COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF THE RATES OF KENTUCKY-AMERICAN WATER COMPANY	))	CASE NO. 2000-120

O R D E R

This Order addresses the issues that the Attorney General ("AG") and Kentucky-American Water Company ("Kentucky-American") have raised upon rehearing. Having considered the evidence presented during the rehearing phase of this proceeding and re-examining the evidence from the earlier phases of this proceeding, the Commission finds that rates established in our Order of November 27, 2000, as modified by our Order of December 12, 2000, should be revised to permit Kentucky-American total annual revenues of $41,539,767 from water sales, or an increase of $397,375 over the amount originally permitted.

PROCEDURAL BACKGROUND

On April 28, 2000, Kentucky-American applied to increase its rates to generate additional revenues of $5,034,349 or 12.56 percent over existing revenues.[1] On November 27, 2000, the Commission denied Kentucky-American's proposed rates and instead established rates that would generate additional revenues of $2,517,651. On December 12, 2000, the Commission, sua sponte, amended the Order of November 27,

[1] Kentucky-American subsequently amended its application to request $4,684,988, or 11.69 percent over existing revenues.

2000 to correct certain clerical and calculation errors. As a result of these revisions, Kentucky-American's authorized rate adjustment was reduced to $2,170,680.

On December 18, 2000, the AG applied for rehearing on the issues of deferred tax expense and proxy group risk adjustment. On January 3, 2001, Kentucky-American applied for rehearing on the following issues: (1) Retroactivity of December 12, 2000 rates, (2) Boonesboro Water Association ("BWA") acquisition adjustment, (3) return on equity, (4) source of supply investment, (5) community education costs, (6) industrial sales, and (7) certain deferred debits. The Commission granted both applications.

Under the procedural schedule established for this phase of the proceeding, the parties had the opportunity to conduct discovery, present testimony, and submit written briefs. The procedural schedule further provided for an evidentiary hearing if requested. The AG and Kentucky-American submitted written testimony, engaged in discovery, and submitted written briefs.[2] No party requested a hearing. This matter stood submitted for decision on April 25, 2001.

DISCUSSION

Retroactivity of December 12, 2000 Rates

In our Order of November 27, 2000, we established a schedule of rates for service that Kentucky-American provided on and after that date. On December 12, 2000, the Commission, noting several errors in its calculations, amended its Order to correct these errors and established different rates. The Commission further ordered that these rates be made effective as of November 27, 2000.

[2] While not submitting a written brief, N.O.P.E, Inc. advised the Commission in writing that it had adopted the AG's position on all issues.

Kentucky-American argues[3] that the Commission engaged in unlawful retroactive rate-making by retroactively applying the rates contained in our Order of December 12, 2000 to service rendered on and after November 27, 2000. Noting recent Commission decisions on the issue of retroactive application of rates,[4] it asserts that the Commission may not retroactively apply rates to service without a clear statutory mandate. Such mandate, Kentucky-American further asserts, is not present in this case and therefore the rates contained in the December 12, 2000 Order may be applied on a prospective basis only.

The Commission finds that the authority upon which Kentucky-American relies is inapplicable to the facts of this case. None of these authorities involved instances where the Commission had issued an Order containing calculation errors. In contrast, in Mike Little Gas Co., Inc. v. Public Service Commission, Ky.App., 574 S.W.2d 926 (1978), the Kentucky Court of Appeals held that the Commission possessed the legal authority to retroactively correct clerical errors in its Orders so long as the mistake is plainly shown in the record.

Our Order of December 12, 2000 is consistent with the holding of Mike Little Gas Co. In that Order, we painstakingly demonstrated our holding on each issue where an

[3] Kentucky-American also argues that the Commission's action would result in a refund of only $14,259.08. It asserts that such amount is de minimis and that the cost of any refund "regardless of whether made by check or credit on a bill, would obviously exceed the $14,259." Kentucky-American's Brief on Rehearing at 2. As Kentucky-American presented no evidence upon the cost of any refund, we find no basis to grant the requested relief on this basis.

