

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2008-00427
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 30**

Description of Filing Requirement:

Latest 12 Monthly Managerial Reports

Response:

Please see attached.

For electronic version, refer to KAW_APP_EX30_103108.pdf

Operations Review September 2007

Operational Issues Review

1. Source of Supply

Kentucky American Water ("KAW") continues to move forward and has issued bid requests for construction of a treatment plant on Pool 3 of the Kentucky River. A 404 permit application for construction in the waters of the US to the US Army Corps of Engineers was filed in March and is pending. A permit application for a 401B permit for stream flow crossings was filed with the KY DOW on April 2. The company still awaits the approval of the Highway Encroachment permits. All other permits have been received.

KAW and BWSC have executed an agreement to allow for the design expansion and are negotiating on a partnership agreement. In June, a joint letter from KAW and BWSC was sent to Senator Mitch McConnell requesting federal support of \$35 million to help defray the BWSC capital cost of the project.

KAW has made several presentations about the project to numerous business and civic groups. A group of property owners in Franklin County have formed to oppose the project. In June, the Franklin Fiscal Court voted 4-2 to oppose the company's plan to construct a pipeline through part of Franklin County and a water treatment plant in Owen County, just north of Franklin. The Owen County Fiscal Court passed a resolution supporting the project, along with the City of Owenton and the Owen County Chamber of Commerce.

Louisville Water Company has made a presentation to the LFUCG Council indicating that a project to purchase water from them would be cheaper. They also filed a motion to intervene in the Certificate Case, and the motion was granted. KAW made a presentation to the LFUCG on August 21 and will meet with them again on September 18. The Kentucky Attorney General's witness has filed testimony supporting the project.

KAW filed with the Public Service Commission a Certificate of Convenience and Necessity on March 30, 2007. The hearing is scheduled for November 2007.

An update of public opinion in August revealed results of 89% customer satisfaction with the local level and quality of service. The survey also sought views regarding the water supply deficit and KAW's plan to resolve the source of supply issue. A high percentage of customers trust the professionals of KAW to build the new water plant in partnership with the Bluegrass Water Supply Commission.

2. Operational Costs: Energy, Chemicals, Residuals

Fuel and Power is under plan by \$50,797 for the month of September and under plan \$81,171 YTD. The September variance is primarily related to decreased demand due to mandatory watering restrictions. Chemicals are over plan for September by \$15,981 and over plan YTD with a variance of \$18,611. Drought conditions require increased treatment to the raw water source. Total organic carbon was higher than normal and additional ferric was used as the coagulant instead of PACL. Increased overtime was required as company personnel performed additional river monitoring three days each week. This additional sampling will continue until the Kentucky River flows, return to acceptable levels.

In June, the central Kentucky service area was listed in the Severe Drought category according to the Palmer Drought Severity Index. By July, however, the

**Kentucky American Water
Operations Review September 2007**

Bluegrass region received higher than normal amounts of rainfall taking the central Kentucky region from severe drought back to moderate drought conditions. The minimal amount of rain along with the YTD deficit of 7" of average rainfall, placed the central Kentucky region once again in severe drought status by mid August. Lexington and the surrounding counties first implemented voluntary restrictions of outdoor water use. However, by August 28, decreased flows in the Kentucky River and dismal long range weather forecasts forced the company to implement phase three of the demand management plan thereby imposing mandatory odd/even watering restrictions. In September, central Kentucky was in the extreme drought category according to the Palmer drought severity index. The Bluegrass region needs 9.71 inches of above-normal rainfall to end the drought. The dry situation was only alleviated with scattered precipitation and lower nightly temperatures. Although infrequent, the sporadic rainfall helped river flows temporarily, and avoided moving into the last phase of the demand management plan. The water conservation appeals board continues to meet weekly to review consumer appeals for water restriction exemptions.

3. Rate Case/Orders: Timing, Value, Issues

A rate filing was submitted on April 30, 2007 to request a 25% rate increase to cover the cost of infrastructure investment. KAW filed its Notice of Intent to file the case with the KY Public Service Commission on April 2, 2007 per the required regulations. An agreement was reached with the Attorney General to settle the rate case on August 29, the first unanimous settlement of a Kentucky American Water rate case in over 20 years. On September 14, Kentucky American Water and all parties to its rate request, went before the Kentucky Public Service Commission, and agreed to a settlement that calls for \$8 million total in annual increases and single tariff pricing. The settlement was reached by all parties including Kentucky American Water, the Attorney General's Office, Lexington Fayette Urban County Government, Community Action Council, and the Kentucky Industrial Utility Customers. It includes an increase in contributions to the H2O Help to Others Program, which will be paid by Kentucky American Water stockholders, not customers.

4. Commission Activity: Customer Complaints, Compliance

2007	YTD Collections		YTD Billing		YTD Totals	
	Total	Justified	Total	Justified	Total	Justified
KY	33	0	32	0	65	0

5. Divestitures

The KY PSC issued an Order dated April 16, 2007, approving the divestiture application and the IPO, subject to certain conditions. RWE, KAW, and all other Applicants accepted these conditions in a filing dated April 26, 2007. American Water has received all necessary approvals in 13 states. On August 27, American Water filed a registration statement on Form S-1 with the SEC related to the proposed initial public offering of its common stock.

6. Major Operational Projects

- \$2.7 million in main replacements, including completion of Second Street, Madison Place and Merino Street, Lackawanna Drive, and Bucoto Court to be completed in 2007. Main replacements in New Circle Road, Saunier Street, Bruce Street, and Columbia Avenue will be completed in 2007. South Limestone has been postponed until 2008 because of concerns with the University of Kentucky construction.
- Replacement of 10,000 feet of main to be completed in 2007 for a total project of 50,000 feet in Owen County.
- Replacement of residuals handling equipment at Richmond Road Station began in March, to be completed in December 2007.
- Pump replacement at Parkers Mill Road tank began in March, to be completed in October. The project is 99% complete at this time.
- Reliability of treatment facilities, including intake pump replacement is to be completed in 2008. This project is temporarily delayed to October due to summer system delivery demand of plant facilities.
- Installation of 6,400 feet of 20-inch main in Clays Mill Road prior to the first phase of widening began in 2006, to be completed in 2007.
- Installation of booster pump facilities in Mallard Point subdivision to improve area pressures began in 2006 and is to be completed in 2007. The pump station is set, and startup is scheduled for October 16, 2007.
- The Northern District intake pump was remodeled and new pumps were installed; the project was completed in June.
- The Northern District Perry tank painting was completed in June with additional foundation repair on the tank yet still to be done. Anticipated completion date is December 2007.
- The Northern District Sparta tank painting is substantially complete.

The third quarter net capex total of \$25 million will be completed by December 31, 2007 as forecasted in the Q3RF.

Kentucky American Water
Operations Review September 2007

7. Operational Regulatory Compliance: Status

Kentucky	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend**
Regulatory Maintenance:					
Meter Changes	8,495	8,501	0	G	→

Kentucky	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend**
Maintenance:					
Valve Operation (<16") PUC*	37.0%	75.0%	38.0%	Y	↓
Valve Operation (>16") PUC*	100.0%	75.0%	0.0%	G	→
Hydrant Inspection*	68.0%	75.0%	7.0%	Y	↑
Tank Painting (#/\$000's)*	2of3/\$361	2of3/\$308	1/\$53	G	→
*Not regulatory issue in KY.					

Note: KAW plans to complete hydrant inspections and small valve operations by year end.

8. Policy Compliance Issues

None to report at this time.

9. Union/Labor Issues/Activities

There are no current grievances at this time KAW along with Firemen and Oilers Union, held negotiation meetings on September 20, 25, and 26. The contract expires October 31. Once ratified, the company will enter into a new three year term with a 3% increase for each year of the agreement. The overall favorable relationship between union and management, as well as the collective efforts of the management negotiating team, resulted in a decisive 33 to 9 union vote to accept the proposed contract on October 4. The quick ratification of the contract is a testament to continued success of company teamwork and employee dedication. KAW will begin preparation for contract negotiations with the internal customer service group whose contract expires December 16, 2007.

10. Explanation of NOV's, OSHA violations, etc.

- A routine sample taken in March at the Owenton, KY wastewater plant failed a required biological toxicity test. The company may receive an NOV sometime this year. We have reviewed the issue thoroughly, putting measures in place to avoid a repeat occurrence. To date, the company has received no response from the state agency regarding this incident and has no NOV's recorded this year.
- There were no lost time injuries reported during the month of September. There were two occupational injuries and two vehicular accidents reported for the month. Both vehicular accidents, however, were non preventable because they were caused by other parties involved in the accident. The occupational injuries involved injured shoulders. Both employees are currently working and were released with no medical restrictions. Having no lost time injuries for the year is a significant accomplishment attributed to the collective efforts to safety, by the whole Kentucky American team.

11. Revenue Generating Projects/Opportunities

None to report at this time.

12. O&M, DBO Contracts – Significant Operational/Financial Variances

KAW has entered into an agreement with Bluegrass Station for preliminary engineering studies regarding their planned potable and fire service water infrastructure upgrades. The lump sum fee is payable over 9 monthly installments beginning in May 2007. The engineering report was finalized and KAW officials will meet with Bluegrass Station to determine next steps.

A new antennae lease agreement with Nextel, started in March. This is the third lease agreement at the Mercer Road tank site.

13. Other Operational Issues

- Discussions to negotiate a sewer billing contract continue with Georgetown Municipal Water and Sewer ("GMWS") and the renewal of the present sewer billing contract for Lexington-Fayette Urban County Government ("LFUCG") were ongoing during the summer. Information has been provided to GMWS for their consideration. KAW is working toward all sewer contracts being aligned and created under the same considerations for pricing and agreement terms. The LFUCG sewer and landfill billing contract was presented for the second reading to the LFUCG council members and a new four year agreement was approved in September. The new contract provides for an automatic yearly renewal at the end of the contract term unless the LFUCG requests revision of the agreement. The contract, resulting in approximately \$1,000,000, still requires Mayor Jim Newberry's signature. A written filing will be sent to the PSC for informational purposes after the agreement is executed.
- Fire hydrant painting in Fayette County, which will include color coding, started in April. It is a two-year project that will bring KAW's system into alignment with the national fire safety code recommendations. KAW is working in cooperation with the LFUCG fire department and the project is on schedule as planned.

Kentucky American Water
Operations Review September 2007

- Home-based reporting for Field Service Representatives was implemented and has produced excellent results. The network department has worked approximately 15% more field service orders YTD than was executed for the same period in 2006. Home based reporting has increased productivity levels without requiring additional staffing to implement new collection efforts.
- **Collections effort, September 2007** – KAW continues to see above normal numbers of non-pay off orders being created and worked by the field service group. However, the total number of orders declined 18% from August monthly totals. Additional personnel on loan from the meter reading and maintenance groups to support the collections effort will decrease, should this trend continue.
- **Reverse 911** – The Reverse 911 system was implemented for Kentucky American on September 28, 2007. The system was utilized to inform Clark County customers in the Rockwell Road area of a boil water advisory being issued by KAW. Doorknob notices were also distributed to each customer affected by the advisory and many of them acknowledged they had already received the notification by telephone and were very appreciative of the company's efforts.
- The company completed its **annual inventory** of stock items in September. There are two warehouses for KAW, one in the Northern District and one in Lexington. For over \$4,000,000 stock items purchased and issued, the net variance from the cycle count resulted in a net overage of \$1,900.

1
10/09/07
11:44:04

American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAAP)
Income Statement Month & YTD
For the Period Ending 09/30/2007

Kentucky-American Water Co.

	September Actual	September Plan	September Variance	September Prior Year	Yr to Date September Actual	Yr to Date September Plan	Yr to Date September Variance	Yr to Date September Prior Year	Annual Forecast
1 OPERATING REVENUES									
2 Water	4,648,251	4,822,466	174,215-	5,346,418	37,781,955	36,647,480	1,134,475	35,602,284	49,911,017
3 Sewer	31,485	24,598	6,887	25,847	256,249	211,573	44,676	217,987	277,659
4 Other	242,905	157,614	84,891	200,211	1,627,990	1,418,526	209,464	1,453,574	1,891,350
5 Management									
6 Total Revenues	4,922,241	5,004,678	82,437-	5,572,476	39,666,194	38,277,579	1,388,615	37,273,845	52,080,834
7 OPERATIONS & MAINTENANCE EXPENSE									
8 Labor	458,207	452,674	5,533	543,466	4,342,005	4,333,949	8,056	3,797,617	5,836,735
9 Purchased water	57,844	46,200	11,644	37,545	378,950	378,950	0	353,020	496,300
10 Fuel & power	284,451	335,248	50,797-	363,581	2,096,918	2,178,089	81,171-	2,040,290	2,960,000
11 Chemicals	166,608	150,627	15,981	231,971	1,224,995	1,206,384	18,611	1,142,425	1,590,118
12 Waste disposal	11,382	19,800	8,618-	22,862	184,400	184,400	0	167,954	232,325
13 Management fees	590,506	555,644	34,862	763,665	5,608,146	5,293,308	314,838	4,816,809	6,987,757
14 Group insurance	153,998	137,821	16,177	118,222	1,313,480	1,240,389	73,091	1,204,507	1,653,852
15 Pensions	53,019	37,977	15,042	341,793	1,470,574	1,341,793	128,781	1,551,688	1,455,724
16 Regulatory Expense	30,086	30,091	5-	30,549	270,819	270,819	0	279,828	405,531
17 Insurance Other than group	54,100	65,072	10,972-	34,732-	413,331	565,648	172,317-	439,395	780,864
18 Customer Accounting	105,790	121,395	16,219-	111,725	1,096,868	1,033,343	63,525	959,432	1,395,901
19 Rents	33,985	31,985	2,000	3,197	24,000	24,000	0	22,766	33,000
20 General Office Expense	185,047	256,115	71,068-	319,717	2,364,873	2,364,873	0	345,903	479,085
21 Miscellaneous	167,147	223,477	56,330-	167,520	1,444,337	2,105,460	661,123-	1,662,462	2,740,281
25 Other Maintenance									
Total Maintenance & Operations Expense	2,344,039	2,468,626	124,587-	2,756,742	20,891,047	21,918,722	1,027,675-	19,967,559	29,082,334
27 Depreciation	585,555	574,431	11,124	533,773	5,153,472	5,097,931	55,541	5,018,501	6,874,214
28 Amortization	87,115	74,215	12,900	85,234	578,070	507,835	70,235	337,834	410,680
29 General taxes	251,068	277,438	26,370	239,841	2,193,501	2,138,396	55,105	2,081,838	2,855,310
30 State income taxes	45,179	57,932	12,753-	76,852	414,136	244,316	172,818	385,650	364,602
31 Federal income taxes	383,930	422,485	38,555-	506,690	2,419,285	1,694,524	724,761	2,108,754	2,595,113
32 Tax Savings Acquisition Adjustment									
33 Total Operating Expenses	3,676,886	3,795,187	118,301-	4,159,232	31,449,511	31,399,026	50,485	29,900,216	42,182,353
34 Utility Operating Income	1,245,355	1,209,491	35,864	1,413,244	8,216,683	6,878,553	1,338,130	7,373,629	9,898,481
35 OTHER INCOME & DEDUCTIONS									
36 Non-Operating Rental Income									
37 Dividend Income-Common									
38 Dividend Income-Preferred									
39 Interest Income	87,193	72,930	14,263	22,025	127,120	494,758	127,120	227,518	601,063
40 AFUDC Equity	48		48	51,153-	168,101		168,101	75,852-	
42 M & J Miscellaneous Income									
43 Gain/Loss on Disposition									
45 Total Other Income	87,241	72,930	14,311	29,128-	662,006	494,758	367,240	151,666	681,063
46 Miscellaneous Amortization									
47 Tax Savings Acquisition Adjustment									
48 Misc. Other Deductions									
49 General Taxes	9,616	8,352	1,264	9,779	255,108	270,093	14,985-	253,280	277,323
50 State income taxes	321-	689-	368	209	1,210	22,281-	23,491	18,747-	22,877-
51 Federal income taxes	1,031-	2,602-	1,651	1,046	12,664	86,733-	99,397	93,734-	89,055-
52 Total Other Deductions	8,229	5,045	3,184	10,999	268,664	161,655	107,009	140,374	166,159
53 Total Other Income	79,012	67,885	11,127	40,127-	593,342	333,103	260,239	11,292	514,904
54 Income Before Interest Charges	1,324,367	1,277,376	46,991	1,373,117	8,810,025	7,211,656	1,598,369	7,384,921	10,413,385
55 INTEREST CHARGES									
56 Interest on Long-Term Debt	295,882	471,728	175,846-	426,629	3,325,786	4,138,871	813,185-	3,839,663	5,686,455
57 Amortization and Debt Expense	6,017	12,217	6,200-	6,073	54,472	94,814	40,342-	54,655	131,465
58 Interest-Short Term Bank Debt	199,457	45,333	154,124	32,354	1,154,124	258,294	895,830	307,310	291,367
59 Other Interest Expense									
60 AFUDC-Debt	39,591-	33,120-	6,471-	8,983-	257,351-	224,688-	32,663-	100,473-	309,296-
61 Total Interest Charges	461,765	496,158	34,393-	456,073	4,238,856	4,267,391	28,535-	4,101,201	5,799,991
62 Net Income	862,602	781,218	81,384	917,044	4,571,169	2,944,265	1,626,904	3,283,720	4,613,394
64 Preferred Dividend Declared	6,560	38,325	31,765-	6,562	59,094	344,925	285,831-	59,067	459,900
65 Net Income to Common Stock	856,042	742,893	113,149	910,482	4,512,075	2,599,340	1,912,735	3,224,653	4,153,494

Operations Review October 2007

Operational Issues Review

1. Source of Supply

Kentucky American Water ("KAW") continues to move forward and has issued bid requests for construction of a treatment plant on Pool 3 of the Kentucky River. A 404 permit application for construction in the waters of the US to the US Army Corps of Engineers was filed in March and is pending. A permit application for a 401B permit for stream flow crossings was filed with the KY DOW on April 2. The company still awaits the approval of the Highway Encroachment permits. All other permits have been received.

KAW and BWSC have executed an agreement to allow for the design expansion and are negotiating on a partnership agreement. In June, a joint letter from KAW and BWSC was sent to Senator Mitch McConnell requesting federal support of \$35 million to help defray the BWSC capital cost of the project.

KAW has made several presentations about the project to numerous business and civic groups. A group of property owners in Franklin County have formed to oppose the project. In June, the Franklin Fiscal Court voted 4-2 to oppose the company's plan to construct a pipeline through part of Franklin County and a water treatment plant in Owen County, just north of Franklin. The Owen County Fiscal Court passed a resolution supporting the project, along with the City of Owenton and the Owen County Chamber of Commerce.

Louisville Water Company has made a presentation to the LFUCG Council indicating that a project to purchase water from them would be cheaper. They also filed a motion to intervene in the Certificate Case, and the motion was granted. KAW made a presentation to the LFUCG on August 21 and will meet with them again on September 18. The Kentucky Attorney General's witness has filed testimony supporting the project. On November 13, rebuttal testimony will be presented at a meeting in Frankfort. PSC hearings will be held on November 26, 27, and 28.

KAW filed with the Public Service Commission a Certificate of Convenience and Necessity on March 30, 2007. The hearing is scheduled for November 2007.

An update of public opinion in August revealed results of 89% customer satisfaction with the local level and quality of service. The survey also sought views regarding the water supply deficit and KAW's plan to resolve the source of supply issue. A high percentage of customers trust the professionals of KAW to build the new water plant in partnership with the Bluegrass Water Supply Commission.

2. Operational Costs: Energy, Chemicals, Residuals

Fuel and Power is over plan by \$34,171 for the month of October and under plan \$47,000 for the YTD. The October variance is primarily related to an increase in the fuel adjustment clause over plan. The fuel adjustment increase accounted for \$46,038 of the October MTD variance. Chemicals are over plan for October by \$88,258 and over plan YTD with a variance of \$106,869. Drought conditions and low river levels required increased treatment to the raw water source. Total organic carbon was higher than normal and additional ferric was used as the coagulant instead of PACL.

