Date	6/16/2010	25/30- GO	5.54%
		<u>Bonds (A Rated)</u>	
Basis Point Savings to Taxable Rates			0.63%
Annual Savings to Published Taxable Bond Rates			\$162,500

Conclusions:

1. The tax exempt rate obtained by KAW/AWCC on June 24, 2010 was determined by a competitive market bid. The 5.375% rate obtained was lower than the 25/30 Yr. A-rated GO Bond rate published in the Value Line publication of June 25, 2010.
2. The tax exempt rate of 5.375% obtained by KAW/AWCC was a reduction of 0.63% from the Value Line published rate for BBB rated, 25/30 year taxable issues per Value Line's pricing of June 25, 2010, generating an annual savings of \$162,500 from the similar taxable bonds normally issued by KAW/AWCC.

Selected Yields

	Recent (6/16/10)	3 Months Ago (3/17/10)	Year Ago (6/17/09)		Recent (6/16/10)	3 Months Ago (3/17/10)	Year Ago (6/17/09)
TAXABLE							
Market Rates							
Discount Rate	0.75	0.75	0.50				
Federal Funds	0.00-0.25	0.00-0.25	0.00-0.25				
Prime Rate	3.25	3.25	3.25				
30-day CP (A1/P1)	0.35	0.16	0.42				
3-month LIBOR	0.54	0.27	0.61				
Bank CDs							
6-month	0.41	0.25	0.66				
1-year	0.70	0.44	0.87				
5-year	2.05	1.99	1.92				
U.S. Treasury Securities							
3-month	0.09	0.15	0.16				
6-month	0.16	0.23	0.31				
1-year	0.27	0.37	0.47				
5-year	2.05	2.36	2.68				
10-year	3.26	3.64	3.69				
10-year (inflation-protected)	1.24	1.38	1.92				
30-year	4.18	4.57	4.51				
30-year Zero	4.41	4.84	4.60				
Mortgage-Backed Securities							
GNMA 6.5%	1.32	2.00	4.00				
FHLMC 6.5% (Gold)	0.83	1.51	3.13				
FNMA 6.5%	0.94	2.29	2.96				
FNMA ARM	2.97	2.93	2.53				
Corporate Bonds							
Financial (10-year) A	4.87	5.08	6.70				
Industrial (25/30-year) A	5.36	5.65	6.13				
Utility (25/30-year) A	5.50	5.75	5.95				
Utility (25/30-year) Baa/BBB	6.00	6.24	7.54				
Foreign Bonds (10-Year)							
Canada	3.37	3.47	3.44				
Germany	2.67	3.11	3.48				
Japan	1.25	1.36	1.47				
United Kingdom	3.54	4.01	3.79				
Preferred Stocks							
Utility A	6.01	5.52	5.47				
Financial A	6.65	6.53	8.72				
Financial Adjustable A	5.47	5.47	5.47				



TAX-EXEMPT							
Bond Buyer Indexes							
20-Bond Index (GOs)	4.37	4.33	4.86				
25-Bond Index (Revs)	4.82	4.92	5.76				
General Obligation Bonds (GOs)							
1-year Aaa	0.30	0.27	0.40				
1-year A	1.16	1.10	1.10				
5-year Aaa	1.76	1.44	2.25				
5-year A	2.65	2.44	3.65				
10-year Aaa	3.21	2.99	3.33				
10-year A	4.18	4.04	4.85				
25/30-year Aaa	4.47	4.44	4.72				
25/30-year A	5.54	5.48	6.24				
Revenue Bonds (Revs) (25/30-Year)							
Education AA	4.78	4.76	6.30				
Electric AA	4.79	4.74	6.35				
Housing AA	5.63	5.57	6.65				
Hospital AA	4.97	5.06	6.60				
Toll Road Aaa	4.78	4.81	6.30				

Federal Reserve Data

BANK RESERVES							
<i>(Two-Week Period; in Millions, Not Seasonally Adjusted)</i>							
	Recent Levels			Average Levels Over the Last...			
	6/2/10	5/19/10	Change	12 Wks.	26 Wks.	52 Wks.	
Excess Reserves	1047858	1055064	-7206	1075422	1084060	968858	
Borrowed Reserves	73336	76709	-3373	83101	117375	224220	
Net Free/Borrowed Reserves	974522	978355	-3833	992321	966685	744638	
MONEY SUPPLY							
<i>(One-Week Period; in Billions, Seasonally Adjusted)</i>							
	Recent Levels			Growth Rates Over the Last...			
	5/31/10	5/24/10	Change	3 Mos.	6 Mos.	12 Mos.	
M1 (Currency+demand deposits)	1727.3	1699.5	27.8	2.7%	4.6%	8.3%	
M2 (M1+savings+small time deposits)	8594.6	8573.5	21.1	2.2%	1.6%	1.9%	