[4] Case No. 99-300, Proposed Adjustments to the Wholesale Rates of the City of Cynthiana, Kentucky, (April 24, 2000); Case No. 94-453, Big Rivers Electric Corporation, (Feb. 21, 1997); Kentucky Industrial Utility Customers v. Big Rivers Electric Corp., 176 PUR4th 371 (Ky.P.S.C April 1, 1997).

error in the November 27, 2000 Order occurred and how the error altered our ultimate holding. Correction of the error did not change the Commission's reasoning, only the calculation of the rates. Accordingly, we find no basis to alter or revise this provision of the December 12, 2000 Order.

BWA Acquisition Adjustment

In our Order of November 27, 2000, we denied Kentucky-American's proposal to amortize over a 10-year period an acquisition adjustment of $184,568 related to its purchase of the assets of BWA. The proposed acquisition adjustment included the following costs:

Purchase Price In Excess of Book Value	$ 33,800
Company Labor	46,350
Legal Fees	87,230
Other	17,188
Total	$184,568

We found that the proposed adjustment failed to meet the Delta Natural Gas Co. test[5] for such adjustments. More specifically, it found that the proposed adjustment did not result in significant labor or operational savings, that no Kentucky-American employee positions were eliminated as a result of the acquisition, that new distribution facilities

[5] Case No. 9059, Delta Natural Gas Company, Inc., (Sept. 11, 1985). The elements of this test are:

> the purchase price was established upon arms-length negotiations, the initial investment plus the cost of restoring the facilities to required standards will not adversely impact the overall costs and rates of the existing and new customers, operational economies can be achieved through the acquisition, the purchase price of utility and non-utility property can be clearly identified, and the purchase will result in overall benefits in the financial and service aspects of the utility's operations.

Id. at 3.

were required as a result of the acquisition, and that the acquisition resulted in significant legal costs related to BWA's sewage treatment plant and water supply agreement with Winchester Municipal Utilities ("WMU"). Moreover, the Commission found no significant improvement in water quality resulting from the acquisition.

Kentucky-American takes issue with several of the Commission's findings. First, it argues that the acquisition resulted in the elimination of four employee positions of the combined entity and that the elimination of these positions resulted in total reduced labor costs of $106,821 and additional expense reductions of $69,029 for contractual services and insurance. It notes that BWA's former customers are now receiving water service at significantly reduced rates.

While conceding that the acquisition required the construction of additional facilities, Kentucky-American asserts that these facilities were needed to meet BWA's growing demands. It argues that WMU, BWA's water supplier, lacked the capacity to meet BWA's growing demand and that BWA had in fact exceeded its contractual limitations. The construction of these facilities removed water use restrictions that might be imposed upon BWA and that might limit economic development within BWA's service territory. Kentucky-American argues that its actions are consistent with its mandate as a regional water supplier to provide water service to those on the periphery of its system who are without a dependable supply of potable water.

Kentucky-American further argues that the Commission's actions are inconsistent with previous decisions. It notes that the Commission has previously encouraged Kentucky-American to become a regional supplier and permitted it to recover expenses related to failed attempts to acquire municipal water systems.[6] It also points to a recent Commission decision[7] in which the Commission not only permitted an acquisition adjustment of an investor-owned utility's purchase of a municipal utility system, but also permitted the utility to assess higher rates after the acquisition. Kentucky-American further notes that the same reasons that the Commission gave in support of that action are present with Kentucky-American's acquisition of BWA.

Opposing any change in the Commission's original decision, the AG argues that Kentucky-American's ratepayers did not accrue any material benefits from the transaction.[8] He states that the acquisition of BWA's customers did not materially expand Kentucky-American's customer base. He further notes that Kentucky-American's claims of reduced costs are dubious at best. Even if these savings did occur, they represent .0060 of Kentucky-American's initial forecast of test year operating expenses. Such an amount, the AG insists, cannot be considered material. Moreover, such savings fail to reflect additional legal and other expenses associated with the acquisition and with Kentucky-American's newly acquired responsibility to operate BWA's sewage treatment facilities.