**Kentucky American Water
Operations Review October 2007**

In June, the central Kentucky service area was listed in the Severe Drought category according to the Palmer Drought Severity Index. By July, however, the Bluegrass region received higher than normal amounts of rainfall taking the central Kentucky region from severe drought back to moderate drought conditions. The minimal amount of rain along with the YTD deficit of 7" of average rainfall, placed the central Kentucky region once again in severe drought status by mid August. Lexington and the surrounding counties first implemented voluntary restrictions of outdoor water use. However, by August 28, decreased flows in the Kentucky River and dismal long range weather forecasts forced the company to implement phase three of the demand management plan thereby imposing mandatory odd/even watering restrictions. In September, central Kentucky was in the extreme drought category according to the Palmer drought severity index. The Bluegrass region needed 9.71 inches of above-normal rainfall to end the drought. The dry situation was only alleviated with scattered precipitation and lower nightly temperatures. Although infrequent, the sporadic rainfall helped river flows temporarily, and avoided moving into the last phase of the demand management plan. The water conservation appeals board met weekly to review consumer appeals for water restriction exemptions. Central Kentucky received 6" of rain on October 22-23 which significantly changed the drought severity index for this area from extreme to normal. By October 24, cooler temperatures, significant rainfall, and slightly increased river levels warranted the immediate and complete lifting of outdoor watering restrictions for Kentucky American Water customers in seven counties.

3. Rate Case/Orders: Timing, Value, Issues

A rate filing was submitted on April 30, 2007 to request a 25% rate increase to cover the cost of infrastructure investment. KAW filed its Notice of Intent to file the case with the KY Public Service Commission on April 2, 2007 per the required regulations. An agreement was reached with the Attorney General to settle the rate case on August 29, the first unanimous settlement of a Kentucky American Water rate case in over 20 years. On September 14, Kentucky American Water and all parties to its rate request, went before the Kentucky Public Service Commission, and agreed to a settlement that calls for \$8 million total in annual increases and single tariff pricing. The settlement was reached by all parties including Kentucky American Water, the Attorney General's Office, Lexington Fayette Urban County Government, Community Action Council, and the Kentucky Industrial Utility Customers. It includes an increase in contributions to the H2O Help to Others Program, which will be paid by Kentucky American Water stockholders, not customers. The new customer rates become effective December 1, 2007.

4. Commission Activity: Customer Complaints, Compliance

2007	YTD Collections		YTD Billing		YTD Totals	
	Total	Justified	Total	Justified	Total	Justified
KY	39	0	32	0	71	0

5. Divestitures

The KY PSC issued an Order dated April 16, 2007, approving the divestiture application and the IPO, subject to certain conditions. RWE, KAW, and all other Applicants accepted these

conditions in a filing dated April 26, 2007. American Water has received all necessary approvals in 13 states. On August 27, American Water filed a registration statement on Form S-1 with the SEC related to the proposed initial public offering of its common stock.

6. Major Operational Projects

- \$2.7 million in main replacements, including completion of Second Street, Madison Place and Merino Street, Lackawanna Drive, and Bucoto Court to be completed in 2007. Main replacements on Saunier Street, Bruce Street, and Columbia Avenue are complete. New Circle Road will be completed in 2007. South Limestone has been postponed until 2008 because of concerns with the University of Kentucky construction.
- Replacement of 10,000 feet of main to be completed in 2007 for a total project of 50,000 feet in Owen County. Project is 95% complete.
- Replacement of residuals handling equipment at Richmond Road Station began in March, and is 90% complete. Final completion expected in February 2008.
- Pump replacement at Parkers Mill Road tank began in March and was completed in October.
- Reliability of treatment facilities, including intake pump replacement is to be completed in 2008. This project is temporarily delayed to October due to summer system delivery demand of plant facilities.
- Installation of 6,400 feet of 20-inch main in Clays Mill Road prior to the first phase of widening began in 2006, to be completed in 2007.
- Installation of booster pump facilities in Mallard Point subdivision to improve area pressures began in 2006 and is to be completed in 2007. The pump station is set and startup was done in October 2007. Project is 98% complete.
- The Northern District intake pump was remodeled and new pumps were installed; the project was completed in June.
- The Northern District Perry tank painting was completed in June with additional foundation repair on the tank yet still to be done. Anticipated completion date is December 2007.
- The Northern District Sparta tank painting is substantially complete.

The third quarter net capex total of \$25 million will be completed by December 31, 2007 as forecasted in the Q3RF.

Kentucky American Water
Operations Review October 2007

7. Operational Regulatory Compliance: Status

Kentucky	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend**
Regulatory Maintenance:					
Meter Changes	9,296	8,501	0	G	→

Kentucky	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend**
Maintenance:					
Valve Operation (<16") PUC*	56.0%	83.0%	27.0%	Y	↑
Valve Operation (>16") PUC*	100.0%	83.0%	0.0%	G	→
Hydrant Inspection*	84.0%	83.0%	0.0%	G	↑
Tank Painting (#/\$000's)*	2of3/\$431	2of3/\$308	1/\$123	G	→
*Not regulatory issue in KY.					

Note: KAW plans to complete hydrant inspections and small valve operations by year end.

8. Policy Compliance Issues

None to report at this time.

9. Union/Labor Issues/Activities

There are no current grievances at this time. The company entered into a new three year contract with the Firemen and Oilers Union which provided for a 3% annual increase for each year of the agreement. The overall favorable relationship between union and management, as well as the collective efforts of the management negotiating team, resulted in a decisive 33 to 9 union vote to accept the proposed contract on October 4. The quick ratification of the contract is a testament to continued success of company teamwork and employee dedication. KAW will begin preparation for contract negotiations with the internal customer service group whose contract expires December 16, 2007.

KAW continues to invest in employee development as ten employees will attend the Unbridling the Spirit of Leadership conference which features Dr. John Maxwell, author of The 360 Leader in November.

To ensure the validity and compliance of the vacation policy, an audit of employee vacation time, will be conducted in November.

10. Explanation of NOV's, OSHA violations, etc.

- A routine sample taken in March at the Owenton, KY wastewater plant failed a required biological toxicity test. The company may receive an NOV sometime this year. We have reviewed the issue thoroughly, putting measures in place to avoid a repeat occurrence. To date, the company has received no response from the state agency regarding this incident and has no NOV's recorded this year.
- There was one occupational injury and one vehicular accident reported during the month of October. Neither of the incidents resulted in a lost time accident. The vehicular accident resulted in a "hit and run". On October 27, 2007, a KAW crew leader reported that the company vehicle was hit in the rear by someone waiting in traffic. He reported a collision ahead which caused the traffic to come to a complete stop. The company vehicle was hit by someone trying to go around the company vehicle while it was waiting in traffic. Having no lost time injuries for the year is a significant accomplishment attributed to the collective efforts to safety, by the whole Kentucky American team.

11. Revenue Generating Projects/Opportunities

None to report at this time.

12. O&M, DBO Contracts – Significant Operational/Financial Variances

KAW has entered into an agreement with Bluegrass Station for preliminary engineering studies regarding their planned potable and fire service water infrastructure upgrades. The lump sum fee is payable over 9 monthly installments beginning in May 2007. The engineering report was finalized and KAW officials will meet with Bluegrass Station to determine next steps.

A new antennae lease agreement with Nextel, started in March. This is the third lease agreement at the Mercer Road tank site.

13. Other Operational Issues

- Discussions to negotiate a sewer billing contract continue with Georgetown Municipal Water and Sewer ("GMWS") and the renewal of the present sewer billing contract for Lexington-Fayette Urban County Government ("LFUCG") were ongoing during the summer. Information has been provided to GMWS for their consideration. KAW is working toward all sewer contracts being aligned and created under the same considerations for pricing and agreement terms. The new contract provides for an automatic yearly renewal at the end of the contract term unless the LFUCG requests revision of the agreement. The contract, resulting in approximately \$1,000,000 annual revenues, was signed by Mayor Jim Newberry. A written filing was sent to the PSC for informational purposes.
- Fire hydrant painting in Fayette County, which will include color coding, started in April. It is a two-year project that will bring KAW's system into alignment with the national fire safety code recommendations. KAW is working in cooperation with the LFUCG fire department and the project is on schedule as planned.

**Kentucky American Water
Operations Review October 2007**

- KAW continues to see above normal numbers of non-pay off orders being created and worked by the field service group. However, the total number of orders continues to decline from September totals thereby reducing overtime hours in the Network department.
- The Reverse 911 system was implemented for Kentucky American on September 28, 2007. The system was utilized to inform Clark County customers in the Rockwell Road area of a boil water advisory being issued by KAW. Doorknob notices were also distributed to each customer affected by the advisory and many of them acknowledged they had already received the notification by telephone and were very appreciative of the company's efforts.
- The company completed its **annual inventory** of stock items in September. There are two warehouses for KAW, one in the Northern District and one in Lexington. For over \$4,000,000 stock items purchased and issued, the net variance from the cycle count resulted in a net overage of \$1,900.

83500
GL0121SNAP
0001R

American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAAP)
Income Statement Month & YTD
For the Period Ending 10/31/2007

Kentucky-American Water Co.

Description	October Actual	October Plan	October Variance	October Prior Year	Yr to Date Actual	Yr to Date Plan	Yr to Date Variance	Yr to Date October Prior Year	Annual Forecast
1 OPERATING REVENUES									
2 Water	4,702,835	4,622,595	80,240	3,513,621	42,484,790	41,270,075	1,214,715	39,133,905	49,911,817
3 Sewer	27,884	22,139	5,745	32,330	284,134	233,712	50,422	250,317	277,659
4 Other	206,294	157,614	48,680	158,502	1,834,284	1,576,140	258,144	1,612,075	1,891,358
5 Management									
6 Total Revenues	4,937,013	4,802,348	134,665	3,722,453	44,603,208	43,079,927	1,523,281	40,996,297	52,000,834
7 OPERATIONS & MAINTENANCE EXPENSE									
8 Labor	531,815	509,544	22,271	397,213	4,873,820	4,843,493	30,327	4,194,830	5,836,735
9 Purchased Water	24,237	39,550	15,313	74,118	418,500	418,500	0	427,139	496,300
10 Fuel & power	325,501	291,330	34,171	127,050	2,469,419	2,422,419	47,000	2,175,340	2,960,000
11 Chemicals	222,267	134,009	88,258	126,162	1,447,262	1,340,393	106,869	1,268,588	1,590,118
12 Waste Disposal	9,515	13,725	4,210	10,806	6,220,838	1,98,125	22,713	1,78,760	2,232,425
13 Management Fees	640,911	572,205	68,706	597,918	6,249,057	5,065,513	383,544	5,324,727	6,987,957
14 Group Insurance	142,999	137,821	5,178	138,433	1,455,979	1,378,210	77,769	1,342,939	1,653,852
15 Rentals	40,950	37,977	2,973	511,524	3,79,770	3,79,770	0	615,047	458,924
16 Regulatory Expense	30,086	30,091	-5	30,086	300,910	300,910	0	309,915	408,431
17 Insurance-Other than Group	54,108	65,072	-10,964	52,051	650,720	650,720	0	491,446	780,861
18 Customer Accounting	135,530	119,628	15,901	117,901	1,159,872	1,159,872	0	1,077,335	1,386,001
19 Rents	2,470	3,000	-530	5,180	27,000	27,000	0	27,945	33,001
20 General Office Expense	56,211	31,074	25,137	33,157	366,684	406,391	-41,707	379,062	473,085
21 Miscellaneous	76,322	221,302	-144,980	205,275	2,589,175	2,589,175	0	2,380,738	3,044,851
25 Other Maintenance	146,451	240,877	-94,426	194,965	1,590,788	2,346,337	-755,549	1,857,427	2,740,231
Total Maintenance & Operations Expense	2,438,873	2,450,206	-11,333	2,093,679	23,329,921	24,168,928	-1,039,007	22,051,238	29,082,334
27 Depreciation	595,179	586,117	9,062	539,291	5,748,651	5,684,048	64,603	5,557,872	6,074,214
28 Amortization	84,007	34,215	49,792	40,477	420,077	342,150	77,927	378,311	410,500
29 State Income Taxes	231,889	239,811	-7,922	230,667	2,484,789	2,378,207	106,582	2,312,521	2,855,510
30 Federal Income Taxes	71,067	47,029	24,038	35,072	485,203	286,947	198,256	420,782	368,602
31 Federal Income Taxes	386,877	344,339	42,538	190,437	2,805,561	2,038,863	767,098	2,299,191	2,595,113
32 Tax Savings Acquisition Adjustment									
33 Total Operating Expenses	3,625,092	3,701,717	-76,625	3,119,639	35,274,602	35,100,743	173,859	33,019,895	42,182,353
34 Utility Operating Income	1,111,921	1,100,631	11,290	602,614	9,328,606	7,979,104	1,349,422	7,976,442	9,898,481
35 OTHER INCOME & DEDUCTIONS									
36 Non-Operating Rental Income									
37 Dividend Income-Common									
38 Dividend Income-Preferred									
39 Interest Income									
40 APUD Equity	86,199	63,899	22,300	16,199	127,120	558,657	127,120	243,717	681,063
42 P & J Miscellaneous Income	11,731		11,731	10,637	179,632		179,632	86,490	
43 Gain/Loss on Disposition									
45 Total Other Income	97,930	63,899	34,031	5,962	959,936	558,657	401,279	157,227	681,063
46 Miscellaneous Amortization	35	64	-29	35	354	640	994	460	768
47 Tax Savings Acquisition Adjustment									
48 Misc. Other Deductions	9,330	1,950	7,380	5,913	264,438	272,043	-7,605	259,193	277,323
49 General Taxes	248	161	87	2,083	1,458	22,442	23,900	20,830	22,877
50 State Income Taxes	4,733	626	4,107	10,415	17,397	87,359	104,756	104,149	89,055
51 Federal Income Taxes									
52 Total Other Deductions	14,276	1,227	13,049	6,620	282,939	162,882	120,057	133,754	166,159
53 Total Other Income	83,654	62,672	20,982	12,182	676,997	395,775	281,222	23,473	514,904
54 Income Before Interest Charges	1,195,575	1,163,303	32,272	614,996	10,005,603	8,374,959	1,630,644	7,999,915	10,413,385
55 INTEREST CHARGES									
56 Interest on Long-Term Debt	349,860	515,828	-165,968	426,629	4,654,799	4,654,799	979,153	4,266,292	5,686,455
57 Amortization and Debt Expense	6,017	12,217	-6,200	6,073	60,488	107,031	46,543	60,728	131,465
58 Interest-Short Term Bank Debt	152,370	24,989	127,381	31,522	1,306,494	283,283	1,023,211	338,831	291,367
59 Other Interest Expense									
60 APUDC-Debt	39,144	29,019	10,125	7,356	296,495	253,707	42,788	107,828	309,296
61 Total Interest Charges	469,103	524,015	-54,912	458,467	4,707,958	4,791,406	83,448	4,559,668	5,799,991
62 Net Income	726,472	639,288	87,184	156,529	5,297,645	3,583,553	1,714,092	3,440,247	4,613,394
64 Preferred Dividend Declared	6,560	38,325	-31,765	6,562	383,250	317,597	65,629	65,629	459,900
65 Net Income to Common Stock	719,912	600,963	118,949	149,967	5,231,992	3,200,303	2,031,689	3,374,618	4,153,494

Operations Review November 2007

Operational Issues Review

1. Source of Supply

Kentucky American Water ("KAW") continues to move forward and received bids for construction of a treatment plant on Pool 3 of the Kentucky River. The 404 permit application for construction in the waters from the US to the US Army Corps of Engineers was approved. The permit application for a 401B permit for stream flow crossings was approved by the KY DOW. The company still awaits the approval of two of the three Highway Encroachment permits. All other permits have been received.

KAW and BWSC have executed an agreement to allow for the design expansion and are negotiating on a partnership agreement. In June, a joint letter from KAW and BWSC was sent to Senator Mitch McConnell requesting federal support of \$35 million to help defray the BWSC capital cost of the project.

KAW has made several presentations about the project to numerous business and civic groups. A group of property owners in Franklin County have formed to oppose the project. In June, the Franklin Fiscal Court voted 4-2 to oppose the company's plan to construct a pipeline through part of Franklin County and a water treatment plant in Owen County, just north of Franklin. The Owen County Fiscal Court passed a resolution supporting the project, along with the City of Owenton and the Owen County Chamber of Commerce.

Louisville Water Company made a presentation to the LFUCG Council indicating that a project to purchase water from them would be cheaper. They also filed a motion to intervene in the Certificate Case, and the motion was granted. KAW made a presentation to the LFUCG on August 21 and again on September 18. The Kentucky Attorney General's witness has filed testimony supporting the project. On November 13, rebuttal testimony was presented at a meeting in Frankfort. Frankfort Mayor, Bill May, announced his support for the Louisville Water Company recommendation.

KAW filed with the Public Service Commission a Certificate of Convenience and Necessity on March 30, 2007. PSC hearings were held on November 26, 27, and 28. Briefs are due to the commission on December 28, 2007, and the commission stated its goal of issuing an order by mid January, 2008.

2. Operational Costs: Energy, Chemicals, Residuals

Fuel and Power is under plan by \$68,779 for the month of November and under plan \$115,779 for the YTD. The November variance is primarily related to a decrease in the fuel adjustment clause over the prior month and a discretionary adjustment based on the most current bills. Chemicals are under plan for November by \$17,997 and over plan YTD with a variance of \$88,872. Lower than budgeted system delivery accounts for the MTD under budget variance.

In June, the central Kentucky service area was listed in the Severe Drought category according to the Palmer Drought Severity Index. By July, however, the Bluegrass region received higher than normal amounts of rainfall taking the central Kentucky region from severe drought back to moderate drought conditions. The minimal amount of rain along with the YTD deficit of 7" of average rainfall, placed the central Kentucky region once again in

**Kentucky American Water
Operations Review November 2007**

severe drought status by mid August. Lexington and the surrounding counties first implemented voluntary restrictions of outdoor water use. However, by August 28, decreased flows in the Kentucky River and dismal long range weather forecasts forced the company to implement phase three of the demand management plan thereby imposing mandatory odd/even watering restrictions. In September, central Kentucky was in the extreme drought category according to the Palmer drought severity index. The Bluegrass region needed 9.71 inches of above-normal rainfall to end the drought. The dry situation was only alleviated with scattered precipitation and lower nightly temperatures. Although infrequent, the sporadic rainfall helped river flows temporarily, and avoided moving into the last phase of the demand management plan. The water conservation appeals board met weekly to review consumer appeals for water restriction exemptions. Central Kentucky received 6" of rain on October 22-23 which significantly changed the drought severity index for this area from extreme to normal. By October 24, cooler temperatures, significant rainfall, and slightly increased river levels warranted the immediate and complete lifting of outdoor watering restrictions for Kentucky American Water customers in seven counties. Additional rainfall in November has eliminated almost all drought indications according to the Palmer Drought Index.

3. Rate Case/Orders: Timing, Value, Issues

A rate filing was submitted on April 30, 2007 to request a 25% rate increase to cover the cost of infrastructure investment. KAW filed its Notice of Intent to file the case with the KY Public Service Commission on April 2, 2007 per the required regulations. An agreement was reached with the Attorney General to settle the rate case on August 29, the first unanimous settlement of a Kentucky American Water rate case in over 20 years. On September 14, Kentucky American Water and all parties to its rate request, went before the Kentucky Public Service Commission, and agreed to a settlement that calls for \$8 million total in annual increases and single tariff pricing. The settlement was reached by all parties including Kentucky American Water, the Attorney General's Office, Lexington Fayette Urban County Government, Community Action Council, and the Kentucky Industrial Utility Customers. It includes an increase in contributions to the H2O Help to Others Program, which will be paid by Kentucky American Water stockholders, not customers. On November 29, 2007, the PSC issued the order affirming the settlement in all respects. The new customer tariffs are effective December 1, 2007.

4. Commission Activity: Customer Complaints, Compliance

2007	YTD Collections		YTD Billing		YTD Totals	
	Total	Justified	Total	Justified	Total	Justified
KY	39	0	35	0	74	0

**Kentucky American Water
Operations Review November 2007**

5. Divestitures

The KY PSC issued an Order dated April 16, 2007, approving the divestiture application and the IPO, subject to certain conditions. RWE, KAW, and all other Applicants accepted these conditions in a filing dated April 26, 2007. American Water has received all necessary approvals in 13 states. On August 27, American Water filed a registration statement on Form S-1 with the SEC related to the proposed initial public offering of its common stock.