While acknowledging that regionalization may be an appropriate consideration in reviewing the proposed acquisition adjustment, the AG argues that denial of the

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[6] Case No. 89-348, Kentucky-American Water Company, (June 28, 1989) at 23-24.

[7] Case No. 98-613, Delta Natural Gas Company, (Sep. 7, 1999).

[8] The AG does not dispute that Kentucky-American has satisfied the prongs of the Delta Natural Gas Co. test that concern the establishment of the purchase price and the identification of the purchase price of utility and non-utility property.

acquisition will not hinder regionalization. He notes that Kentucky-American has previously stated that the acquisition would occur regardless of the Commission's decision on the rate-making treatment for any acquisition adjustment. Moreover, the AG notes, the acquisition has not significantly improved water quality nor provided BWA's former customers with a secure water supply. WMU, BWA's previous water supplier, met all state and federal water quality standards. Like WMU, Kentucky-American faces significant questions regarding its source of supply and its treatment capacity.

In light of both parties' arguments, the Commission has carefully examined and re-examined our past precedent regarding acquisition adjustments and the evidence presented during all phases of this proceeding. We reaffirm the position that the Delta Natural Gas Co. test should continue to be used to evaluate the reasonableness and appropriateness of proposed acquisition adjustments. We also are of the opinion that other significant concerns, such as regionalization, should be considered and given some weight. In light of the Commonwealth's policy toward encouraging and promoting the regionalization of water suppliers and the merger of smaller and less efficient water distribution systems,[9] our failure to consider regionalization would frustrate that critical policy.

We find that Kentucky-American's acquisition of BWA meets the Delta Natural Gas Co. criteria and that an acquisition adjustment should be permitted. We find that the purchase of the BWA resulted in significant labor savings through the elimination of three employee positions and that sufficient evidence exists of greater economies of

[9] See Senate Bill 409.

scale resulting from the acquisition and absorption of BWA's facilities. We further find that Kentucky-American's purchase of BWA's facilities and its subsequent investment in BWA's facilities will not adversely impact the overall costs and rates of existing and new customers.

In determining the amount of the allowable acquisition adjustment, the Commission has included the purchase price of the BWA facilities and certain other costs to facilitate the transaction. While we recognize that these "other costs" were not part of the purchase price, we find that Kentucky-American has sufficiently demonstrated that these costs were generally essential to the transaction. We have, however, removed from the proposed acquisition adjustment deferred company labor expenses of $46,350. To defer payroll expense between rate cases and then amortize those costs, in addition to the normal recurring payroll expense, would artificially inflate forecasted test year operations.

We have also removed from the proposed acquisition costs those that should properly be assigned to BWA's sewer operations. In this proceeding, Kentucky-American failed to directly assign the cost components of the acquisition adjustment to its water and sewer operations. Kentucky-American witness Linda Bridwell testified that no assignment was made because the amount attributed to the sewer operations was insignificant.[10] Based upon the evidence of record, the Commission finds that these costs should be allocated based on the number of BWA water and sewer customers at

[10] Transcript of Evidence, Volume II at 28.

the time of transfer.[11] Accordingly, the Commission has allowed the amortization of a total acquisition adjustment of $130,508, calculated as follows:

	Requested Acquisition Adjustment	Allowed Acquisition Adjustment
Purchase Price In Excess of Book Value	$ 33,800	$ 31,915
Company Labor	46,350	-0-
Legal Fees	87,230	82,364
Other	17,188	16,229
Total	$184,568	$130,508

Based on the 10-year amortization of the acquisition adjustment the Commission amends its Order of December 12, 2000 to include additional amortization expense of $13,051. The Commission also includes an adjustment to increase Utility Plant in Service in rate base by $123,982, the 13-month average unamortized balance.

Source of Supply Investment

In our Order of November 27, 2000, the Commission disallowed Kentucky-American's request to discontinue the accrual of allowance for funds used during construction ("AFUDC") on source of supply costs related to the Bluegrass Water Project and to approve a current return on those costs. In its request for rehearing, Kentucky-American asked the Commission to reconsider its statement that source of supply costs should accrue AFUDC until "a project is undertaken and completed to resolve the source of supply problem."[12] In his rehearing testimony, Kentucky-American witness Michael A. Miller offered a third alternative rate treatment for the source of supply costs. He proposed the creation of a regulatory asset and its amortization over a

[11] At the time of the transfer, BWA provided water service to 1,151 customers and sewer service to 68 customers.

[12] Order of November 27, 2000 at 40.

period of 40 years.[13] Kentucky-American states that this alternative would avoid increasing future rates unnecessarily and eliminate the unfairness of imposing the carrying costs of this expenditure on the shareholder.[14]

Opposing this proposal, the AG argues that the Commission chose a legally valid policy in its original rate treatment of the source of supply costs and that there are no grounds warranting its modification.[15] He further argues that the alternative regulatory asset approach was available to the Company during the initial phases of this filing but was not proposed at that time and that this treatment should not be considered on rehearing. Therefore, he concludes, no change should be made to the Order of November 27, 2000.

After reconsideration of this issue and a re-examination of the evidence of record, we conclude that the creation of a regulatory asset for the source of supply costs and the amortization of that asset over 40 years with rate base treatment of the unamortized balance is, in fact, the most appropriate course. Using this methodology will allow Kentucky-American to begin removing these costs from its books.

We find that no revision is required to the language in the November 27, 2000 Order with regard to source of supply. The Commission further finds that source of supply costs in the amount of $2,000,162 should be removed from construction work in progress and included in rate base as a regulatory asset to be amortized over a period

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[13] Rehearing Testimony of Michael A. Miller at 14 and 15.

[14] Rehearing Brief of Kentucky-American at 12.

[15] Rehearing Brief of the AG at 29.

of 40 years. This results in an increase to amortization expense of $50,004 and a net decrease to rate base of $25,002.[16]

Community Education Costs

Kentucky-American requested reconsideration of the Commission's decision to disallow the amortization of community education costs totaling $481,576 and rate base treatment of the unamortized balance. In our Order of November 27, 2000, the Commission found that the community education costs represented costs incurred to influence public opinion that fell within the prohibition of Administrative Regulation 807 KAR 5:016. On rehearing, the Company argued that none of the advertising included in its campaign promoted the Blue Grass Water Project but served only to educate the community about the source of supply deficit and the need for conservation.

The Commission has reconsidered this issue and concludes that conservation efforts are imperative in resolving the source of supply issue facing central Kentucky. To promote an expanded conservation effort, the Commission is allowing the $481,576 to be amortized over 5 years. The annual recovery is $96,315. The amount allowed shall be allocated to developing more extensive conservation efforts than those anticipated for the forecasted test year. Within 60 days of the date of this Order, Kentucky-American should file a formalized, written plan describing the additional conservation efforts that will be made.

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[16]

Source of Supply Included in CWIP	$2,000,162
Source of Supply – Regulatory Asset (13-month average unamortized balance)	1,975,160
Decrease to Rate Base	$ 25,002

Industrial Sales

Kentucky-American proposed to use actual industrial sales for the year 1999 in the amount of 1,421,899 ccf to forecast industrial sales revenues. In our Order of November 27, 2000, the Commission determined that the sales level of 1,461,315 ccf set forth in Kentucky-American's 2000 Business Plan should be used. Kentucky-American now requests that the Commission use actual sales for the calendar year 2000 in the amount of 1,296,334 ccf. Based upon our ruling in our Order of February 26, 2001, that KRS 278.400 precludes the admission and use of such evidence, we decline to make any adjustment to forecasted industrial sales.

Deferred Debits

Y2K, GIS, KRS Automation. In its application Kentucky-American requested that expenditures related to Y2K, GIS, and KRS Automation be deferred and amortized with the unamortized balance included in rate base. In our Order of November 27, 2000, we disallowed all new[17] deferred debits on the basis that they were contrary to forecasted test year methodology and constituted retroactive and single-issue rate-making. Kentucky-American requested reconsideration of this action contending that it is contrary to prior rate treatment of similar expenditures. Opposing this request, the AG asserts that the Commission gave careful consideration to the record relating to deferred debits and correctly noted that these items were prior period expenses and not capital items. Therefore, he argues, no deferral treatment is necessary.[18]

[17] Direct Testimony of Edward J. Grubb, Exhibit EJG-1.