6. Major Operational Projects

- \$2.7 million in main replacements, including completion of Second Street, Madison Place and Merino Street, Lackawanna Drive, and Bucoto Court to be completed in 2007. Main replacements on Saunier Street, Bruce Street, and Columbia Avenue are complete. New Circle Road will be completed in 2007. South Limestone has been postponed until 2008 because of concerns with the University of Kentucky construction.
- Replacement of 10,000 feet of main to be completed in 2007 for a total project of 50,000 feet in Owen County. Project is 95% complete.
- Replacement of residuals handling equipment at Richmond Road Station began in March, and is 90% complete. Final completion expected in February 2008.
- Pump replacement at Parkers Mill Road tank began in March and was completed in October.
- Reliability of treatment facilities, including intake pump and transfer pump replacement is to be scheduled for completion March 2008. This project was temporarily delayed this summer and fall due to system delivery demand of plant facilities.
- Installation of 6,400 feet of 20-inch main in Clays Mill Road prior to the first phase of widening began in 2006, to be completed in 2007.
- Installation of booster pump facilities in Mallard Point subdivision to improve area pressures began in 2006 and is to be completed in 2007. The pump station is set and startup was done in October 2007. Project is 98% complete.
- The Northern District intake pump was remodeled and new pumps were installed; the project was completed in June.
- The Northern District Perry tank painting was completed in June with additional foundation repair on the tank yet still to be done. Anticipated completion date is December 2007.
- The Northern District Sparta tank painting is substantially complete.

The third quarter net capex total of \$25 million will be completed by December 31, 2007 as forecasted in the Q3RF.

**Kentucky American Water
Operations Review November 2007**

7. Operational Regulatory Compliance: Status

Kentucky	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend**
Regulatory Maintenance:					
Meter Changes	9,424	8,501	0	G	→

Kentucky	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend**
Maintenance:					
Valve Operation (<16") PUC*	72.0%	92.0%	20.0%	Y	↑
Valve Operation (>16") PUC*	100.0%	92.0%	0.0%	G	→
Hydrant Inspection*	95.0%	92.0%	0.0%	G	↑
Tank Painting (#/\$000's)*	2of3/\$436	2of3/\$308	1/\$128	G	→
*Not regulatory issue in KY.					

Note: KAW plans to complete hydrant inspections and small valve operations by year end.

8. Policy Compliance Issues

None to report at this time.

9. Union/Labor Issues/Activities

There are no current grievances at this time. The company entered into a new three year contract with the Firemen and Oilers Union which provided for a 3% annual increase for each year of the agreement. The overall favorable relationship between union and management, as well as the collective efforts of the management negotiating team, resulted in a decisive 33 to 9 union vote to accept the proposed contract on October 4. The quick ratification of the contract is a testament to continued success of company teamwork and employee dedication. KAW will begin preparation for contract negotiations with the internal customer service group whose contract expires December 16, 2007. In November, KAW was informed that the inside union group is considering decertification from the Firemen and Oilers Union.

10. Explanation of NOV's, OSHA violations, etc.

- A routine sample taken in March at the Owenton, KY wastewater plant failed a required biological toxicity test. The company may receive an NOV sometime this year. We have reviewed the issue thoroughly, putting measures in place to avoid a repeat occurrence. To date, the company has received no response from the state agency regarding this incident and has no NOV's recorded this year.
- There were no injuries or vehicular accidents reported in November. Having no lost time injuries for the year is a significant accomplishment attributed to the collective efforts to safety, by the whole Kentucky American team.

11. Revenue Generating Projects/Opportunities

None to report at this time.

12. O&M, DBO Contracts – Significant Operational/Financial Variances

KAW has entered into an agreement with Bluegrass Station for preliminary engineering studies regarding their planned potable and fire service water infrastructure upgrades. The lump sum fee is payable over 9 monthly installments beginning in May 2007. The engineering report was finalized and KAW officials will meet with Bluegrass Station to determine next steps.

A new antennae lease agreement with Nextel, started in March. This is the third lease agreement at the Mercer Road tank site.

13. Other Operational Issues

- KAW is working toward all sewer contracts being aligned and created under the same considerations for pricing and agreement terms. Information was provided to Georgetown Municipal Water for their consideration. The new sewer billing contract with LFUCG provides for an automatic yearly renewal at the end of the contract term unless the LFUCG requests revision of the agreement. The contract, resulting in approximately \$1,000,000 annual revenues, was signed by Mayor Jim Newberry in October. A written filing was sent to the PSC for informational purposes.
- Fire hydrant painting in Fayette County, which will include color coding, started in April. It is a two-year project that will bring KAW's system into alignment with the national fire safety code recommendations. KAW is working in cooperation with the LFUCG fire department and the project is on schedule as planned.
- KAW continues to see above normal numbers of non-pay off orders being created and worked by the field service group. However, the total number of orders continues to decline from October totals thereby reducing overtime hours in the Network department.

**Kentucky American Water
Operations Review November 2007**

- The Reverse 911 system was implemented for Kentucky American on September 28, 2007. The system was utilized to inform Clark County customers in the Rockwell Road area of a boil water advisory being issued by KAW. Doorknob notices were also distributed to each customer affected by the advisory and many of them acknowledged they had already received the notification by telephone and were very appreciative of the company's efforts.
- The company completed its **annual inventory** of stock items in September. There are two warehouses for KAW, one in the Northern District and one in Lexington. For over \$4,000,000 stock items purchased and issued, the net variance from the cycle count resulted in a net overage of \$1,900.

12/11/07
10:56:23

American Water Works Company
Kentucky-American Water-Co 12
Total Company (US\$MM)
Income Statement Month & YTD
For the Period Ending 11/30/2007

83500
G0012ISAGP
0001R
Kentucky-American Water Co.

	Description	November Actual	November Plan	November Variance	November Prior Year	Yr to Date Actual	Yr to Date Plan	Yr to Date Variance	Yr to Date November Prior Year	Annual Forecast
1	OPERATING REVENUES									
2	Water	3,609,504	4,179,926	570,422-	4,051,572	46,094,284	45,450,001	644,283	43,195,477	49,911,817
3	Sewer	27,847	21,687	6,160	25,420	311,980	255,339	56,561	275,737	277,659
4	Other	201,376	157,614	43,762	154,538	2,035,661	1,733,754	301,907	1,766,613	1,891,358
5	Management									
6	Total Revenues	3,838,727	4,359,227	520,500-	4,241,530	48,441,935	47,439,154	1,002,781	45,237,827	52,080,834
7	OPERATIONS & MAINTENANCE EXPENSE									
8	Labor	490,868	506,680	15,812-	529,099	5,364,689	5,350,173	14,516	4,723,929	5,836,735
9	Purchased Water	56,990	37,300	19,690	41,358	411,829	455,800	43,971-	468,496	496,300
10	Fuel & Power	191,523	260,302	68,779-	214,965	2,613,942	2,729,721	115,779-	2,390,305	2,960,000
11	Chemicals	106,852	124,849	17,997-	132,139	1,554,114	1,465,242	88,872	1,400,726	1,590,118
12	Waste Disposal	22,723	14,400	8,323	3,759	212,525	212,525	0	212,525	232,325
13	Management Fees	630,418	552,893	77,525	6,879,474	6,418,406	461,068	1,825,220	5,895,487	6,987,757
14	Group Insurance	135,486	137,821	2,335-	141,840	1,591,465	1,516,031	75,434	1,484,779	1,653,852
15	Pensions	40,338	37,977	2,361	63,952	551,862	417,747	134,115	678,999	455,724
16	Regulatory Expense	30,086	30,091	5-	30,086	330,948	331,001	53-	340,001	405,531
17	Insurance Other Than Group	54,046	65,072	11,026-	52,065	521,485	715,792	194,307-	543,511	780,864
18	Customer Accounting	96,808	115,260	18,452-	221,201	1,329,206	1,268,232	60,974	1,298,535	1,386,901
19	Rents	1,995	2,500	505-	264	27,306	29,500	2,194-	28,209	32,000
20	General Office Expense	47,206	38,007	9,199	30,353	413,890	446,398	32,508-	409,414	479,085
21	Miscellaneous	211,823	220,089	8,266-	182,032	2,022,522	2,809,264	786,742-	2,562,771	3,044,851
22	Other Maintenance	180,909	196,977	16,068-	227,567	1,771,697	2,543,314	771,617-	2,084,994	2,740,291
23	Total Maintenance & Operations Expense	2,298,071	2,340,218	42,147-	2,441,439	25,627,990	26,709,146	1,081,156-	24,492,676	29,082,334
27	Depreciation	349,574	588,098	238,524-	540,011	6,098,225	6,272,146	173,921-	6,097,883	6,874,214
28	Amortization	42,007	34,215	7,792	40,477	462,084	376,365	85,719	418,787	410,580
29	General Taxes	282,503	239,557	42,946	569,636	2,767,292	2,617,764	149,528	2,882,157	2,855,510
30	State Income Taxes	25,678	30,500	4,822-	310,596	510,881	319,047	191,834	110,126	364,602
31	Federal Income Taxes	154,070	222,656	68,586-	320,486	2,960,031	2,261,519	698,512	2,619,677	2,595,113
32	Tax Savings Acquisition Adjustment									
33	Total Operating Expenses	3,151,903	3,455,244	303,341-	3,601,453	38,426,503	38,555,987	129,484-	36,621,306	42,182,353
34	Utility Operating Income	686,824	903,983	217,159-	640,077	10,015,432	8,883,167	1,132,265	8,616,521	9,898,461
35	OTHER INCOME & DEDUCTIONS									
36	Non-Operating Rental Income									
37	Dividend Income-Common									
38	Dividend Income-Preferred									
39	Interest Income	82,075	65,591	16,484	14,151	127,120	624,248	127,120	257,869	681,063
40	AFUDC Equity	15,791		15,791	10,605	735,059		195,623	75,884-	
42	M & J Miscellaneous Income									
43	Gain(Loss)on Disposition									
45	Total Other Income	97,866	65,591	32,275	24,756	1,057,802	624,248	433,554	181,985	681,063
46	Miscellaneous Amortization	35-	64	99-	35-	389-	704	1,093-	495-	768
47	Tax Savings Acquisition Adjustment	6,922	3,580	3,342	14,379	271,361	275,623	4,262-	273,572	277,323
48	Misc. Other Deductions	303	295-	598	2,083-	1,761	22,737-	24,498	22,913-	22,877-
49	General Taxes	3,612	1,150-	4,762	10,415-	21,009	88,509-	109,518	114,564-	89,055-
50	State Income Taxes									
51	Federal Income Taxes	10,802	2,199	8,603	1,846	293,742	165,081	128,661	135,600	166,159
52	Total Other Deductions	87,064	63,392	23,672	22,910	764,060	459,167	304,893	46,385	514,904
53	Total Other Income	773,888	967,375	193,487-	662,987	10,779,492	9,342,334	1,437,158	8,662,906	10,413,385
54	Income Before Interest Charges	488,061	515,828	27,767-	426,629	4,163,706	5,170,627	1,006,921-	4,692,921	5,686,455
55	INTEREST CHARGES	7,261	12,217	4,956-	6,073	67,749	119,248	51,499-	66,800	131,465
57	Amortization and Debt Expense	45,724	1,387	44,337	31,985	1,352,218	284,670	1,067,548	370,817	291,367
58	Interest-Short Term Bank Debt					38,175-			1,645	
59	Other Interest Expense					38,175-				
60	AFUDC-Debt	37,303-	29,787-	7,516-	6,426-	333,790-	283,494-	50,304-	114,254-	309,296-
61	Total Interest Charges	503,743	499,645	4,098	458,261	5,211,700	5,291,051	79,351-	5,017,929	5,799,991
62	Net Income	270,145	467,730	197,585-	204,726	5,567,792	4,051,283	1,516,509	3,644,977	4,613,394
64	Preferred Dividend Declared	6,560	38,325	31,765-	6,562	72,213	421,575	349,362-	72,192	459,900
65	Net Income to Common Stock	263,585	429,405	165,820-	198,164	5,495,579	3,629,708	1,865,871	3,572,785	4,153,494

Operations Review December 2007

Operational Issues Review

1. Source of Supply

Kentucky American Water ("KAW") continues to move forward and received bids for construction of a treatment plant on Pool 3 of the Kentucky River. The 404 permit application for construction in the waters from the US to the US Army Corps of Engineers was approved. The permit application for a 401B permit for stream flow crossings was approved by the KY DOW. The company still awaits the approval of one highway permit.

KAW and BWSC have executed an agreement to allow for the design expansion and are negotiating on a partnership agreement. In June, a joint letter from KAW and BWSC was sent to Senator Mitch McConnell requesting federal support of \$35 million to help defray the BWSC capital cost of the project.

KAW has made several presentations about the project to numerous business and civic groups. A group of property owners in Franklin County have formed to oppose the project. In June, the Franklin Fiscal Court voted 4-2 to oppose the company's plan to construct a pipeline through part of Franklin County and a water treatment plant in Owen County, just north of Franklin. The Owen County Fiscal Court passed a resolution supporting the project, along with the City of Owenton and the Owen County Chamber of Commerce.

Louisville Water Company made a presentation to the LFUCG Council indicating that a project to purchase water from them would be cheaper. They also filed a motion to intervene in the Certificate Case, and the motion was granted. KAW made a presentation to the LFUCG on August 21 and again on September 18. The Kentucky Attorney General's witness has filed testimony supporting the project. On November 13, rebuttal testimony was presented at a meeting in Frankfort. Frankfort Mayor Bill May announced his support for the Louisville Water Company recommendation.

KAW filed with the Public Service Commission a Certificate of Convenience and Necessity on March 30, 2007. PSC hearings were held on November 26, 27, and 28. A post hearing data request was ordered by the commission to be submitted on January 9, 2008. Briefs for the project are due to the commission on January 16, 2008 and the Commission could issue an order in February, 2008.

2. Operational Costs: Energy, Chemicals, Residuals

Fuel and Power is under plan by \$16,610 for the month of December and under plan \$132,389 for YTD. There are two primary reasons for this underage: the fuel adjustment cost dropped again from \$0.00735/KWH to \$0.00254/KWH, and system delivery was under budget.

Chemicals are over plan for December by \$12,707 and over plan YTD with a variance of \$101,580. Excess rain (6.91 inches) in December led to an increase in the amount of chemicals required to address elevated turbidity in the source water. YTD chemical costs are over plan due to additional treatment necessary under summer drought conditions.

**Kentucky American Water
Operations Review December 2007**

Additional rainfall in October and December has eliminated all drought indications according to the Palmer Drought Index and has brought the total annual rainfall total to within 2.2 inches of normal.

3. Rate Case/Orders: Timing, Value, Issues

A rate filing was submitted on April 30, 2007 to request a 25% rate increase to cover the cost of infrastructure investment. KAW filed its Notice of Intent to file the case with the KY Public Service Commission on April 2, 2007 per the required regulations. An agreement was reached with the Attorney General to settle the rate case on August 29, the first unanimous settlement of a Kentucky American Water rate case in over 20 years. On September 14, Kentucky American Water and all parties to its rate request went before the Kentucky Public Service Commission and agreed to a settlement that calls for \$8 million total in annual increases and single tariff pricing. The settlement was reached by all parties, including Kentucky American Water, the Attorney General's Office, Lexington Fayette Urban County Government, Community Action Council, and the Kentucky Industrial Utility Customers. It includes an increase in contributions to the H2O Help to Others Program, which will be paid by Kentucky American Water stockholders, not customers. On November 29, 2007, the PSC issued the order affirming the settlement in all respects. The new customer tariffs were effective December 1, 2007.

4. Commission Activity: Customer Complaints, Compliance

2007	YTD Collections		YTD Billing		YTD Totals	
	Total	Justified	Total	Justified	Total	Justified
KY	40	0	39	0	79	0

5. Divestitures

The KY PSC issued an Order dated April 16, 2007, approving the divestiture application and the IPO, subject to certain conditions. RWE, KAW, and all other Applicants accepted these conditions in a filing dated April 26, 2007. American Water has received all necessary approvals in 13 states. On August 27, American Water filed a registration statement on Form S-1 with the SEC related to the proposed initial public offering of its common stock.

6. Major Operational Projects

- \$2.7 million in main replacements, including completion of Second Street, Madison Place and Merino Street, Lackawanna Drive, and Bucoto Court, to be completed in 2007. Main replacements on Saunier Street, Bruce Street, and Columbia Avenue are complete. New Circle Road also completed in 2007. South Limestone has been postponed until 2008 because of concerns with the University of Kentucky construction.
- Replacement of 30,000 feet of main in Owen County was completed in 2007 and the extension of 160,000 feet of main in Owen County is to be completed in March 2008.
- Replacement of residuals handling equipment at Richmond Road Station began in March 2007 and is 90% complete. Final completion expected in February 2008.
- Pump replacement at Parkers Mill Road tank began in March and was completed in October 2007.
- Reliability of treatment facilities, including intake pump and transfer pump replacement is scheduled for completion in March 2008. This project was temporarily delayed this summer and fall due to system delivery demand of plant facilities. Currently three of the six intake pumps have been replaced and one of the two transfer pumps is installed.
- Installation of 6,400 feet of 20-inch main in Clays Mill Road prior to the first phase of widening began in 2007, to be completed in March 2008.
- Installation of booster pump facilities in Mallard Point subdivision to improve area pressures began in 2006 and was completed in December 2007.
- The Northern District intake pump was remodeled and new pumps were installed; the project was completed in June.
- The Northern District Perry tank repair and repainting was completed in June with additional foundation repair completed in November 2007.
- The Northern District Sparta tank repair and repainting was completed in October 2007.

The third quarter net capex total of \$25 million was completed by December 31, 2007 as forecasted in the Q3RF.

**Kentucky American Water
Operations Review December 2007**

7. Operational Regulatory Compliance: Status

Kentucky	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend**
Regulatory Maintenance:					
Meter Changes	9,981	8,501	0	G	→

Kentucky	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend**
Maintenance:					
Valve Operation (<16") PUC*	100.0%	100.0%	0.0%	G	↑
Valve Operation (>16") PUC*	100.0%	100.0%	0.0%	G	→
Hydrant Inspection*	100.0%	100.0%	0.0%	G	→
Tank Painting (#/\$000's)*	2of3/\$555	2of3/\$308	1/\$247	G	→
*Not regulatory issue in KY.					

Note: KAW has completed hydrant inspections and small valve operations by year end.

8. Policy Compliance Issues

None to report at this time.

9. Union/Labor Issues/Activities

There are no current grievances at this time. The company entered into a new three-year contract with the Firemen and Oilers Union which provided for a 3% annual increase for each year of the agreement. The overall favorable relationship between union and management, as well as the collective efforts of the management negotiating team, resulted in a decisive 33 to 9 union vote to accept the proposed contract on October 4. The quick ratification of the contract is a testament to continued success of company teamwork and employee dedication. KAW will begin preparation for contract negotiations with the internal customer service group whose contract expires December 16, 2007. In November, KAW was informed that the inside union group is considering decertification from the Firemen and Oilers Union.

10. Explanation of NOV's, OSHA violations, etc.

- A routine sample taken in March at the Owenton, KY wastewater plant failed a required biological toxicity test. The company has not received an NOV for this in 2007. KAW has reviewed the issue thoroughly, putting measures in place to avoid a repeat occurrence. To date, the company has received no response from the state agency regarding this incident and has no NOV's recorded this year.
- There were 3 occupational injuries and 3 vehicular accidents reported in December. None of the injuries resulted in lost time accidents. Of the 3 occupational injuries, two employees were placed on restricted duties. All three vehicular accidents were preventable. Additional defensive driving training will be a part of employee development in 2008.

11. Revenue Generating Projects/Opportunities

None to report at this time.

12. O&M, DBO Contracts – Significant Operational/Financial Variances

13. Other Operational Issues

- Fire hydrant painting in Fayette County, which includes color coding, started in April. It is a two-year project that will bring KAW's system into alignment with the national fire safety code recommendations. KAW is working in cooperation with the LFUCG fire department and the project is on schedule as planned.
- KAW continues to see above normal numbers of non-pay orders being created and worked by the field service group. However, the total number of orders continues to decline from November totals thereby reducing overtime hours in the network department. Overall, the field services group worked over twice as many non-pay orders in 2007 as compared to 2006. This effort has significantly lowered the charge-off percentage for KAW.
- Fire hydrant inspection information will be provided each month to the Lexington Fire Department beginning the first week of January as agreed in the last rate case.