[18] Rehearing Brief of the AG at 42.

After further review the Commission has determined that these three items are similar in nature to other deferred debits approved in prior rate case proceedings. The Commission now finds that rate recovery is appropriate through amortization of the original costs. However, no rate base treatment should be afforded. This action results in an increase to annual expenses of $55,068.

Reorganization Costs. In our Order of November 27, 2000, we disallowed rate recovery of deferred reorganization costs based on the same premise on which we disallowed all other "new" deferred debits. Kentucky-American requested that we reconsider our decision with regard to this item because "the Commission felt uncertain as to whether or not the management of its [Kentucky-American's] operations and policy decisions will remain under local control."[19]

The Commission finds that no revision to the November 27, 2000 Order is necessary or warranted on this issue. Kentucky-American has not presented any new evidence to warrant its requested rate treatment of this expense. We note that, in addition to the reasons set forth in our Order of November 27, 2000 for denying rate recovery of reorganization costs, such costs should be denied because, as determined by Kentucky-American, the savings resulting from reorganization have already more than offset its costs.[20]

Deferred Legal/Settlement Costs. The Commission denied amortization and rate base treatment of deferred legal/settlement costs in the Order of November 27, 2000 on the same basis afforded other "new" deferred debits. These costs represent prior

[19] Rehearing Brief of Kentucky-American at 17.

[20] Direct Testimony of Edward J. Grubb at 20.

period expenses that should have been expensed when they were incurred. Kentucky-American asserts that the Commission gave no basis for denying rate treatment of these costs. The Company states that the cases were settled on the advice of the Company's legal counsel, that there is no evidence to suggest these expenses were incurred imprudently, and that the deferred costs should therefore be given full rate treatment.[21]

The AG concurs with the Commission's ruling but also believes the expense should have been disallowed because Kentucky-American was accused of illegal business practices and no conclusion was ever drawn by a court of law. Whether or not Kentucky-American did discriminate against the two employees will never be known because the Company settled both lawsuits out of court.[22]

The Commission has reconsidered its decision in this matter and finds the amortization of deferred legal/settlement costs should be permitted. In this instance, the Company prudently determined that settlement was the least cost, most feasible resolution of the claims. Moreover, there appears to have been increased efficiency in Kentucky-American's customer service performance levels as a result of the dismissal of the two employees on whose behalf the suit was brought. Based on the 5-year amortization of deferred legal/settlement costs, amortization expense has been increased by $38,611.

Deferred Relocation Expenses. In our Order of November 27, 2000, we denied amortization and rate base treatment of deferred relocation expenses. We took this

[21] Kentucky-American's Request for Rehearing at 18.

[22] Testimony of Robert J. Henkes in Opposition to Requested Relief at 17.

action because the costs in question represented prior period expenses that should have been expensed when incurred. On rehearing Kentucky-American states that these expenses were prudently incurred, that it has experienced relocation expenses on six occasions since 1992, and that therefore these costs are not non-recurring.

Opposing Kentucky-American's request, the AG refers to past Commission rulings on relocation costs. He notes that in Cases No. 10069[23] and No. 95-554[24] the Commission held that relocation expenses should not be granted rate treatment unless the applicant demonstrates that the transfer hinged on the reimbursement of moving expenses. The AG argues that Kentucky-American has not made that demonstration in the case before us.

Based upon our re-examination of the evidence of record, we have found no evidence to show that the relocations hinged on the reimbursement of relocation expenses. Accordingly, we affirm our Order of November 27, 2000 on this point.

Deferred Income Tax Expense

In its application Kentucky-American stated its deferred federal income taxes related to community education expense were $8,292. Kentucky-American subsequently acknowledged that the correct level of this expense was $32,268. This correction required an adjustment of $23,976. In our Order of November 27, 2000, when reflecting the corrected level of this expense, we incorrectly applied the income tax gross-up factor to the adjustment amount. The AG has requested, and the

[23] Case No. 10069, The Notice of Adjustment of Rates of Kentucky-American Water Company.