83500
G0012LSAGP
000LR

American Water Works Company
Kentucky American Water Co 12
Total Company (USGAAP) YTD
Income Statement Month & YTD
For the Period Ending 12/31/2007

Kentucky-American Water Co.

Description	December Actual	December Plan	December Variance	December Prior Year	Yr to Date Actual	Yr to Date Plan	Yr to Date Variance	Yr to Date December Prior Year	Annual Forecast
1 OPERATING REVENUES									
2 Water	4,122,133	4,461,816	339,683-	3,599,545	50,216,427	49,911,817	304,610	46,795,023	49,911,817
3 Sewer	28,140	22,260	5,880	26,955	340,120	62,461	277,659	302,652	277,659
4 Other	186,010	157,604	28,406	145,619	2,221,671	330,313	1,891,358	1,912,432	1,891,358
5 Management									
6 Total Revenues	4,336,283	4,641,680	305,397-	3,772,319	52,778,218	52,080,834	697,384	49,010,147	52,080,834
7 OPERATIONS & MAINTENANCE EXPENSE									
8 Labor	531,541	486,562	44,979	446,956	5,896,230	5,836,735	59,495	5,170,885	5,836,735
9 Purchased Water	15,376	20,500	25,124-	38,130	427,206	496,300	69,094-	506,626	496,300
10 Fuel & Power	213,669	230,279	16,610-	247,965	2,827,610	2,638,270	189,340	2,638,270	2,960,000
11 Chemicals	137,583	124,876	12,707	151,161	1,691,698	1,590,118	101,580	1,495,887	1,590,118
12 Waste Disposal	17,004	19,800	2,796-	14,128	260,565	232,325	28,240	324,447	232,325
13 Management Fees	636,749	569,351	67,398	716,527	7,516,223	6,987,757	528,466	6,612,414	6,987,757
14 Group Insurance	94,306	137,821	43,515-	138,295	1,685,771	1,653,852	31,919	1,623,074	1,653,852
15 Pensions	28,096	37,977	9,881-	60,030	579,958	455,724	124,234	739,029	455,724
16 Regulatory Expense	43,086	74,530	31,444-	30,086	374,035	31,496-	31,496-	370,087	405,531
17 Insurance Other Than Group	55,214	65,072	10,858-	104,242	576,700	780,864	204,164-	647,754	780,864
18 Customer Accounting	96,008	118,669	22,661-	101,070	1,425,214	1,386,901	38,313	1,399,605	1,386,901
19 Rents	3,146	32,687	29,541-	24,028	30,452	32,000	1,548-	52,237	32,000
20 General Office Expense	49,332	32,687	16,645	68,378	463,222	15,863-	15,863-	477,792	477,792
21 Miscellaneous	222,686	235,587	12,901-	613,576	2,245,208	3,044,851	799,643-	3,176,346	3,044,851
25 Other Maintenance	463,624	196,977	266,647	199,679	2,235,322	2,740,291	504,969-	2,284,673	2,740,291
Total Maintenance & Operations Expense	2,607,420	2,373,188	234,232	3,026,451	28,235,415	29,082,334	846,919-	27,519,126	29,082,334
27 Depreciation	188,805	602,068	413,263-	618,619	6,287,030	6,874,214	587,184-	6,716,503	6,874,214
28 Amortization	42,007	34,215	7,792	40,477	504,092	410,580	93,512	459,264	410,580
29 General Taxes	289,949	237,746	52,203	21,699-	3,057,124	2,855,510	201,714	2,860,457	2,855,510
30 State Income Taxes	77,009	45,555	31,454	344,787	587,890	364,602	223,288	454,913	364,602
31 Federal Income Taxes	214,039	333,594	119,555-	475,161-	3,174,069	2,595,113	578,956	2,144,516	2,595,113
32 Tax Savings Acquisition Adjustment									
33 Total Operating Expenses	3,419,229	3,626,366	207,137-	3,533,474	41,845,737	42,182,353	336,616-	40,154,779	42,182,353
34 Utility Operating Income	917,054	1,015,314	98,260-	238,845	10,932,481	1,034,000	8,898,481	8,855,368	9,898,481
35 OTHER INCOME & DEDUCTIONS									
36 Non-Operating Rental Income									
37 Dividend Income-Common									
38 Dividend Income-Preferred									
39 Interest Income									
40 AFUDC Equity	107,776	56,815	50,961	2,213	127,120	681,063	127,120	2,213	681,063
42 M & J Miscellaneous Income	653		653	54,434-	196,276		196,276		
43 Gain/(Loss)on Disposition									
45 Total Other Income	108,429	56,815	51,614	36,406-	1,166,231	681,063	485,168	145,579	681,063
46 Miscellaneous Amortization	35-	64	99-	35-	425-	768	1,193-	531-	768
47 Tax Savings Acquisition Adjustment									
48 Misc. Other Deductions	47,740	1,700	46,040	4,929	319,101	277,323	41,778	278,501	277,323
49 General Taxes	1,583-	140-	1,443-	5,513-	178	22,877-	23,055	28,426-	22,877-
50 State Income Taxes	19,603-	546-	19,057-	27,562-	1,406	89,055-	90,461	142,126-	89,055-
51 Federal Income Taxes									
52 Total Other Deductions	26,519	1,078	25,441	28,181-	320,260	166,159	154,101	107,418	166,159
53 Total Other Income	81,910	55,737	26,173	8,225-	845,971	514,904	331,067	30,161	514,904
54 Income Before Interest Charges	998,964	1,071,051	72,087-	230,620	11,778,452	10,413,385	1,365,067	8,893,529	10,413,385
55 INTEREST CHARGES									
56 Interest on Long-Term Debt	487,956	515,828	27,872-	418,324	4,651,663	5,686,455	1,034,792-	5,111,245	5,686,455
57 Amortization and Debt Expense	7,320	12,217	4,897-	6,073	75,069	131,465	56,396-	72,873	131,465
58 Interest-Short Term Bank Debt	63,304	6,697	56,607	37,878	1,415,522	291,367	1,124,155	408,695	291,367
59 Other Interest Expense									
60 AFUDC-Debt	50,643-	25,802-	24,841-	2,262-	384,442-	309,296-	75,146-	116,516	309,296-
61 Total Interest Charges	507,937	508,940	1,003	523,575	5,719,637	5,799,991	80,354-	5,541,504	5,799,991
62 Net Income	491,027	562,111	71,084-	292,955-	6,058,815	4,613,394	1,445,421	3,352,025	4,613,394
64 Preferred Dividend Declared	6,560	38,325	31,765-	6,515	78,773	459,900	381,127-	78,706	459,900
65 Net Income to Common Stock	484,467	523,786	39,319-	299,470-	5,980,042	4,153,494	1,826,548	3,273,319	4,153,494

Operations Review January 2008

Operational Issues Review

1. Source of Supply

Kentucky American Water ("KAW") continues to move forward with construction of a treatment plant on Pool 3 of the Kentucky River. The company still awaits the approval of one highway permit for the transmission main.

KAW and BWSC have executed a partnership agreement. The agreement provides three options for the BWSC to participate in the project. The BWSC must commit to one of three options by April 1, 2008 to take advantage of the bids by the contractor.

KAW continues to make presentations about the project to numerous business and civic groups, and spoke to the Central Kentucky Legislative Caucus on January 9. On January 10, the Lexington-Fayette Urban County Council ("LFUCC") voted unanimously to ask the Public Service Commission for a 30-day extension of the case in order for the LFUCC to hear information on alternative proposals. On January 16, the PSC issued an Order extending the Certificate Case record until March 20, 2008, with an unprecedented second hearing tentatively scheduled for March 5 if any party submits new information.

Louisville Water Company ("LWC") made a presentation to the LFUCC on January 15 with no additional information. They continue to promote a joint project with ownership by other water utilities in Shelby and Franklin counties. KAW continues to disagree vehemently with their cost and schedule estimates.

On January 29, the LFUCC voted 8-7 to not hire a consultant from the University of Kentucky to provide an economic evaluation of the two cost analyses presented by KAW and LWC.

Contractor bids will expire the first full week in February, and KAW has requested an extension of the bid hold period, with a request to provide any cost increases required for the extension of the bid hold period for either 90 or 120 days. KAW now anticipates an Order from the PSC in early May with construction to begin in June. This is our best estimate since there are no statutory guidelines.

2. Operational Costs: Energy, Chemicals, Residuals

Fuel and Power is over plan by \$104,136 for January. An increase in the fuel base rate resulted in increased expense of \$51,000, and the fuel adjustment clause and related surcharges and taxes increased another \$14,000. Additional discretionary adjustment of \$37,000 contributed to the variance.

Chemicals are under plan for January and YTD by \$2,383 due to less caustic and polymer used in water treatment resulting in \$5,000 savings, price differential from budgeted amounts on ferric chloride resulting in \$1,335 savings, and \$1,600 in inventory credit adjustments offset by \$4,600 increased chemical expense used to treat 45.9 MG system delivery over plan.

3. Rate Case/Orders: Timing, Value, Issues

None to report at this time.

4. Commission Activity: Customer Complaints, Compliance

2008	YTD Collections		YTD Billing		YTD Totals	
	Total	Justified	Total	Justified	Total	Justified
KY	2	0	4	0	6	0

5. Divestitures

The KY PSC issued an Order dated April 16, 2007, approving the divestiture application and the IPO, subject to certain conditions. RWE, KAW, and all other applicants accepted these conditions in a filing dated April 26, 2007. American Water has received all necessary approvals in 13 states. On August 27, American Water filed a registration statement on Form S-1 with the SEC related to the proposed initial public offering of its common stock.

6. Major Operational Projects

- Replacement of 30,000 feet of main in Owen County was completed in 2007 and the extension of 160,000 feet of main in Owen County is to be completed in March 2008.
- Replacement of residuals handling equipment at Richmond Road Station began in March 2007 and is 90% complete. Final completion expected in February 2008.
- Reliability of treatment facilities, including intake pump and transfer pump replacement is scheduled for completion in March 2008. This project was temporarily delayed last summer and fall due to system delivery demand of plant facilities. Currently three of six intake pumps have been replaced and one of two transfer pumps is installed.
- Installation of 6,400 feet of 20-inch main in Clays Mill Road prior to the first phase of widening began in 2007, to be completed in March 2008.

KAW finished 2007 with a net capex of \$27,196,464, which was 7.8% above the Q3RF.

Kentucky American Water
Operations Review January 2008

7. Operational Regulatory Compliance: Status

Kentucky	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend**
Regulatory Maintenance:					
Meter Changes	507	1,588	1,081	Y	↓

Kentucky	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend**
Maintenance:					
Valve Operation (<16") PUC*	5.0%	8.0%	3.0%	G	→
Valve Operation (>16") PUC*	21.0%	8.0%	0.0%	G	↕
Hydrant Inspection*	0.0%	8.0%	8.0%	Y	↕
Tank Painting (#/\$000's)*	1 of 1/\$12	1 of 1/\$281	0	G	→
*Not regulatory issue in KY.					

8. Policy Compliance Issues

None to report at this time.

9. Union/Labor Issues/Activities

There are no current grievances at this time. The inside union group submitted paperwork to the National Labor Relations board to request decertification from the union. The decertification is now complete and the former inside bargaining group has become non-union team members. On January 31, a training session for the leadership team was conducted by our training group on Results-Based Leadership.

10. Explanation of NOV's, OSHA violations, etc.

- On January 14, 2008, KAW received an NOV from the DOW for improper maintenance of erosion control and sedimentation on a construction project on Clays Mill Road. The contractor also received an NOV. Additionally, the NOV cited lack of filing a Notice of Intent for construction in a streambed. KAW is responding to the DOW, has placed the contractor on probation, and is reviewing internal procedures to ensure compliance by contractors in the future. KAW does not anticipate a fine on this issue.

- The company also received a NOV in January for failing a required biological toxicity test in the 4th quarter of 2007. The testing was performed in November at the Owenton, KY wastewater plant. KAW has reviewed the issue thoroughly, putting measures in place to avoid a repeat occurrence. Disciplinary action has been taken with the operator at the plant.
- On January 8, a field service representative was struck on the passenger side of his truck while driving through an intersection. The employee missed three work days which resulted in the first lost time incident in over one year. The employee was not at fault.

11. Revenue Generating Projects/Opportunities

None to report at this time.

12. O&M, DBO Contracts – Significant Operational/Financial Variances

None to report at this time.

13. Other Operational Issues

- The Meter Change Pilot Program initiated by KAW with the approval of the PSC has ended. 5/8-inch meters were allowed to stay in service beyond the 10-year change-out mandate to determine at what age failures become prevalent. It was determined that the maximum service life does not exceed 15 years, therefore those meters currently in service beyond this age must be changed for compliance purposes. Approximately 18,000 meters will be changed every year for the next three years, with the balance to be changed in year four. These changes are in addition to regularly scheduled changes not associated with the Pilot Program.
- NRW Reduction – The development of a new NRW reduction strategy for KAW is currently underway and should be finalized during the month of February. The company will focus on further identifying areas of concern and potential losses. This strategy will include deployment of leak monitoring equipment, metering accuracy, and a full review of our leak repair reporting methods.

83500
GLOI21SA
RUNDATE

American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAP)
Income Statement Month 6, YTD
For the Period Ending 01/31/2008

1
09/10/08
11:32:18

Kentucky-American Water Co.

Description	January Actual	January Plan	January Variance	January Actual	Yr to Date Actual	Yr to Date Plan	Yr to Date Variance	Yr to Date January Prior Year	Annual Forecast
1 OPERATING REVENUES									
2 Water	4,258,794	4,316,916	58,122-	4,258,794	4,258,794	4,316,916	58,122-	3,381,997	57,285,664
3 Sewer	125,439	24,790	100,649	125,439	25,439	24,790	649	27,823	277,659
4 Other	182,371	184,703	17,668	182,371	182,371	184,703	17,668	146,082	1,976,432
5 Management									
6 Total Revenues	4,466,604	4,586,409	39,805-	4,466,604	4,466,604	4,586,409	39,805-	3,555,902	59,539,755
7 OPERATIONS & MAINTENANCE EXPENSE									
8 Labor	543,221	569,000	25,779-	543,221	543,221	569,000	25,779-	484,444	6,735,008
9 Purchased Water	5,326	48,500	43,174-	5,326	48,500	48,500	43,174-	37,627	603,650
10 Fuel & Power	277,590	173,454	104,136	277,590	173,454	173,454	104,136	86,306	2,885,689
11 Chemicals	118,148	120,531	2,383-	118,148	120,531	120,531	2,383-	114,814	1,637,082
12 Waste Disposal	22,619	20,446	2,173	22,619	22,619	20,446	2,173	25,912	294,647
13 Management Fees	667,807	642,386	25,421	667,807	642,386	642,386	25,421	597,096	7,373,898
14 Group Insurance	148,237	165,088	16,851-	148,237	165,088	165,088	16,851-	140,638	1,984,396
15 Pensions	57,770	43,190	14,580	57,770	43,190	43,190	14,580	40,060	518,280
16 Regulatory Expense	43,087	74,530	31,443-	43,087	74,530	74,530	31,443-	30,086	607,390
17 Insurance Other Than Group	54,832	60,475	5,643-	54,832	60,475	60,475	5,643-	51,960	725,700
18 Customer Accounting	58,732	127,947	69,215-	58,732	127,947	127,947	69,215-	88,810	1,583,610
19 Rents	6,652	3,015	3,637	6,652	3,015	3,015	3,637	32,180	32,180
20 General Office Expense	61,176	45,915	15,261	61,176	45,915	45,915	15,261	47,153	463,939
21 Miscellaneous	191,043	208,588	17,545-	191,043	208,588	208,588	17,545-	21,205	2,840,795
25 Other Maintenance	190,805	190,723	82	190,805	190,805	190,723	82	224,782	2,330,353
Total Maintenance & Operations Expense	2,447,045	2,493,788	46,743-	2,447,045	2,447,045	2,493,788	46,743-	1,995,223	30,616,617
27 Depreciation	402,877	590,154	187,277-	402,877	590,154	590,154	187,277-	545,533	7,173,281
28 Amortization	42,007	34,215	7,792	42,007	34,215	34,215	7,792	38,872	410,580
29 General Taxes	286,527	289,559	3,032-	286,527	289,559	289,559	3,032-	299,155	3,470,130
30 State Income Taxes	48,108	31,935	16,173	48,108	31,935	31,935	16,173	19,993	648,505
31 Federal Income Taxes	278,752	171,158	107,594	278,752	171,158	171,158	107,594	92,976	4,264,136
32 Tax Savings Acquisition Adjustment									
33 Total Operating Expenses	3,505,316	3,610,809	105,493-	3,505,316	3,505,316	3,610,809	105,493-	2,991,752	46,583,249
34 Utility Operating Income	961,288	895,600	65,688	961,288	895,600	895,600	65,688	564,150	12,956,506
35 OTHER INCOME & DEDUCTIONS									
36 Non-Operating Rental Income									
37 Dividend Income-Common									
38 Dividend Income-Preferred									
39 Interest Income	82,001	65,146	16,855	82,001	65,146	65,146	16,855	1,569	1,507,094
40 AFUDC Equity	919	919		919	919	919		37,151	37,151
42 M & J Miscellaneous Income								919	20,544-
43 Gain/(Loss)on Disposition									
45 Total Other Income	82,920	65,146	17,774	82,920	65,146	65,146	17,774	18,176	1,507,094
46 Miscellaneous Amortization	35,532	5,444	30,088	35,532	5,444	5,444	30,088	41,881	1,290,072
47 Tax Savings Acquisition Adjustment	996,820	901,044	95,776	996,820	901,044	901,044	95,776	522,269	14,246,578
48 Misc. Other Deductions									
49 State Income Taxes									
51 Federal Income Taxes									
52 Total Other Deductions									
53 Total Other Income	996,820	901,044	95,776	996,820	901,044	901,044	95,776	522,269	14,246,578
54 Income Before Interest Charges									
55 INTEREST CHARGES									
56 Interest on Long-Term Debt	487,956	505,000	17,044-	487,956	505,000	505,000	17,044-	426,629	5,900,277
57 Amortization and Debt Expense	7,289	5,954	1,335	7,289	5,954	5,954	1,335	6,073	71,448
58 Interest-Short Term Bank Debt	86,598	77,938	8,660	86,598	77,938	77,938	8,660	35,471	1,045,249
59 Other Interest Expense									
60 AFUDC-Debt	38,527-	29,585-	8,942-	38,527-	29,585-	29,585-	8,942-	38,175-	684,424-
61 Total Interest Charges	543,316	559,307	15,991-	543,316	559,307	559,307	15,991-	413,128	6,332,550
62 Net Income	453,504	341,737	111,767	453,504	341,737	341,737	111,767	109,141	7,914,028
64 Preferred Dividend Declared	6,560	38,325	31,765-	6,560	38,325	38,325	31,765-	6,557	459,900
65 Net Income to Common Stock	446,944	303,412	143,532	446,944	303,412	303,412	143,532	102,584	7,454,128

Operations Review February 2008

Operational Issues Review

1. Source of Supply

The KY Public Service Commission (PSC) conducted hearings March 5th and 6th regarding supplemental filings made February 11 by Louisville Water Company (LWC) and Citizens for Alternative Water Supply (CAWS). Kentucky American Water (KAW) presented rebuttal witnesses to refute the viability of certain LWC and CAWS claims on both the pipeline cost and interim source alternatives. KAW testimony also demonstrated that the KAW proposal before the Commission was the lower cost, more feasible and reasonable project for its customers. Commission Chair Mark David Goss indicated a decision on KAW's application should be expected in April.

Contractor bids had been set to expire in early February. KAW initially received an extension of the bid hold period for 30 days with no additional cost increase (into early March), though that extension became moot. KAW then requested and received revised bids for 60 and 90 days beyond the initial term (with early April and early May expirations). The revised May bids reflect an increase of \$5.6 million over the initial project bids, and would be the costs in place should the PSC rule favorably in mid-April.

2. Operational Costs: Energy, Chemicals, Residuals

Fuel and Power expenses will be reforecast to increase \$730K for the year (25%), reflecting both a higher energy cost (\$/kwh) and higher electric consumption (based on khws/mg pumped) than in the original plan. (Other plan reductions will offset this projected increase.) The reforecast is based on a review of the most recent two-year consumption pattern, which showed increases in consumption over prior years, most likely attributable to efficiency losses over time. Completion in March of the Kentucky River Station pump and motor upgrades discussed later may serve to mitigate the increasing consumption trend.

Poorer source water conditions than anticipated for January and February, including turbidity almost twice that in base plan, resulted in an increase in chemical consumption over plan, and a slight increase in chemical expenses YTD.

3. Rate Case/Orders: Timing, Value, Issues

A formal filing of a revision of the northern division waste water tariff with the PSC has been deferred pending resolution of industrial pretreatment and monitoring charges. The filing is now expected in March.

4. Commission Activity: Customer Complaints, Compliance

	YTD Collections	YTD Billing	YTD Total
2008	3	6	9

**Kentucky American Water
Operations Review February 2008**

5. Divestitures

There has been no additional activity to report.

6. Major Operational Projects

- Replacement of 30,000 feet of main in Owen County was completed in 2007, and the extension of 160,000 feet of main in Owen County is to be completed in March 2008.
- Replacement of residuals handling equipment at Richmond Road Station began in March 2007 and is 95% complete. Final completion expected in April 2008.
- Reliability of treatment facilities, including intake pump and transfer pump replacement is scheduled for completion in March 2008. This project was temporarily delayed last summer and fall due to system delivery demand of plant facilities. Currently all new six intake pumps have been replaced and are in service and one of two transfer pumps is installed.
- Installation of 6,400 feet of 20-inch main in Clays Mill Road prior to the first phase of widening began in 2007, to be completed in March 2008.

7. Operational Regulatory Compliance: Status

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
Regulatory Maintenance:					
Meter Changes (1)	1,930	2,000	70	G	↑

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
Other Program Maintenance:					
Valve Operation (<16") PUC	493	354	139	G	→
Valve Operation (>16") PUC	130	136	6	G	↑
Tank Painting (#/\$000's)	1 of 1 YTD \$13K	1 of 1 FY \$281K	0	G	→
Hydrant Inspections (2)	0	0	0	G	→

(1) Meter Changes - To date, 1,930 of 2008's planned total of 19,050 5/8" meters have been changed. These represent both routine change-outs, and those change-outs arising from the former meter life pilot program. This meter change process will continue throughout the year, supported by both contract and company labor.

(2) Fire Hydrant Inspection Information – Although inspections are not a regulatory compliance issue, a recent rate case agreement requires the electronic file containing the monthly hydrant inspection information to be submitted to the LFUCG fire department. There were no inspections performed in February due to weather conditions and this was reported to the fire department. The hydrant inspection position will be bid in the month of March and testing will resume shortly thereafter, weather permitting.

8. Regulatory Policy Compliance Issues

None to report at this time.

9. Union/Labor Issues/Activities

There is one grievance related to a confined space issue currently under review. We continue to meet with the bargaining unit to resolve this issue.

10. Explanation of NOV's, OSHA violations, etc.

On January 14, 2008, KAW received an NOV from the KY Department of Water (DOW) for improper maintenance of erosion control and sedimentation on the Clays Mill Road main installation construction project. The contractor installing the main also received an NOV. The NOV also cited lack of filing a Notice of Intent for construction in a streambed. KAW is responding to the DOW, has placed the contractor on probation, and is reviewing internal procedures to ensure compliance by contractors in the future. KAW does not anticipate a fine on this issue.

The company also received a wastewater NOV in January for failing a required biological toxicity test in the 4th quarter of 2007. The testing was performed in November at the Owenton, KY wastewater plant. KAW has reviewed the issue thoroughly, putting measures in place to avoid a repeat occurrence. Disciplinary action has been taken with the operator at the plant.

There was one occupational injury and four vehicular accidents reported during the month of February. Of the four vehicular accidents, two were preventable and two were non-preventable. We will conduct defensive driving training for our employees.

11. Revenue Generating Projects/Opportunities

No new projects to report.

12. O&M Contracts – Significant Operational/Financial Variances

Kentucky American Water has had an O&M Contract to operate the water and wastewater system at Bluegrass Station since 2003. The contract was up for renewal February 1. KAW was notified on February 12 that the new administration in Frankfort decided to rebid, rather than simply renew, the O&M contract. KAW is continuing to operate the facilities under the terms of the old contract, although KAW has advised BGS that the monthly fee will increase 3.2% (equal to the CPI) effective May 1. Kentucky American will make a decision whether or not to rebid the O&M contract once the Kentucky Finance Cabinet issues the RFQ.

13. Other Operational Issues

A water leak was discovered in the basement of the Kentucky River Station control building in January. Ultimately, Field Operations and Production personnel found the leak to be on a 30" lock-joint pipe line that conveys water from the filtration units to the clearwell. Four of the plant's ten treatment units were down for several days once the pipe was uncovered, and before the repair could be made. A contractor repaired the line March 3 by welding a plate over the hole and then grouting the area around the repair. The leak occurred between two chemical dosing points, with indications that corrosion may have been a contributing factor. An assessment will be made of the overall condition of the remainder of that line, and similar lines in the area, to determine whether any other sections show similar characteristics, and whether any longer term solutions may be required. No customers were affected by this repair.

KAW is currently revising its NRW strategy, though continuing to focus on identified areas of concern and potential losses. The anticipated focus area activities are likely to include:

- Special Connections
- Large meter bypass settings
- LFUCG street sweeper water use data
- Water Loading Stations
- Theft of service in areas of new development

NRW is currently running at 12.6 %, with unaccounted for well below PSC guidelines.

Main Breaks/Leaks

The number of leaks for the month was down from January totals (15 vs. 25). There were no major leaks in the system.

Field Service

- Met appointment performance: 99.2%
- Percentage of meters read for the year: 97.7%

Sewer Billing

The LFUCG has passed an ordinance to increase sewer user fees beginning May 1, 2008. The programming changes are currently being tested and will be ready for implementation by May 1.

83500 American Water Works Company
 GLOUZISA Kentucky-American Water-Co 12
 ROUNDATE Total Company (USGAAP)
 For the Period Ending 02/28/2008

Kentucky-American Water Co.

	February Actual	February Plan	February Variance	February Prior Year	Yr to Date Actual	Yr to Date February Plan	Yr to Date Variance	Yr to Date February Prior Year	Annual Forecast
1 OPERATING REVENUES									
2 Water	4,140,338	4,187,303	46,965-	3,449,574	8,399,132	8,504,219	105,087-	6,831,571	57,285,664
3 Sewer	27,489	23,728	3,761	27,263	52,928	48,518	4,410	55,086	277,659
4 Other	200,686	164,704	35,982	147,116	383,057	329,407	53,650	293,198	1,976,432
5 Management									
6 Total Revenues	4,368,513	4,375,735	7,222-	3,623,953	8,835,117	8,882,144	47,027-	7,179,855	59,539,755
7 OPERATIONS & MAINTENANCE EXPENSE									
8 Labor	451,576	522,999	71,423-	428,368	994,797	1,091,999	97,202-	912,812	6,735,008
9 Purchased Water	7,358	47,250	39,892-	10,113	12,684	95,750	83,066-	47,741	603,650
10 Fuel & Power	167,105	171,143	4,038-	203,695	444,695	344,597	100,098	290,001	2,885,689
11 Chemicals	135,691	108,408	27,283	87,084	253,839	228,939	24,900	201,898	1,637,082
12 Waste Disposal	24,057	26,885	2,828-	26,324	46,676	47,331	655-	52,236	294,647
13 Management Fees	629,400	620,759	8,641	649,248	1,297,206	1,263,145	34,061	1,246,343	7,373,898
14 Group Insurance	145,443	165,088	19,645-	132,612	293,680	330,176	36,496-	273,249	1,984,396
15 Pensions	57,523	43,190	14,333	63,328	115,239	86,380	28,913	103,369	518,280
16 Regulatory Expense	43,312	74,530	31,218-	30,086	86,399	149,060	62,661-	60,172	607,390
17 Insurance Other Than Group	38,839	60,475	21,636-	53,895	93,671	120,950	27,279-	105,855	725,700
18 Customer Accounting	81,633	156,806	75,173-	153,782	140,364	254,753	114,389-	242,592	1,583,610
19 Rents	147	2,515	2,368-	1,557	6,798	5,530	1,268	5,887	32,180
20 General Office Expense	41,571	64,533	22,962-	22,372	102,748	110,448	7,700-	69,525	463,939
21 Miscellaneous	219,617	263,726	44,109-	146,940	410,661	472,314	61,653-	168,145	2,840,795
25 Other Maintenance	211,158	179,152	32,006	180,863	401,962	369,875	32,087	405,644	2,330,353
Total Maintenance & Operations Expense	2,254,430	2,477,459	223,029-	2,190,267	4,701,473	4,971,247	269,774-	4,185,489	30,616,617
27 Depreciation	406,266	590,474	184,208-	547,884	809,143	1,180,628	371,485-	1,093,417	7,173,281
28 Amortization	42,007	34,215	7,792	38,869	84,015	68,430	15,585	77,741	410,580
29 General Taxes	252,526	285,909	33,383-	220,509	539,053	575,468	36,415-	519,664	3,470,130
30 State Income Taxes	59,122	26,793	32,329	18,439	58,728	58,728	0	38,432	648,505
31 Federal Income Taxes	334,112	166,549	167,563	85,929	612,863	337,707	275,156	178,905	4,264,136
32 Tax Savings Acquisition Adjustment									
33 Total Operating Expenses	3,348,463	3,581,399	232,936-	3,101,897	6,853,776	7,192,208	338,432-	6,093,648	46,583,249
34 Utility Operating Income	1,020,050	794,336	225,714	522,056	1,981,341	1,689,936	291,405	1,086,207	12,956,506
35 OTHER INCOME & DEDUCTIONS									
36 Non-Operating Rental Income									
37 Dividend Income-Common									
38 Dividend Income-Preferred									
39 Interest Income	88,371	67,530	20,841	743	170,372	132,676	37,696	2,312	1,507,094
40 AFUDC Equity	14,305		14,305	32,970	15,223		15,223	12,426	
42 M & J Miscellaneous Income									
43 Gain(Loss)on Disposition									
45 Total Other Income	102,676	67,530	35,146	78,529	185,595	132,676	52,919	96,705	1,507,094
46 Miscellaneous Amortization	35-	64	99-	35-	71-	128	199-	71-	768
47 Tax Savings Acquisition Adjustment									
48 Misc. Other Deductions	20,875	12,539	8,336	10,628	91,876	112,540	20,664-	95,632	362,613
49 General Taxes	259-	1,034-	775	981	3,040-	9,284-	6,244	3,428-	29,914-
50 State Income Taxes	1,940-	4,027-	2,087	4,561	22,737-	36,140-	13,403	15,942-	116,445-
51 Federal Income Taxes	18,641	7,542	11,099	16,135	66,028	67,244	1,216-	76,191	217,022
52 Total Other Deductions	84,035	59,988	24,047	62,394	119,567	65,432	54,135	20,514	1,250,072
53 Total Other Income	1,104,085	854,324	249,761	584,450	2,100,908	1,755,368	345,540	1,106,721	14,246,578
54 Income Before Interest Charges									
55 INTEREST CHARGES									
56 Interest on Long-Term Debt	487,957	505,000	17,043-	426,629	975,913	1,010,000	34,087-	853,258	5,900,277
57 Amortization and Debt Expense	7,289	5,954	1,335	6,073	14,579	11,908	2,671	12,146	71,448
58 Interest-Short Term Bank Debt	67,065	75,584	8,519-	36,762	153,663	153,522	141	72,933	1,045,249
59 Other Interest Expense									
60 AFUDC-Debt	41,661-	30,668-	10,993-	20,352-	80,188-	60,253-	19,935-	37,222	684,424-
61 Total Interest Charges	520,650	555,870	35,220-	449,112	1,063,967	1,115,177	51,210-	862,240	6,332,550
62 Net Income	583,435	298,454	284,981	135,338	1,036,941	640,191	396,750	244,481	7,914,028
64 Preferred Dividend Declared	6,560	38,325	31,765-	6,557	13,119	76,650	63,531-	13,114	459,900
65 Net Income to Common Stock	576,875	260,129	316,746	128,781	1,023,822	563,541	460,281	231,367	7,454,128

1
 09/10/08
 09:41:53

Operations Review March 2008

Operational Issues Review

1. Source of Supply

There are no source of supply issues impacting current operations. YTD rainfall through March is significantly higher than normal, (16.2 inches vs. 11.2 inches). Reservoir levels at Jacobson and Lower Thomas Lake are at 100% capacity, and the March average Kentucky River flow through Lock 10 is 20% greater than average.

2. Operational Costs: Energy, Chemicals, Residuals

	March Actual	March Plan	Variance	March YTD	Q1RF
Purchased Water	9,364	48,600	(39,236)	22,047	36,930
Fuel and Power	236,240	170,087	66,153	680,935	652,188
Chemicals	123,822	123,935	(113)	377,661	378,369
Waste Disposal	23,994	26,471	(2,477)	70,670	73,147
Total Production	393,420	369,093	24,327	1,151,313	1,140,634

Fuel and Power expenses were reforecast to increase 25% for the year, reflecting both a higher energy cost (\$/kwh) and higher electric consumption (based on khws/mg pumped) than in the original plan. (Other plan reductions will offset this projected increase.) The reforecast was based on a review of the most recent two-year consumption pattern, which showed increases in consumption over prior years, most likely attributable to efficiency losses over time. Completion in March of the Kentucky River Station pump and motor upgrades, may serve to mitigate the increasing consumption trend in the future.

3. Rate Case/Orders: Timing, Value, Issues

A formal filing with the PSC, documenting the sewer charges for the northern division waste water tariff, was filed on March 21.

In addition, the testing of the Kentucky River withdrawal fee rate was performed in March. The tariff is reviewed and adjusted annually, to determine the appropriate rate charged to customers based on the fees imposed by the KRA. The new rates are effective April 1, 2008 on all customer bills.

4. Commission Activity: Customer Complaints, Compliance

	YTD Collections	YTD Billing	YTD Total
2008	6	13	19
2007	3	15	18

**Kentucky American Water
Operations Review March 2008**

5. Divestitures

There has been no additional activity to report.

6. Major Operational Projects

- The Kentucky River Station Reliability project was essentially completed in March. All six intake pumps and both transfer pumps have been replaced and are in service. Minor electrical work remains once Kentucky Utilities installs a redundant transformer late 2008.
- Replacement of residuals handling equipment at Richmond Road Station began in March 2007 and is 95% complete. Final completion expected in April 2008.
- The extension of 160,000 feet of main in Owen County was completed in March 2008.
- Installation of 6,400 feet of 20-inch main in Clays Mill Road, begun in 2007, is to be completed in April 2008.
- A project to enhance the operations of the Russell Cave Road tank and assist in supply to Toyota during peak demand periods has been accelerated, with design approved through CIMC, and construction expected to begin later in 2008. Replacement of smaller diameter mains with 34,000 feet of 20" main on US460 will also enable Muddy Ford tank to be taken out of service for maintenance more readily.

7. Operational Regulatory Compliance: Status

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
Regulatory Maintenance:					
Meter Changes (1)	4,737	4,764	27	G	→

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
Other Program Maintenance:					
Valve Operation (<16") PUC	857	896	39	G	→
Valve Operation (>16") PUC	200	149	0	G	↑
Tank Painting (#/\$000's)	1 of 1 YTD \$13K	1 of 1 FY \$281K	0	G	→
Hydrant Inspections (2)	0	0	0	G	→

(1) Meter Changes - To date, 4,737 of 2008's planned total of 19,050 5/8" meters have been changed. These represent both routine change-outs, and those change-outs arising from the former meter life pilot program. This meter change process will continue throughout the year, supported by both contract and company labor.

(2) Fire Hydrant Inspection Information – Fire hydrant inspections are scheduled to begin in April.

8. Regulatory Policy Compliance Issues

None to report at this time.

9. Union/Labor Issues/Activities

There is one grievance related to a confined space issue currently under review. We continue to meet with the bargaining unit to resolve this issue.

10. Explanation of NOV's, OSHA violations, etc.

There were no NOV's reported in March.

KAW received notice that the KY Department of Water DOW is satisfied with the company's response to the January 14, 2008 NOV and no further enforcement or fine will be forthcoming.

There were no injuries or accidents reported in March. KAW is still on track to conduct defensive driving training for the employees in the second quarter. Competent person training was performed in March. This training ensures that field personnel are aware of OSHA requirements and are knowledgeable in detecting unsafe conditions at the job site. Excavation safety training and hearing and respiratory fit testing are planned during April.

11. Revenue Generating Projects/Opportunities

No new projects to report.

12. O&M Contracts – Significant Operational/Financial Variances

The Kentucky Finance Cabinet contacted KAW on March 12 to renew a one year agreement to continue operations. Kentucky American CDC has the agreement and is reviewing for final recommendation. A discussion whether to extend the contract with a CPI index increase is still pending.

13. Other Operational Issues

Major Outages: A late afternoon leak on a 12" line in Scott County resulted in a boil water advisory to approximately 1500 customers March 20. Although the leak was isolated and repaired in a timely manner, the 20 psi drop in pressure mandated that precautionary boil water advisory be issued. KAW communicated the advisory through the Reverse 911

**Kentucky American Water
Operations Review March 2008**

system, as well as through local TV and radio media outlets. KAW also made immediate contact with the administration Northern Elementary School, and delivered bottled water to enable the school to remain open the following day. The advisory was lifted March 22, 2008.

KAW is continuing to revisit its NRW strategy, with focus on identified areas of concern and potential revenue losses. During March, all water loading station accounts were reviewed to confirm that inactive accounts were deactivated at the assigned stations and the account holder's information was verified. The confirmation of this information will minimize the potential for unauthorized use through inactive accounts that should be deactivated at the stations.

Main Breaks/Leaks

The 15 leaks in March were comparable to February's 16. There were no major leaks in the system. There were 50 fewer YTD than the same period last year.

Field Service

- Met appointment performance: 99.6%

Customer Billing

There were two significant customer accounts that required backbilling adjustments in March due to set up or coding errors. One account required wastewater backbilling as a unique premise setup was not identified from the current validation/exception reports. Additional reports were implemented in March to prevent future occurrences of this nature. That initial review surfaced a water backbilling requirement for another unrelated account, attributable to an error in the customer billing department. An account set up code had been changed in mid 2007, resulting in a subsequent drop of meter reading data in the billing process. The billing department has since removed permissions to change set ups, so new errors of this nature are less likely occur. Both customers were personally notified by KAW representatives.

83500 American Water Works Company
 G1012ISA Kentucky-American Water-Co 12
 RUNDATA Total Company (USGAAP)
 Income Statement Month & YTD
 For the Period Ending 03/31/2008

Kentucky-American Water Co.