[24] Case No. 1995-554, Notice of Adjustment of the Rate of Kentucky-American Water Company Effective On and After February 29, 1996.

Commission agrees, that a correcting adjustment is required. Such adjustment is reflected in the rates approved herein.

Proxy Group Risk Adjustment

In its application for rehearing, the AG requested a correction to a misquote contained in the Order of November 27, 2000. In that Order we quoted the AG as stating that Kentucky-American was “slightly less risky” than the four proxy companies. In fact, the AG stated that Kentucky-American was “somewhat more risky” than the four proxy companies. We find that the Order of November 27, 2000 should be amended to reflect the AG’s actual statement.

Return on Common Equity

Kentucky-American requested that we reconsider our award of an 11 percent Return on Equity (“ROE”). Its sole argument is based upon evidence that the Commission found inadmissible and ordered struck.[25] In the absence of any new evidence on this point, we find no basis to disturb our original findings.

Authorized Increase

Based on the findings set forth above, the net operating income of $11,217,745, as approved in the Commission’s Order of December 12, 2000, should be decreased by $302,477 to a level of $10,915,268, calculated as follows:

[25] Order of February 26, 2001 at 4–5.

Adjusted Net Operating Income per Amended Final Order		11,217,745
Rehearing Adjustments:		
Amortization of Boonesboro Acquisition Adjustment	13,051	
Amortization of Source of Supply	50,004	
Amortization of Community Education Costs	96,315	
Amortization of Y2K, GIS, & KRS Automation	55,068	
Amortization of Deferred Legal/Settlement Costs	38,611	
Total Increase to Amortization Expense	253,049	
NOI Gross-Up Factor	0.596375	
Impact on Net Operating Income		(150,912)
Correction of Deferred Tax Expense		9,677
NOI Impact of Rehearing Adjustments on AFUDC		(149,225)
NOI Impact of Rehearing Adjustments on Interest Synchronization		(12,017)
Rehearing Adjusted Net Operating Income		10,915,268

The Commission further finds that based on Adjusted Net Operating Income of $10,915,268 and Adjusted Rate Base of $136,822,088,[26] Kentucky-American's allowable utility operating income should be $12,437,128. We further find that to achieve this level of income, Kentucky-American would be authorized to increase its rates and charges to produce additional annual operating revenues of $2,568,055. The calculation of this level of additional annual operating revenues is set forth below:

[26] Appendix A to this Order, Calculation of Adjusted Net Investment Rate Base.

Rehearing Adjusted Rate Base	136,822,088
Cost of Capital	0.0909
Net Operating Income Found Reasonable	12,437,128
Less: Rehearing Adjusted Net Operating Income	10,915,268
Operating Income Deficiency	1,521,860
Multiplied by: Gross-up Factor	1.687445
Required Revenue Increase	2,568,055

We further find that Kentucky-American's annual operating revenues from water sales should be $41,539,767. The rates set forth in Appendix B to this Order will produce this level of annual operating revenues.

SUMMARY

IT IS THEREFORE ORDERED that:

1. All findings and conclusions of the Order of November 27, 2000, as amended by the Order of December 12, 2000, that do not conflict with those contained herein are incorporated by reference and are adopted as if fully set forth herein.

2. All findings and conclusions of the Order of November 27, 2000, as amended by the Order of December 12, 2000, that conflict with those contained herein are hereby amended and are replaced with those set forth herein.

3. The first complete paragraph of page 61 of the Order of November 27, 2000 is amended to read as follows:

> In recommending an ROE in the range of 9.75 percent to 10.75 percent, the AG placed greater emphasis on the constant growth DCF results and the CAPM results. He argued that the two-stage DCF and the bond-risk-premium methods are more difficult for an investor to use and the required data is not as readily available. The AG also made some allowance for the fact he determined that Kentucky-

American was slightly more risky than the four proxy companies.[142]

4. The rates set forth in Appendix B are approved for service rendered by Kentucky-American on and after the date of this Order.

5. Within 20 days of the date of this Order, Kentucky-American shall file its revised tariff sheets setting forth the rates approved herein.