Description	March Actual	March Plan	March Variance	March Prior Year	Yr to Date Actual	Yr to Date March Plan	Yr to Date Variance	Yr to Date March Prior Year	Annual Forecast
1 OPERATING REVENUES									
2 Water	4,205,758	4,252,405	46,647-	3,789,794	12,604,891	12,756,624	151,733-	10,621,365	57,285,664
3 Sewer	24,574	23,398	1,176	96,937	77,503	71,916	5,587	82,022	277,659
4 Other	207,106	164,702	42,404	146,460	590,163	494,109	96,054	439,658	1,976,432
5 Management									
6 Total Revenues	4,437,438	4,440,505	3,067-	3,963,191	13,272,557	13,322,649	50,092-	11,143,045	59,539,755
7 OPERATIONS & MAINTENANCE EXPENSE									
8 Labor	494,634	529,999	35,365-	438,465	1,489,431	1,621,998	132,567-	1,351,277	6,735,008
9 Purchased Water	9,364	48,600	39,236-	31,502	22,047	144,350	122,303-	79,643	603,650
10 Fuel & Power	236,240	170,087	66,153	199,401	680,935	514,684	166,251	489,402	2,885,689
11 Chemicals	123,822	124,935	1,113-	124,863	377,661	352,874	24,787	326,161	1,637,082
12 Waste Disposal	223,994	26,471	2,477-	25,879	70,176	73,802	3,626-	78,115	1,794,647
13 Management Fees	709,696	638,706	70,990	550,740	2,006,902	1,901,851	105,051	1,797,084	7,373,898
14 Group Insurance	142,533	165,088	22,555-	199,466	436,213	495,264	59,051-	472,715	1,984,396
15 Pensions	57,218	43,190	14,028	52,824	172,511	129,570	42,941	156,313	518,280
16 Regulatory Expense	13,267	45,833	32,566-	30,886	99,666	194,993	95,227-	90,259	607,390
17 Insurance Other Than Group	4,478	60,475	55,997-	18,613	98,149	181,425	83,276-	124,468	725,700
18 Customer Accounting	65,480	127,379	61,899-	104,595	205,844	382,132	176,288-	347,186	1,583,610
19 Rents	1,960	2,515	555-	1,454	8,758	8,045	713	7,341	32,180
20 General Office Expense	27,406	43,687	16,281-	29,634	130,154	154,135	23,981-	99,159	463,939
21 Miscellaneous	296,251	248,529	47,722	202,154	706,912	720,843	13,931-	370,300	2,840,795
25 Other Maintenance	215,026	174,227	40,799	175,354	616,988	544,102	72,886	580,998	2,330,353
Total Maintenance & Operations Expense	2,421,369	2,448,721	27,352-	2,184,930	7,122,841	7,419,968	297,127-	6,370,421	30,616,617
27 Depreciation	851,000	591,348	259,652	549,486	1,660,142	1,771,976	111,834-	1,642,903	7,173,281
28 Amortization	43,997	34,215	9,782	38,869	128,011	102,645	25,366	116,610	410,580
29 General Taxes	313,889	286,465	27,424	111,596	852,942	861,933	8,991-	631,260	3,470,130
30 State Income Taxes	50,081	33,599	16,482	52,140	191,148	202,327	11,179-	190,572	648,505
31 Federal Income Taxes	162,233	199,081	36,848-	239,799	775,096	536,788	238,308	418,704	4,264,136
32 Tax Savings Acquisition Adjustment									
33 Total Operating Expenses	3,742,407	3,593,429	148,978	3,176,820	10,596,180	10,785,637	189,457-	9,270,470	46,583,249
34 Utility Operating Income	695,031	847,076	152,045-	786,371	2,676,377	2,537,012	139,365	1,872,575	12,956,506
35 OTHER INCOME & DEDUCTIONS									
36 Non-Operating Rental Income									
37 Dividend Income-Common									
38 Dividend Income-Preferred									
39 Interest Income	99,956	65,854	34,102	48,288	270,328	198,530	71,798	130,255	1,507,094
40 AFUDC Equity	7,507	7,507		30,693	22,730		22,730		
42 M & J Miscellaneous Income									
43 Gain(loss)on Disposition									
45 Total Other Income	107,463	65,854	41,609	79,101	293,058	198,530	94,528	175,806	1,507,094
46 Miscellaneous Amortization	35-	64	99-	35-	106-	192	298-	106-	768
47 Tax Savings Acquisition Adjustment									
48 Misc. Other Deductions	13,123	37,382	24,259-	27,146	104,999	149,922	44,923-	122,778	362,613
49 General Taxes	655	3,084-	3,739	552-	2,385-	12,368-	9,983	3,980-	29,914-
50 State Income Taxes	8,439	12,004-	20,443	4,939-	14,298-	48,144-	33,846	20,882-	116,445-
51 Federal Income Taxes	22,182	22,358	176-	21,620	88,210	89,602	1,392-	97,810	217,022
52 Total Other Deductions	85,281	43,496	41,785	57,481	204,848	108,928	95,920	77,996	1,290,072
53 Total Other Income	780,312	890,572	110,260-	843,852	2,881,225	2,645,940	235,285	1,950,571	14,246,578
54 Income Before Interest Charges									
55 INTEREST CHARGES									
56 Interest on Long-Term Debt	487,365	505,000	17,635-	426,038	1,463,278	1,515,000	51,722-	1,279,296	5,900,277
57 Amortization and Debt Expense	7,289	5,954	1,335	6,073	21,868	17,862	4,006	18,218	71,448
58 Interest-Short Term Bank Debt	63,275	44,094	19,181	53,951	216,937	197,616	19,321	126,183	1,045,249
59 Other Interest Expense									
60 AFUDC-Debt	46,761-	29,906-	16,855-	21,928-	126,948-	90,159-	36,789-	58,175-	684,424-
61 Total Interest Charges	511,168	525,142	13,974-	464,134	1,575,135	1,640,319	65,184-	1,326,371	6,332,550
62 Net Income	269,144	365,430	96,286-	379,718	1,306,090	1,005,621	300,469	624,200	7,914,028
64 Preferred Dividend Declared	6,560	38,325	31,765-	6,560	19,679	114,975	95,296-	19,673	459,900
65 Net Income to Common Stock	262,584	327,105	64,521-	373,158	1,286,411	890,646	395,765	604,527	7,454,128

Operations Review April 2008

Operational Issues Review

1. Source of Supply

There are no source of supply issues impacting current operations. YTD rainfall through April is significantly higher than normal (22.1 inches vs. 14.7 inches).

2. Operational Costs: Energy, Chemicals, Residuals

	April Actual	April Plan	Variance	April YTD	April YTD Plan	Variance
Purchased Water	10,854	49,700	(38,846)	32,901	194,050	(161,149)
Fuel and Power	193,108	204,402	(11,294)	874,043	719,086	154,957
Chemicals	121,486	110,568	10,918	499,148	463,442	35,706
Waste Disposal	24,524	20,446	4,078	95,193	94,248	945
Total Production	349,972	385,116	(35,144)	1,501,285	1,470,826	30,459

Strategic efforts to eliminate the transfer of water from the Kentucky River to the Richmond Road Station reaped fuel and power savings in April. Jacobson Reservoir was used as the alternate source water and was depleted by 20%. The fuel savings helped offset the increases projected earlier this year for fuel demand. Chemical costs were slightly above plan due to higher turbidity levels than planned. Increased rainfall for 2008 has provided poorer raw water source conditions.

3. Rate Case/Orders: Timing, Value, Issues

On April 25, 2008, the Kentucky Public Service Commission (PSC) approved Kentucky American Water's new 20 MGD Water Treatment Plant on Pool 3 of the Kentucky River, issuing a 97-page order granting Kentucky American's request for a Certificate of Convenience and Public Necessity. This project is estimated at \$162 million and is expandable to 25 MGD at an estimated cost of \$168 million, depending on the participation of the regional Bluegrass Water Supply Commission (BWSC). Kentucky American and American Water engineering are currently working through the process of executing contracts, closing on property, finalizing permit information, negotiating with the BWSC, and acquiring easements for the transmission line. Construction on the treatment plant will likely begin in June of this year and will be completed in May 2010.

Opposition to the project continues, and the group of local property owners, Citizens for Alternative Water Solution (CAWS), indicated publicly that it will request reconsideration of the decision by the PSC and may appeal the decision in local court. Because of the critical nature of the project, Kentucky American Water will continue to move forward with the project while any legal challenges continue. On May 16, CAWS filed a motion for

rehearing, and the Commission is anticipated to issue a briefing order and rule upon this motion in the coming weeks.

4. Commission Activity: Customer Complaints, Compliance

	YTD Collections	YTD Billing	YTD Total
2008	8	17	25
2007	3	15	18

5. Divestitures

There has been no additional activity to report.

6. Major Operational Projects

- Replacement of residuals handling equipment at Richmond Road Station began in March 2007 and was completed in April 2008.
- Installation of 6,400 feet of 20-inch main in Clays Mill Road began in 2007 and was completed in April 2008.
- A project to enhance operation of the Russell Cave Road tank and assist in supplying Toyota during peak demand periods has been accelerated, with design approved through CIMC, and construction expected to begin later in 2008. Replacement of smaller diameter mains with 34,000 feet of 20-inch main on US 460 will also enable Muddy Ford tank to be taken out of service for maintenance more readily.
- Painting of the fairgrounds tank in Owenton started in April. However, once the tank was drained and taken out of service, it was apparent that the system could not operate without it and the project was immediately halted. The tank was placed back in service to restore adequate supply to the customers. At this time, the project has been canceled for 2008 unless circumstances warrant an immediate structural need to paint. Exploration of other supply alternatives are being investigated.

12-KY Gross Capex	Original	Q1RF
Full Year Budget	\$55,679,329	\$48,442,182
To Date Budget	\$4,711,309	\$4,761,792
To Date Actual	\$6,121,708	\$6,121,708
To Date Variance	\$1,410,399	\$1,359,916

Kentucky American Water
Operations Review April 2008

7. Operational Regulatory Compliance: Status

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
Regulatory Maintenance:					
Meter Changes (1)	7,751	6,352	0	G	↑

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
Other Program Maintenance:					
Valve Operation (<16") PUC (2)	1162	1455	293	Y	↓
Valve Operation (>16") PUC	208	179	0	G	↑
Tank Painting (#/\$000's) (3)	1 of 1 YTD \$18K	1 of 1 FY \$281K	0	Y	
Hydrant Inspections (4)	0	975	975	Y	↓

(1) Meter Changes – To date, 7,751 of 2008's planned total of 19,050 5/8-inch meters have been changed. These represent both routine change-outs, and those change-outs arising from the former meter life pilot program. This meter change process will continue throughout the year, supported by both contract and company labor.

(2) Small valve operation is currently behind plan due to extended illnesses and employees assigned to light duty for extended periods of time. Three mandatory Saturday work days for all crew leaders and utility employees in upcoming months will put this area back on plan.

(3) The fairgrounds tank painting project in Owenton has been cancelled until such time as adequate water supply is provided for those customers affected.

(4) Fire Hydrant Inspection Information – Fire hydrant inspections were delayed due to limited resource issues related to the annual flushing program initiated April 27.

8. Regulatory Policy Compliance Issues

None to report at this time.

9. Union/Labor Issues/Activities

We have received one grievance on a confined space issue. It has now been moved to the third step. The meeting to discuss is scheduled for May 14, 2008.

10. Explanation of NOV's, OSHA violations, etc.

No NOV's were reported in April.

There was one vehicular accident causing only auto damage reported in April. (A parked company vehicle was hit by a resident backing out of their driveway.) In addition, one occupational injury was reported related to a previous shoulder issue. The employee was seen by a medical provider and was released to come back to work with no restrictions.

11. Revenue Generating Projects/Opportunities

KAW is in the process of establishing growth targets for the planning horizon. An initial business development plan has been crafted, with the expectation that KAW will be taking a more pro-active role in seeking and evaluating opportunities across the state.

12. O&M Contracts – Significant Operational/Financial Variances

The Kentucky Finance Cabinet contacted KAW on March 12 to renew a one-year agreement to continue operations. Kentucky American Water's CDC has the agreement and is reviewing for final recommendation. A contract will be finalized in May without a CPI index increase.

13. Other Operational Issues**Employee Development/Training**

Kentucky American conducted a series of customer satisfaction training sessions for field operations personnel and others April 22 and 25th, focusing on impact of their actions on customer processes and customer satisfaction. We've received positive feedback from the vast majority of employees who attended. KAW is contributing this experience as the enterprise-wide customer satisfaction training is being developed.

Four of Kentucky American's management personnel attended a basic financial management class April 16. The class was a joint project with Tennessee American Water. Additionally, a number of management employees attended a leadership seminar for people who supervise and manage people. Additional employees are expected to attend the same type seminar in August.

Excavation safety training was conducted on April 23, 24 and 30. Hearing and respiratory fit testing for the distribution department was conducted on April 15 and 16. KAW has scheduled defensive driving training for employees in May 2008.

NRW: The focus of KAW non-revenue water reduction strategy for April was to address potential losses of revenue in the Ford Hampton area of the system in Clark County. The metering equipment in this route is the older Badger Meter / Itron ERT technology which has been proven to be less reliable compared to what is available from the manufacturer today. Water for this area is purchased from Winchester Municipal Utilities. KAW began replacing 270 radio read meters with newer, more reliable, direct read technology that will allow KAW

**Kentucky American Water
Operations Review April 2008**

to more accurately bill customer usages and enable better validation of water sales to water purchases in that area.

Main Breaks/Leaks

The 6 leaks in April were considerably less than the prior month (16). There were no major leaks in the system. There were 55 fewer YTD than the same period last year.

Field Service

- Met appointment performance: 99.86%

83500 American Water Works Company
 G1012ISA Kentucky-American Water-Co 12
 RUNDATE Total Company (USGAAP)
 Income Statement Month & YTD
 For the period Ending 04/30/2008

Kentucky-American Water Co.

Description	April Actual	April Plan	April Variance	April Prior Year	Yr to Date Actual	Yr to Date April Plan	Yr to Date April Variance	Yr to Date April Prior Year	Annual Forecast
1 OPERATING REVENUES									
2 Water	4,283,012	4,293,293	10,281-	3,754,332	16,887,903	17,049,917	162,014-	14,375,587	57,285,664
3 Sewer	25,181	22,620	2,561	23,668	102,684	94,536	8,148	111,290	277,859
4 Other	199,856	184,703	35,153	184,678	790,019	658,832	131,207	624,336	1,976,432
5 Management									
6 Total Revenues	4,508,049	4,480,616	27,433	3,968,178	17,780,606	17,803,265	22,659-	15,111,223	59,539,755
7 OPERATIONS & MAINTENANCE EXPENSE									
8 Labor	494,105	569,001	74,896-	472,504	1,983,536	2,190,399	207,463-	1,823,781	6,735,008
9 Purchased Water	10,854	49,700	38,846-	41,082	32,901	194,050	161,149-	120,725	603,650
10 Fuel & Power	193,108	204,402	11,294-	161,952	874,043	719,086	154,957	651,267	2,885,869
11 Chemicals	121,486	130,678	9,192-	130,678	499,148	463,442	35,706	456,836	1,637,062
12 Waste Disposal	24,524	20,446	4,078	31,725	94,478	94,248	230	109,843	7,294,647
13 Management Fees	672,752	624,200	48,552	615,736	2,679,654	2,526,051	153,603	2,412,820	7,373,898
14 Group Insurance	137,821	165,088	27,267-	178,113	574,034	660,352	86,318-	650,828	1,984,396
15 Pensions	56,958	43,190	13,768	53,945	229,469	172,760	56,709	120,258	518,280
16 Regulatory Expense	13,515	45,833	32,318-	30,086	113,181	240,726	127,545-	120,345	607,390
17 Insurance Other Than Group	47,250	60,475	13,225-	48,542	145,398	241,900	96,502-	173,009	725,700
18 Customer Accounting	116,636	127,739	11,103-	92,294	322,480	509,871	187,391-	439,480	1,583,610
19 Rentals	4,316	3,015	1,301	5,539	13,075	11,060	2,015	12,880	32,180
20 General Office Expense	43,262	41,453	1,809	34,196	173,415	195,588	22,173-	133,355	463,939
21 Miscellaneous	266,948	250,472	16,476	218,365	973,860	971,315	2,545	588,664	2,840,795
25 Other Maintenance	179,595	209,517	29,922-	163,122	796,583	753,619	42,964	744,119	2,330,353
Total Maintenance & Operations Expense	2,383,130	2,525,099	141,969-	2,277,792	9,505,970	9,945,067	439,097-	8,648,210	30,616,617
27 Depreciation	456,508	592,078	135,570-	584,296	2,116,650	2,364,054	247,404-	2,227,199	7,173,281
28 Amortization	41,694	34,215	7,479	38,869	169,705	136,860	32,845	155,479	410,580
29 General Taxes	277,131	289,559	12,428-	250,177	1,130,073	1,151,492	21,419-	881,437	3,470,130
30 State Income Taxes	27,248	32,916	5,668-	34,728	84,396	125,243	40,847-	125,300	648,505
31 Federal Income Taxes	78,239	196,666	118,427-	155,618	853,335	733,454	119,881	574,322	4,264,136
32 Tax Savings Acquisition Adjustment									
33 Total Operating Expenses	3,263,950	3,670,533	406,583-	3,341,480	13,860,129	14,456,170	596,041-	12,611,947	46,583,249
34 Utility Operating Income	1,244,099	810,083	434,016	626,698	3,920,477	3,347,095	573,382	2,499,276	12,956,506
35 OTHER INCOME & DEDUCTIONS									
36 Non-Operating Rental Income									
37 Dividend Income-Common									
38 Dividend Income-Preferred									
39 Interest Income									
40 AFUDC Equity	108,972	64,382	44,590	59,334	379,300	262,912	116,388	189,589	1,507,094
42 M & J Miscellaneous Income	3,169		3,169	152,520	25,900		25,900	195,639	
43 Gain(Loss) on Disposition									
45 Total Other Income	112,141	64,382	47,759	211,899	405,200	262,912	142,288	387,705	1,507,094
46 Miscellaneous Amortization	35-	64	99-	35-	142-	256	398-	142-	768
47 Tax Savings Acquisition Adjustment									
48 Misc. Other Deductions	21,493	25,315	3,822-	23,335	126,492	175,237	48,745-	146,113	362,613
49 General Taxes	531-	2,088-	1,557	6,671	2,916-	14,456-	11,540	2,691	29,914-
50 State Income Taxes	3,182-	8,129-	4,947	35,001	17,480-	56,273-	38,793	14,119	116,445-
51 Federal Income Taxes									
52 Total Other Deductions	17,745	15,162	2,583	64,972	105,954	104,764	1,190	162,781	217,022
53 Total Other Income	94,396	49,220	45,176	146,927	299,246	158,148	141,098	224,994	1,290,072
54 Income Before Interest Charges	1,338,495	859,303	479,192	773,625	4,219,723	3,505,243	714,480	2,724,200	14,246,578
55 INTEREST CHARGES									
56 Interest on Long-Term Debt	470,209	487,253	17,044-	408,882	1,933,486	2,002,253	68,767-	1,688,178	5,900,277
57 Amortization and Debt Expense	7,289	5,954	1,335	6,073	29,157	23,816	5,341	24,291	71,448
58 Interest-Short Term Bank Debt	52,720	17,328	35,392	86,160	269,658	214,944	54,714	212,343	1,045,249
59 Other Interest Expense									
60 AFUDC-Debt	51,180-	29,238-	21,942-	26,942-	178,128-	119,397-	58,732-	86,092-	684,424-
61 Total Interest Charges	479,038	481,297	2,259-	474,173	2,054,172	2,121,616	67,444-	1,800,545	6,332,550
62 Net Income	859,457	378,006	481,451	299,452	2,165,551	1,383,627	781,924	923,655	7,914,028
64 Preferred Dividend Declared	6,559	38,325	31,766-	6,560	26,237	153,300	127,063-	26,233	459,900
65 Net Income to Common Stock	852,898	339,681	513,217	292,892	2,139,314	1,230,327	908,987	897,422	7,454,128

Operations Review May 2008

Operational Issues Review

1. Source of Supply and New Water Treatment Plant

There are no source of supply issues impacting current operations. YTD rainfall through May is significantly higher than normal (26.5 inches vs. 19.5 inches).

On April 25, 2008, the Kentucky Public Service Commission (PSC) approved Kentucky American Water's new 20 mgd Water Treatment Plant on Pool 3 of the Kentucky River by issuing an Order granting Kentucky American's request for a Certificate of Convenience and Public Necessity. This project is estimated at \$162 million and is expandable to a 25 mgd capacity at an estimated cost of \$168 million, depending on the participation of the regional Bluegrass Water Supply Commission (BWSC).

Kentucky American Water is moving forward on the source of supply project and executed contracts for all three components during May. Easement acquisition efforts have restarted, with initial conversations encouraging. The actual land closings on the treatment plant and booster station are scheduled for early June. Pre-construction meetings were held June 3-4 with all three contractors. Project technical submittals by the contractor have begun. Kentucky American Water notified the PSC on June 3 that it would begin construction as early as June 10, although it appears now that the contractor for the booster station will not begin until June 16. A partnering session with all contractors will be held June 25. Kentucky American Water sent out letters to elected officials and property owners on June 2 alerting them to the efforts to begin construction.

Citizens for Alternative Water Solution (CAWS) had requested reconsideration of the decision by the PSC. On June 5, the PSC denied a request for a rehearing on the project. The group may appeal the decision in Franklin Circuit Court within the next 30 days. However, because of the critical nature of the project and the low probability of a successful appeal, Kentucky American Water will continue to move forward with the project.

Winchester Municipal Utilities and City Commission voted to pursue construction of their own treatment plant rather than join with BWSC in partnership.