6. Within 60 days of the date of this Order, Kentucky-American shall file with the Commission a detailed, written plan describing the additional community education efforts that Kentucky-American will undertake to promote water conservation efforts.

Done at Frankfort, Kentucky, this 9th day of May, 2001.

By the Commission

ATTEST:

Executive Director

APPENDIX A

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2000-120 DATED MAY 9, 2001

Kentucky-American Water Company
Calculation of Adjusted Net Investment Rate Base

	13-month Avg. per Amended Order	Rehearing Adjustments	Adjusted
Utility Plant in Service	231,276,068		231,276,068
Utility Plant Acquisition Adjustments	-0-	123,982	123,982
Accumulated Depreciation	(45,600,713)		(45,600,713)
Accumulated Amortization	(7,674)		(7,674)
Net Utility Plant in Service	185,667,681	123,982	185,791,663
Construction Work in Progress	4,963,029	(2,000,162)	2,962,867
Source of Supply	-0-	1,975,160	1,975,160
Working Capital Allowance	1,048,937	11,334	1,060,271
Other Working Capital Allowance	461,261		461,261
Contributions in Aid of Construction	(24,034,931)		(24,034,931)
Customer Advances	(11,841,290)		(11,841,290)
Deferred Income Taxes	(21,329,190)	(847,266)	(22,176,456)
Deferred Investment Tax Credits	(152,717)		(152,717)
Deferred Maintenance	3,671,619		3,671,619
Deferred Debits	261,828		261,828
Other Rate Base Elements	(1,157,187)		(1,157,187)
KRS II Costs	-		-
KRS Residuals Project Costs	-		-
Bluegrass Water Project Pipeline Related Costs	-		-
Community Education Costs	-		-
Total	137,559,040	(736,952)	136,822,088

APPENDIX B

AN APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2000-120 DATED MAY 9, 2001

The following rates and charges are prescribed for the customers in the area served by Kentucky-American Water Company. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under authority of this Commission prior to the effective date of this Order.

SERVICE CLASSIFICATION NO. 1

Meter Rates

The following shall be the rates for consumption, in addition to the service charges provided herein.

Customer Category	Rate Per 1,000 Gallons All Consumption	Rate Per 100 Cubic Feet All Consumption
Residential	$2.23441	$1.67581
Commercial	2.06898	1.55174
Industrial	1.68828	1.26621
Municipal and Other Public Authority	1.98196	1.48647
Sales for Resale	1.98196	1.48647

Service Charges

All metered general water service customers shall pay a service charge based on the size of meter installed. The service charge will not entitle the customer to any water.

Size of Meter	Monthly Service Charge
5/8 Inch	$ 7.31
¾ Inch	10.97
1 Inch	18.28
1-1/2 Inch	36.55
2 Inch	58.48
3 Inch	109.65
4 Inch	182.75
6 Inch	365.50
8 Inch	584.80

SERVICE CLASSIFICATION NO. 3

AVAILABILITY OF SERVICE

Available for municipal or private fire connections used exclusively for fire protection purposes.

Fire Service Rates

Size of Service	Rate Per Month	Rate Per Annum
2 Inch Diameter	$ 4.00	$ 48.00
4 Inch Diameter	16.00	192.00
6 Inch Diameter	35.96	431.52
8 Inch Diameter	63.92	767.04
10 Inch Diameter	99.88	1,198.56
12 Inch Diameter	143.85	1,726.20
14 Inch Diameter	195.82	2,349.84
16 Inch Diameter	255.70	3,068.40

Rates for Public Fire Service

	Rate Per Month	Rate Per Annum
For each public fire hydrant Contracted for or ordered by Urban county, county, state, Or federal government Agencies or institutions	$23.96	$287.52

Rates for Private Fire Service

	Rate Per Month	Rate Per Annum
For each private fire hydrant Contracted for by industries Or private institutions	$35.96	$431.52

HIDDEN LEAK ADJUSTMENT: A charge of twenty-five percent (25%) of the applicable tariffed rate will be applied to all water usage determined to be the result of a hidden underground leak.