2. Operational Costs: Energy, Chemicals, Residuals

	May Actual	May Plan	Variance	May YTD	May YTD Plan	Variance
Purchased Water	9,759	50,150	(40,391)	42,660	244,200	(201,540)
Fuel and Power	253,570	225,769	27,801	1,127,614	944,855	182,759
Chemicals	104,706	139,146	(34,440)	603,854	602,588	1,266
Waste Disposal	21,647	26,885	(5,238)	116,841	121,133	(4,292)
Total Production	389,682	441,950	(52,268)	1,890,969	1,912,776	(21,807)

**Kentucky American Water
Operations Review May 2008**

Strategic efforts to reduce the transfer of water from the Kentucky River to the Richmond Road Station reaped fuel and power savings in May. Although the transfer line was turned on early in May to replenish Jacobson Reservoir, only 190MG of the 465MG budgeted for transfer was actually transferred, with Jacobson Reservoir used as the primary source water for the balance of the month. The power cost savings helped offset the power cost increases projected earlier this year.

Central Division chemicals are \$28,104 under the Q1RF budget due to better than anticipated source water quality at each facility (budgeted for a turbidity of about 45 NTU, actual was about 22 [KRS] and 13 [RRS]) and much less PACL fed than budgeted (particularly at KRS, where \$25,600 was saved).

3. Rate Case/Orders: Timing, Value, Issues

No new activity to report this period.

4. Commission Activity: Customer Complaints, Compliance

	YTD Collections	YTD Billing	YTD Total
2008	10	24	34
2007	5	22	27

5. Divestitures

There has been no additional activity to report.

6. Major Operational Projects

The replacement of smaller diameter mains with 34,000 feet of 20-inch main along Carrick Pike is under design with construction expected to begin later in 2008. The project will enhance operation of the Russell Cave Road tank while also assisting in supply to Toyota during peak demand periods. The main will also enable Muddy Ford tank to be taken out of service for maintenance more readily.

North Broadway replacement is currently under design for the replacement of approximately 5,400 feet of 6-inch CI main with 12-inch main. Approximately 1,100 feet of small mains on Granard Ave, Morrison Ave and Davidson Court will also be replaced with 8-inch main. Not only do some of these mains date back to early 1900s and need replacement, but fire flow capacity will increase substantially for this downtown area.

12-KY Gross	Original	Q1RF
Full Year Budget	\$55,679,329	\$48,442,182
To Date Budget	\$6,677,178	\$6,499,213
To Date Actual	\$7,938,367	\$7,938,367
To Date Variance	\$1,261,188	\$1,439,154

**Kentucky American Water
Operations Review May 2008**

Due to favorable weather conditions and contractor schedules, many of the replacement projects have been accelerated with constructions costs hitting earlier in the year. These lines are still on track for the year-end budget.

7. Operational Regulatory Compliance: Status

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
Regulatory Maintenance:					
Meter Changes (1)	11,509	7,940	0	G	↑

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
Other Program Maintenance:					
Valve Operation (<16") PUC (2)	1879	2015	136	Y	→
Valve Operation (>16") PUC	205	209	4	G	→
Tank Painting (#/\$000's) (3)	1 of 1 YTD \$18K	1 of 1 FY \$281K	0		
Hydrant Inspections (4)	1024	1900	876	Y	↑

(1) Meter Changes – To date, 11,509 of 2008's planned total of 19,050 5/8-inch meters have been changed. These represent both routine change-outs, and those change-outs arising from the former meter life pilot program. This meter change process will continue throughout the year, supported by both contract and company labor.

(2) Small valve operation is 7% behind plan, largely due to resource limitations associated with extended illnesses and restricted duty assignments. Mandatory Saturday work days for all crew leaders and utility employees are likely in upcoming months to put this program back on plan.

(3) The fairgrounds tank painting project in Owenton has been cancelled until such time as water supply issues (with tank out of service) are adequately mitigated.

(4) Fire Hydrant Inspection Information – Fire hydrant inspections began in May, one month later than originally planned. Inspection information is being logged and submitted to the Lexington Fire Department monthly, as agreed.

8. Regulatory Policy Compliance Issues

None to report at this time.

9. Union/Labor Issues/Activities

A 3rd step grievance meeting regarding the confined space issue, was held on May 14, 2008. Company assessment, supported by OSHA, is current practice in compliance with all OSHA regulations. Union had perceived field operations practices to be different than production practices, leading to their initial grievance related to a single person re-classifying permitted space to non-permitted space. We believe the discussion addressed the primary union concerns, and a final Company response is being prepared.

10. Explanation of NOV's, OSHA violations, etc.

There were no NOV's reported in May.

There was one occupational injury reported and no vehicular accidents reported during the month of May. The one occupational injury involved a utility worker, who strained a back muscle while flow testing hydrants.

There were no OSHA or DOT citations issued during the month.

11. Revenue Generating Projects/Opportunities

KAW is in the process of establishing growth targets for the planning horizon. An initial business development plan has been crafted, with the expectation that KAW will be taking a more pro-active role in seeking and evaluating opportunities across the state. We are making initial contacts with mayors and county judges to fill our pipeline as quickly as possible.

12. O&M Contracts – Significant Operational/Financial Variances

The Bluegrass Station O & M Agreement was approved by KAW's CDC 5/23/08. The contract was approved without a CPI index increase.

13. Other Operational Issues**Employee Development/Training**

On May 3-9 the HR manager completed three labor relations classes at Cornell University which is part of the labor relations certificate program. One additional class is necessary to complete the certificate program.

Four KAW managers attended a media training class May 19-20. This class was instructed by Mary Beth Vrees from corporate external affairs.

Defensive drivers training was conducted May 27, 28, and 29. Additionally, seven employees received Hearing and Respirator Fit Testing.

Main Breaks/Leaks

There were 9 leaks in May 2008 compared to 7 in the prior year. The YTD total of 71 breaks was 52 fewer than the same period last year (71 vs 123).

Field Service

Met appointment performance is at 95% through May.

Many of the leadership team and staff associates participated in the SOX Roadshow on May 16, 2008. Components of the internal control evaluation were reviewed with discussion around contract management and procurement to pay controls.

Increased sewer billing rates were implemented on May 1 for the LFUCG sewer billing contract. There were some programming issues that resulted from the new rate structure related to the new minimum usage fee. However, those issues were resolved by mid month.

83500 Kentucky-American Water Co.
 GH01ZISA Kentucky-American Water-CO 12
 R0NDAT0E Total Company (USGAP)
 Income Statement Month & YTD
 For the Period Ending 05/31/2008

Description	May Actual	May Plan	May Variance	Yr to Date Actual	Yr to Date Plan	Yr to Date Variance	Yr to Date Prior Year	Yr to Date May Forecast	Annual Forecast
1 OPERATING REVENUES									
2 Water	4,515,483	4,565,218	10,265	21,403,385	21,555,135	151,750-	18,445,217	57,285,664	
3 Sewer	23,785	22,200	1,585	126,469	116,736	9,733	138,127	277,659	
4 Other	213,436	164,702	48,734	1,003,455	823,514	179,941	775,950	1,976,432	
5 Management									
6 Total Revenues	4,752,704	4,692,120	60,584	22,533,309	22,495,385	37,924	19,359,294	59,539,755	
7 OPERATIONS & MAINTENANCE EXPENSE									
8 Labor	735,303	565,000	170,303	2,718,839	2,755,999	37,160-	2,324,049	6,735,008	
9 Purchased Water	9,759	50,150	40,391-	42,660	244,200	201,540-	144,136	603,650	
10 Fuel & Power	253,570	255,769	2,199-	1,127,614	944,855	182,759	931,688	2,885,689	
11 Chemicals	112,450	139,146	26,696-	611,598	602,588	9,010	604,655	1,637,082	
12 Waste Disposal	21,647	26,885	5,238-	116,841	121,133	4,292-	136,784	294,647	
13 Management Fees	647,545	620,564	26,981	3,327,199	3,146,615	180,584	3,117,957	7,373,898	
14 Group Insurance	141,870	165,088	23,218-	715,904	825,440	109,536-	725,866	1,984,396	
15 Pensions	57,195	43,190	14,005	286,664	215,950	70,714	262,905	518,280	
16 Regulatory Expense	13,418	45,833	30,086	126,599	302,375	175,776-	150,431	607,390	
17 Insurance Other Than Group	48,616	60,475	11,859-	194,014	108,361-	85,653-	220,516	725,700	
18 Customer Accounting	181,853	129,604	52,249	504,333	639,475	135,142-	595,435	1,583,610	
19 Rents	1,804	2,515	711-	14,878	13,575	1,303	13,660	32,180	
20 General Office Expense	45,056	41,012	4,044	218,472	236,600	18,128-	159,954	463,939	
21 Miscellaneous	196,139	254,580	58,441-	1,169,999	1,225,895	55,896-	827,154	2,840,795	
22 Other Maintenance	221,727	188,077	33,650	1,018,310	941,696	76,614	916,792	2,330,353	
Total Maintenance & Operations Expense	2,687,952	2,557,888	130,064	12,193,924	12,502,955	309,031-	11,131,982	30,616,617	
27 Depreciation	458,757	582,351	133,594-	2,575,407	2,956,405	380,998-	2,811,870	7,173,281	
28 Amortization	42,670	34,215	8,455	212,376	171,075	41,301	194,348	410,580	
29 General Taxes	283,207	289,242	6,035-	1,413,280	1,440,734	27,454-	1,136,034	3,470,130	
30 State Income Taxes	66,786	42,685	24,101	63,939	167,928	16,746-	189,239	648,505	
31 Federal Income Taxes	604,959	254,388	350,571	1,458,293	987,842	470,451	853,494	4,264,136	
32 Tax Savings Acquisition Adjustment									
33 Total Operating Expenses	4,144,331	3,770,769	373,562	18,004,462	18,226,939	222,477-	16,316,967	46,583,249	
34 Utility Operating Income	608,373	921,351	312,978-	4,528,847	4,268,446	260,401	3,042,327	12,956,506	
35 OTHER INCOME & DEDUCTIONS									
36 Non-Operating Rental Income									
37 Dividend Income-Common									
38 Dividend Income-Preferred									
39 Interest Income	2,066	256	2,066	2,066	335,244	2,066	2,734	1,507,094	
40 AFUDC Equity	174,453	72,332	102,121	553,732	553,732	218,508	258,820		
42 M & J Miscellaneous Income	12,428-		12,428-	13,471		13,471	192,176		
43 Gain(Loss)on Disposition									
45 Total Other Income	164,091	72,332	91,759	569,289	335,244	234,045	453,730	1,507,094	
46 Miscellaneous Amortization	35-	64	99-	177-	320	497-	177-	768	
47 Tax Savings Acquisition Adjustment									
48 Misc. Other Deductions	26,528	41,955	15,427-	153,019	217,192	64,173-	162,518	362,613	
49 General Taxes	1,070-	3,461-	2,391	3,986-	17,917-	13,931	1,681	29,914-	
50 State Income Taxes	6,414-	13,473-	7,059	23,894-	69,746-	45,852	8,819	116,445-	
51 Federal Income Taxes									
52 Total Other Deductions	19,009	25,085	6,076-	124,962	129,849	4,887-	172,841	217,022	
53 Total Other Income	145,082	47,247	97,835	444,327	205,395	238,932	280,889	1,290,072	
54 Income Before Interest Charges	753,455	968,598	215,143-	4,973,174	4,473,841	499,333	3,323,216	14,246,578	
55 INTEREST CHARGES									
56 Interest on Long-Term Debt	470,209	487,253	17,044-	2,403,695	2,489,506	85,811-	2,097,059	5,900,277	
57 Amortization and Debt Expense	7,849	5,954	1,895	37,006	30,770	7,236	30,364	71,448	
58 Interest-Short Term Bank Debt	58,912	22,992	35,920	328,570	237,936	90,634	291,002	1,045,249	
59 Other Interest Expense									
60 AFUDC-Debt	47,059-	32,848-	14,211-	225,188-	152,245-	72,943-	117,525-	684,424-	
61 Total Interest Charges	489,911	483,351	6,560	2,544,083	2,604,967	60,884-	2,262,725	6,332,550	
62 Net Income	263,544	485,247	221,703-	2,429,081	1,868,874	560,217	1,060,491	7,914,028	
64 Preferred Dividend Declared	6,547	38,325	31,778-	32,784	191,825	158,641-	32,792	459,900	
65 Net Income to Common Stock	256,997	446,922	189,925-	2,396,307	1,677,249	719,058	1,027,699	7,454,128	

=====



KENTUCKY
AMERICAN WATER

**Operations Review
June 2008**



Operational Issues Review

1. Source of Supply and New Water Treatment Plant

There are no source of supply issues impacting current operations. Precipitation for the month of June was less than normal (3.6" vs. 4.6"), contributing to system delivery being 52.5MG more than plan for the month. Flows in the Kentucky River trended downward throughout the month, and Jacobson Reservoir was at 96% of capacity at month end. YTD rainfall through June remained higher than normal (30 vs. 24 inches).

Water Treatment Plant - Contracts were executed with Reynolds-Rogers for the new water treatment plant and intake on May 28. Land closing occurred on June 17 on treatment plant property, and construction began that same day. The project is moving ahead very quickly. A progress meeting was held June 26, and the intake property closing was finalized June 30.

Transmission Main - Contracts were executed with Garney Construction for the 42-inch transmission main on May 23. KY DOT permits for Districts 5 and 7 were received in June. All permits for the project along the pipeline route have now been secured. The easement acquisition team began following up contacts, and letters to property owners and elected officials were mailed at the end of May. A progress meeting for the pipeline work was held June 25. Work schedules are being coordinated between easement acquisition and construction. Kentucky American Water is encouraged by response to follow-up easement acquisition conversations. Construction on the pipeline should begin in late July.

Booster Station - Contracts were executed with PAE for the booster station on June 2, and the land closing occurred on June 16. Construction began June 23. A construction partnering meeting with contractors and consultants for the entire water supply project was held June 25.

As a requirement of the recent Order on the water supply project, the first quarterly status report was filed with the PSC on July 1.

The Citizens for Alternative Water Solutions (CAWS), a local grassroots opposition group, filed an appeal in Franklin Circuit Court on June 24 on the PSC Order to deny a rehearing of the certificate application request. Intervenors in the water supply case (AG, BWSC, LFUCG) and the PSC have all asked for dismissal of the Appeal. Because of the critical nature of the project and the low probability of a successful appeal by CAWS, Kentucky American Water will continue to move forward with the project. Kentucky American Water is continuing to meet with local officials, property owners, and regulators on the project status. The project is on track with schedule and costs.



**Kentucky American Water
Operations Review June 2008**

2. Operational Costs: Energy, Chemicals, Residuals

	June Actual	June Plan	Variance	YTD Actual	YTD Plan	Variance
Purchased Water	11,151	51,400	(40,249)	53,811	295,600	(241,789)
Fuel and Power	278,881	254,847	24,034	1,406,495	1,199,702	206,793
Chemicals	126,562	151,139	(24,577)	738,160	753,727	(15,567)
Waste Disposal	23,538	20,471	3,067	140,379	141,604	(1,225)
Total Production	440,132	477,857	(37,725)	2,338,845	2,390,633	(51,788)

Due to lack of rainfall in June, water was transferred to Richmond Road Station and Jacobson Reservoir all month. Budgeted transfer for June was 450MG and 481MG was actually transferred. A portion of this water was used to replenish the water stored in the reservoir. The water stored in Jacobson Reservoir increased by nearly 20% during the month and was at 96% of capacity by month end. This is critical in order to prepare our system to meet summer demand challenges. System delivery for June 2008 was 52MG higher than budgeted.

Chemicals were \$24,577 under budget due to very little source water turbidity (average of about 15 NTU well below the budgeted 63 NTU), also attributed to less precipitation in June.

3. Rate Case/Orders: Timing, Value, Issues

No new activity to report this period.

4. Commission Activity: Customer Complaints, Compliance

	YTD Collections	YTD Billing	YTD Total
2008	14	25	39
2007	11	25	36

5. Divestitures

No additional activity to report.



**Kentucky American Water
Operations Review June 2008**

6. Major Operational Projects

Design is 50% complete for the Carrick Pike main extension that will replace smaller diameter mains with approximately 34,000 feet of 16-inch main. This project will enhance operation of the Russell Cave Road tank while also assisting the supply to Toyota during peak demand periods. The main will also enable Muddy Ford tank to be taken out of service for maintenance more readily. Construction is expected to begin in fall 2008.

North Broadway replacement is currently under design with construction expected to begin later in 2008 for the replacement of approximately 5,400 feet of 6-inch CI main with 12-inch main. Approximately 1,100 feet of small mains on Granard Ave, Morrison Ave and Davidson Court will also be replaced with 8-inch main. The project will substantially increase fire flows for this downtown area, and replace mains which date back to early 1900s.

Construction for approximately 4,700 feet of 8-inch DI main on Yarnallton Road from Kearney Road to the North Yarnallton blow-off is expected to begin in September and be completed by year-end. This project will increase reliability in the area by looping together a back feed from Georgetown Road to the Leestown Road corridor by boring under Interstate 64 to tie in mains currently separated by the Interstate.

12-KY Gross	Original	Q1RF	Q2RF
Full Year Budget	\$55,679,329	\$48,442,182	\$48,442,182
To Date Budget	\$9,675,319	\$10,107,117	\$8,714,373
To Date Actual	\$11,724,307	\$11,724,307	\$11,724,307
To Date Variance	\$2,048,988	\$1,617,190	\$3,009,935

Variance to plan and reforecast primarily attributable to Pool 3 Water Treatment Plant construction beginning ahead of assumed planning dates.



**Kentucky American Water
Operations Review June 2008**

7. Operational Regulatory Compliance: Status

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
Regulatory Maintenance:					
Meter Changes (1)	12,190	9,528	0	G	↑

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
Other Program Maintenance:					
Valve Operation (<16") PUC (2)	2209	2565	356	Y	→
Valve Operation (>16") PUC	209	239	30	G	→
Tank Painting (#/\$000's) (3)	1 of 1 YTD \$76K	1 of 1 FY \$281K	0		
Hydrant Inspections (4)	1760	2825	1,065	Y	→

(1) Meter Changes – To date, 12,190 of 2008's planned total of 19,050 5/8-inch meters have been changed. These represent both routine change-outs, and those change-outs arising from the former meter life pilot program.

(2) Small valve operation is 14% behind plan, largely due to resource limitations associated with extended illnesses and restricted duty assignments. Additional resourcing plans are being developed that are expected to enable achieving year-end target.

(3) The fairgrounds tank painting project in Owenton has been cancelled until such time as water supply issues (with tank out of service) are adequately mitigated.

(4) Fire Hydrant Inspection Information – Fire hydrant inspections continued in June. The program began one month later than planned but is expected to meet year-end target. Information is logged and submitted to the Lexington Fire Department monthly, as agreed.

8. Regulatory Policy Compliance Issues

None to report at this time.



**Kentucky American Water
Operations Review June 2008**

9. Union/Labor Issues/Activities

The Union has requested that the confined space grievance be moved to mediation following the Company's response at the 3rd step grievance meeting. The Company's position, supported by OSHA, is current practice in compliance with all OSHA regulations. Union had perceived field operations practices to be different than production practices, leading to their initial grievance related to a single person reclassifying permitted space to non-permitted space.

10. Explanation of NOV's, OSHA violations, etc.

No NOV's were reported in June.

There were 3 vehicular accidents and 2 occupational injuries reported during the month. Two of the vehicular accidents were non-chargeable and one of the occupational injuries was non-recordable. YTD KAW results remain on track to meet the year-end target.

KAW	Month	2008 YTD	2008 Year End Target	2007 YTD	2007 Year End
Injury Frequency Rate	9.57	2.91	5.76	3.06	6.06

There were no OSHA or DOT citations issued during the month.

11. Revenue Generating Projects/Opportunities

Current Business Development Strategy and Initiative

KAW has initiated a strong business development strategy that incorporates name recognition, branding, market identification and market segmentation. Business Development has identified specific target markets that include municipalities with water / waste water treatment plants and utility districts that provide water distribution in more rural settings. During May 2008, more than 250 letters were sent to Kentucky mayors indicating KAW's interest in developing a working relationship with their respective municipal systems. The letter outlines three business models—operations and management agreements (O & M), public-private partnerships (PPP), and an acquisition model. Additional correspondence will be directed to county judge executives who have some influence with local water districts.

KAW has identified and initiated negotiations with three municipalities that have expressed a keen interest in pursuing one of the KAW business models. The municipalities are: City of Jackson with 2340 water customers and 1194 sewer customers; City of North Middletown with 500 water and 500 waste water customers; and City of Georgetown, a billing services contract. Two additional municipalities with favorable responses and levels of interest include City of Midway and Elkhorn City. The BD lead has also identified and made initial



**Kentucky American Water
Operations Review June 2008**

contact with 12 additional municipalities and/or utility districts in Kentucky and is developing a pipeline of prospects throughout the State of Kentucky.

12. O&M Contracts – Significant Operational/Financial Variances

Year-to-Date Contracts

On June 20, 2008, KAW signed a renewal agreement for an Operations and Management contract with Bluegrass Station (Kentucky Procurement Office). The renewal will mature in January 2009. The income stream from the contract is projected to be \$116,214 with an EBIT of \$47,086. The Bluegrass Station previously commissioned an engineering study of water infrastructure upgrades needed to support current operations and future growth expectations of the facility. The study has been temporarily placed on hold. As the O & M contractor, KAW is well positioned to take advantage of any future RFP's relative to a design-build-operations (DBO) agreement.

13. Other Operational Issues

The Kentucky River and Richmond Road plants were recognized for receiving the **Partnership for Safe Water** Director's Award 10 consecutive years. The award goes to utilities that examine their treatment plants and create plans to improve them. Only three other water utilities have received the award for a decade. Dillard Griffin, KAW manager of production operations, accepted the award on behalf of KAW at the annual AWWA conference in Atlanta June 10. A recognition breakfast is scheduled for July 15 to convey awards to individual plant operators to acknowledge their role.

Employee Development/Training

Change management training is planned for members of the field operations group in July as individuals assume new organization roles. In addition, several management employees will attend a management seminar for people who supervise and manage others on August 20-21, 2008.

Approximately 35 employees attended the insider trading training session that was offered on June 13, 2008. Tom Wyatt joined the meeting by phone, to provide an overview of information presented at a recent AW presidents meeting.

Main Breaks/Leaks

There were 7 main breaks in June 2008 compared to 23 in June 2007. The drought conditions of 2007 and increased construction levels contributed to the larger number of breaks in the prior year. In June 2008, three of seven main breaks were caused by contractor damage.



**Kentucky American Water
Operations Review June 2008**

Field Service

Met appointment performance is 97% through June.

KAW hosted the Eastern Division's "Train the Trainer" session for field service representatives June 23-25 in Lexington. Representatives from Kentucky American, West Virginia, Tennessee, Virginia and Pennsylvania attended this training to ensure SOX compliance, share best practices and identify weak or gray areas in field service processes. One of the outcomes expected from the training session is improved levels of customer satisfaction.

83500 American Water Works Company
 610121S Kentucky-American Water-Co 12
 RUNDATA Total Company (USGAAP)
 Income Statement Month & YTD
 For the Period Ending 06/30/2008

Kentucky-American Water Co.

Description	June Actual	June Plan	June Variance	June Prior Year	Yr to Date Actual	Yr to Date Plan	Yr to Date Variance	Yr to Date June Prior Year	Annual Forecast
1 OPERATING REVENUES									
2 Water	4,967,267	4,720,578	246,689	4,892,076	26,370,652	26,275,713	94,939	23,337,292	57,285,664
3 Sewer	42,603	23,303	19,300	30,125	152,072	140,039	12,033	168,252	277,659
4 Other	216,739	164,703	52,036	191,142	1,220,194	988,217	231,977	967,091	1,976,432
5 Management									
6 Total Revenues	5,209,609	4,908,584	301,025	5,113,343	27,742,918	27,403,969	338,949	24,472,635	59,539,755
7 OPERATIONS & MAINTENANCE EXPENSE									
8 Labor	503,593	541,001	37,408	504,598	3,222,432	3,297,000	74,568	2,828,647	6,735,008
9 Purchased Water	11,151	21,400	10,249	82,263	1,531,831	1,595,200	241,789	206,669	631,650
10 Fuel & Power	278,881	254,847	24,034	328,489	1,406,495	1,129,902	206,793	1,266,197	2,885,689
11 Chemicals	126,562	151,139	24,577	141,016	738,160	733,727	4,433	745,107	1,537,082
12 Waste Disposal	22,138	20,471	1,667	23,942	138,979	141,604	2,625	160,726	7,294,647
13 Management Fees	762,749	626,769	135,980	618,603	4,089,948	3,773,384	316,564	3,736,559	7,373,898
14 Group Insurance	143,256	165,088	21,832	150,926	859,160	990,328	131,168	876,752	1,984,396
15 Pensions	57,071	43,190	13,881	52,860	259,140	259,140	84,595	315,765	548,280
16 Regulatory Expense	13,484	45,833	32,349	30,086	343,735	332,392	11,343	180,517	607,390
17 Insurance Other Than Group	15,117	60,475	45,358	36,251	209,131	362,850	153,719	256,767	725,700
18 Customer Accounting	195,847	131,499	64,348	239,060	700,180	770,974	70,794	834,495	1,583,610
19 Rents	2,937	2,515	422	2,195	17,816	16,090	1,726	15,855	32,180
20 General Office Expense	56,092	38,958	17,134	24,428	274,564	275,558	994	184,381	463,939
21 Miscellaneous	250,786	274,922	24,136	249,082	1,420,784	1,500,817	80,033	1,076,236	2,840,795
22 Other Maintenance	214,499	249,077	34,578	98,022	1,232,810	1,190,773	42,037	1,014,814	2,330,353
Total Maintenance & Operations Expense	2,654,163	2,657,184	3,021	2,562,121	14,848,088	15,160,139	312,051	13,694,100	30,616,617
27 Depreciation	468,255	593,449	125,194	586,020	3,043,662	3,549,854	506,192	3,397,891	7,173,281
28 Amortization	42,670	34,215	8,455	38,869	255,046	205,290	49,756	233,217	410,580
29 General Taxes	121,270	287,337	166,067	309,449	1,534,550	1,728,071	193,521	1,445,483	3,470,130
30 State Income Taxes	191,643	46,794	144,849	23,014	342,825	214,722	128,103	212,254	648,505
31 Federal Income Taxes	495,787	290,205	205,582	259,499	1,954,080	1,278,047	676,033	1,112,993	4,264,136
32 Tax Savings Acquisition Adjustment									
33 Total Operating Expenses	3,973,788	3,909,184	64,604	3,778,972	21,978,251	22,136,123	157,872	20,095,938	46,583,249
34 Utility Operating Income	1,235,821	999,400	236,421	1,334,371	5,764,667	5,267,846	496,821	4,376,697	12,956,506
35 OTHER INCOME & DEDUCTIONS									
36 Non-Operating Rental Income									
37 Dividend Income-Common									
38 Dividend Income-Preferred									
39 Interest Income	3,777	75,574	3,777	124,386	5,843	410,818	5,843	127,120	1,507,094
40 AFUDC Equity	97,159		97,159	59,493	650,911		240,093	318,314	
42 M & J Miscellaneous Income	36,376		36,376	2,880	49,848		49,848	189,296	
43 Gain(Loss)on Disposition									
45 Total Other Income	137,312	75,574	61,738	180,999	706,602	410,818	295,784	634,730	1,507,094
46 Miscellaneous Amortization	35	64	99	35	212	384	596	212	768
47 Tax Savings Acquisition Adjustment									
48 Misc. Other Deductions	23,998	42,772	18,774	66,440	177,017	259,964	82,947	228,958	362,613
49 General Taxes	1,382	3,529	2,147	1,005	5,368	21,446	16,078	2,686	29,914
50 State Income Taxes	7,322	13,735	6,413	15,211	31,216	83,481	52,265	24,029	116,445
51 Federal Income Taxes									
52 Total Other Deductions	15,259	25,572	10,313	82,621	140,221	155,421	15,200	255,461	217,022
53 Total Other Income	122,053	50,002	72,051	98,378	566,381	255,397	310,984	379,269	1,290,072
54 Income Before Interest Charges	1,357,874	1,049,402	308,472	1,432,749	6,331,048	5,523,243	807,805	4,755,966	14,246,578
55 INTEREST CHARGES									
56 Interest on Long-Term Debt	470,209	487,253	17,044	341,082	2,873,904	2,976,759	102,855	2,438,141	5,900,277
57 Amortization and Debt Expense	7,177	5,954	1,223	6,018	44,383	35,724	8,659	36,382	71,448
58 Interest-Short Term Bank Debt	51,743	32,913	18,830	260,062	380,312	270,849	109,463	551,064	1,045,249
59 Other Interest Expense									
60 AFUDC-Debt	45,632	34,321	11,311	27,011	270,820	186,566	84,254	38,175	684,424
61 Total Interest Charges	493,697	491,799	6,102	590,151	3,027,779	3,096,766	68,987	2,842,877	6,332,550
62 Net Income	874,177	557,603	316,574	852,598	3,303,269	2,426,477	876,792	1,913,089	7,914,028
64 Preferred Dividend Declared	6,500	38,325	31,825	6,560	39,285	229,950	190,665	39,352	459,900
65 Net Income to Common Stock	867,677	519,278	348,399	846,038	3,263,984	2,196,527	1,067,457	1,873,737	7,454,128



KENTUCKY
AMERICAN WATER

Operations Review
July 2008



**Kentucky American Water
Operations Review July 2008**

Operational Issues Review

1. Source of Supply and New Water Treatment Plant

There are no source of supply issues impacting current operations. Although precipitation for the month of July was less than normal (2.9" vs. 4.8"), the timing of rainfall events and number of days with rainfall over 0.1 inch (twice as high as average) impacted the amount of outdoor watering. System delivery ended the month 180 million gallons below plan.

Water Treatment Plant - Excavation and site work on the water treatment plant and booster station continued in July, following the June groundbreaking. Equipment was delivered for pipeline construction and pipe deliveries began on July 23. Easement negotiations are continuing and have been prioritized to minimize the impact to pipeline construction. Progress meetings were held the week of July 21 with all three contractors; no significant concerns were raised.

A small group of property owners continues to be very vocal in opposition to the project. Kentucky American has met with some residents in the area about ways to minimize the impacts of construction, and is developing a Stakeholder Input process to enhance communications and incorporate changes that may reduce residents' concerns. This process will include regulators and non-profit organizations that are focused on the area. On July 8, Kentucky American met with 5 separate reporters on-site to discuss the construction efforts.

Kentucky Public Service Commission, Kentucky American Water, the Attorney General's office, Lexington-Fayette Urban County Government, and the Bluegrass Water Supply Commission filed responses to the complaint in Franklin Circuit Court by Citizens for Alternative Water Supply (CAWS). A procedural schedule has not yet been set by the Court.

2. Operational Costs: Energy, Chemicals, Residuals

	July Actual	July Plan	Variance	July YTD	July YTD Plan	Variance	% Variance from Plan
Purchased Water	12,165	53,650	(41,485)	65,976	349,250	(283,274)	-81%
Fuel and Power	290,662	312,153	(21,491)	1,697,157	1,511,855	185,302	12%
Chemicals	130,937	169,450	(38,513)	869,886	923,177	(53,291)	-6%
Waste Disposal	25,883	32,885	(7,002)	164,861	174,489	(9,628)	-6%
Total Production	459,647	568,138	(108,491)	2,797,880	2,958,771	(160,891)	



**Kentucky American Water
Operations Review July 2008**

Production costs remain below plan YTD, attributable to lower purchased water and chemical expenses, which offset higher than plan fuel and power. System delivery for July 2008 was 180 MG less than budgeted. Northern Division production continued to offset the need for supplemental purchased water in the Northern Division. Month-to-date chemical expense was under plan due to very low source water turbidity, \$14,000 system delivery underage, and correction of prior months' sales tax of \$20,000.

3. Rate Case/Orders: Timing, Value, Issues

No new activity to report this period.

4. Commission Activity: Customer Complaints, Compliance

	YTD Collections	YTD Billing	YTD Total
2008	17	31	48
2007	17	29	46

5. Divestitures

No additional activity to report.

6. Major Operational Projects

Design is 50% complete for the Carrick Pike main extension that will replace smaller diameter mains with approximately 34,000 feet of 16-inch main. This project will enhance operation of the Russell Cave Road tank while assisting the supply to Toyota during peak demand periods. The main will also enable Muddy Ford tank to be taken out of service for maintenance more readily. Construction is expected to begin in fall 2008.

The North Broadway main replacement project is currently under design with construction expected to begin later in 2008 for the replacement of approximately 5,400 feet of 6-inch CI main with 12-inch main. Approximately 1,100 feet of small mains on Granard Avenue, Morrison Avenue and Davidson Court will also be replaced with 8-inch main. The project will substantially increase fire flows for this downtown area and replace mains which date back to early 1900s.

Construction for approximately 4,700 feet of 8-inch DI main on Yarnallton Road from Kearney Road to the North Yarnallton blow-off is expected to begin in September and be completed by year-end. This project will increase reliability in the area by looping together a back feed from Georgetown Road to the Leestown Road corridor by boring under Interstate 64 to tie in mains currently separated by the Interstate.



**Kentucky American Water
Operations Review July 2008**

12-KY Gross	Original	Q1RF	Q2RF
Full Year Budget	\$55,679,329	\$48,442,182	\$48,442,182
To Date Budget	\$14,672,154	\$14,159,633	\$15,203,008
To Date Actual	\$20,180,243	\$20,180,243	\$20,180,243
To Date Variance	\$5,508,089	\$6,020,610	\$4,977,235

7. Operational Regulatory Compliance: Status

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
Regulatory Maintenance:					
Meter Changes (1)	15,310	11,116	0	G	↑

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
Other Program Maintenance:					
Valve Operation (<16") PUC (2)	2521	2968	447	Y	→
Valve Operation (>16") PUC	209	269	60	Y	→
Tank Painting (#/\$000's) (3)	1 of 1 YTD \$76K	1 of 1 FY \$281K	0		
Hydrant Inspections (4)	2749	3850	1,101	Y	→

(1) Meter Changes – To date, 15,310 of 2008's planned total of 19,050 5/8-inch meters have been changed. These represent both routine change-outs, and those change-outs arising from the former meter life pilot program.

(2) Valve operations remain behind plan, though on track for year-end target.

(3) The fairgrounds tank painting project in Owenton has been cancelled until such time as water supply issues (with tank out of service) are adequately mitigated.

(4) Fire Hydrant Inspection Information – Fire hydrant inspections continued in July. Inspections continue to lag plan, attributable to the program beginning one month later than expected. Inspections are expected to meet year-end target, though are likely to extend beyond the October planned completion time frame.



**Kentucky American Water
Operations Review July 2008**

8. Regulatory Policy Compliance Issues

None to report at this time.

9. Union/Labor Issues/Activities

The Union has requested that the confined space grievance be moved to mediation following the Company's response at the 3rd step grievance meeting. The Company's position, supported by OSHA, is current practice in compliance with all OSHA regulations.

10. Explanation of NOV's, OSHA violations, etc.

No NOV's were reported in July, and there were no OSHA or DOT citations.

There were 4 vehicular accidents and 3 workers comp claims reported during the month. Three of the vehicular accidents were chargeable and one of the occupational injuries was non-recordable. YTD KAW results remain on track to meet the year-end target.

KAW	Month	2008 YTD	2008 Year End Target	2007 YTD	2007 Year End
Injury Frequency Rate	12.51	4.72	5.76	6.06	2.66

11. Revenue Generating Projects/Opportunities

Current Business Development Strategy and Initiative

Kentucky American Water has identified more than 20 new business development opportunities throughout the State and is continuing to build a pipeline that will support the corporate business development growth plan. KAW continues to work on obtaining the financials, due-diligence and system assessments in North Middletown (500 water / 500 waste water) and Jackson (2340 water / 1194 waste water). July BD activities include strong opportunities in Elkhorn City (500 water / 500 waste water) with a second meeting with the Mayor and council on 8/7/08 to introduce the tenants of a Public Private Partnership and an 8/11/08 meeting with Joe Hannah, owner of South Shore Water Company, a privately owned water company serving 2,300 customers. Meetings with Area Development Districts (ADDs) created new opportunities and alliances that should provide additional pipeline opportunities. The ADDs provide financial and administrative oversight, grant writing, engineering and loan originations through KIA/DOW, HUD-Rural Development and KYEPA for small rural cities and water districts. By forming an alliance with the 15 ADDs, KAW will establish a direct line of communication and participation with utilities that require equity and management expertise in water and waste water operations. Our overall goal is to continue to resolve troubled water/wastewater system challenges through public-private partnerships.



12. O&M Contracts – Significant Operational/Financial Variances

Year-to-Date Contracts

No activity to report this period.

13. Other Operational Issues

New Development:

On August 4, the Division of Water approved an internal general permitting process for Kentucky American Water whereby the company can internally review and approve main extension projects from 3 to 12 inches in diameter and up to 10,000 feet in length. Previously every project was submitted to the DOW along with a permit fee for this review. Projects were not started until the DOW-approved permit was received. KAW began the extensive application process in 2005, serving on a number of committees which established baseline standards for all utilities hoping to qualify for in-house review. Continued follow-up inquiries after the initial 2006 application eventually resulted in the recently executed order. The new process is expected to reduce operating costs by approximately \$25,000 per year, although the greater benefit is expected to be a faster turnaround time for projects which no longer have to wait in the DOW queue for permit approval. The majority of KAW projects are expected to fall into this self-approval category, with only the larger replacement/extension projects still requiring DOW approval.

Boil Water Advisories

KAW customers were subject to two precautionary boil water advisories this past month, both attributable to contractor hits on mains. Nine residential customers and one commercial customer were impacted by a July 8 advisory on Rogers Gap Road at Highview Pass. A July 29 advisory issued for parts of Clark County impacted 191 residential customers and 1 commercial customer. Both advisories were due to loss of pressure, and both were lifted within one day.

Non-Revenue Water Reduction

Increased activity to reduce non-revenue water totals was initiated during the month of July. The following action items were part of the monthly NRW focus:

All water quality blow-offs reviewed for the possibility of reducing flow rates to decrease monthly water quality flushing totals. KAW currently has 10 blow-offs running to resolve water quality issues in outlying areas of Scott and Clark counties. These issues are mainly due to the size of mains in these areas and low demand from the small number of customers served. These metered blow-offs currently result in 5.2 million gallons per month of NRW to maintain the quality of water in these areas.



**Kentucky American Water
Operations Review July 2008**

All 2-inch meter settings with unmetered bypasses in the system were identified to confirm that all bypasses are closed and not attributing to unbilled usage. Approximately half of the total number of settings was checked in July, with the remainder to be completed in August.

KAW has recently placed a higher priority on issuing and completing all "zero read" and "inactive with consumption" field service work orders. These orders had not been prioritized as highly as some other orders; consequently, zero and inactive orders were not always generated and dispatched to KAW field reps. A heightened focus on these order types will continue as part of KAW's NRW management plan.

83500 Kentucky-American Water Co.
 GLOZISA Kentucky-American Water--CO 12
 RONDATIE Total Company (USGAP)
 Income Statement Month & YTD
 For the Period Ending 07/31/2008

Description	July Actual	July Plan	July Variance	Yr to Date Actual	Yr to Date Plan	Yr to Date Variance	Yr to Date Prior Year	Annual Forecast
1 OPERATING REVENUES								
2 Water	5,327,270	5,462,973	135,703-	31,697,922	31,738,686	40,764-	28,339,837	57,285,664
3 Sewer	24,255	23,270	985	176,326	163,309	13,017	197,261	277,659
4 Other	224,298	164,702	59,596	1,444,491	1,152,919	291,572	1,168,157	1,976,432
5 Management								
6 Total Revenues	5,575,823	5,650,945	75,122-	33,318,739	33,054,914	263,825	29,705,255	59,539,755
7 OPERATIONS & MAINTENANCE EXPENSE								
8 Labor	559,018	592,004	32,986-	3,761,450	3,889,004	107,554-	3,357,998	6,735,008
9 Purchased Water	12,165	53,650	41,485-	32,362	349,250	283,274-	239,052	603,650
10 Fuel & Power	290,662	312,153	21,491-	1,697,157	1,511,855	185,302	1,517,615	2,885,689
11 Chemicals	130,937	169,517	38,580-	129,147	869,097	923,177	54,080-	1,637,082
12 Waste Disposal	25,883	32,885	7,002-	23,371	164,861	174,489	184,097	294,647
13 Management Fees	634,226	615,487	18,739	4,724,174	4,388,871	335,303	4,390,644	7,373,898
14 Group Insurance	121,562	165,088	43,526-	980,722	1,155,616	174,894-	1,006,910	1,984,396
15 Pensions	47,922	43,190	4,732	391,658	302,330	89,328	364,884	518,280
16 Regulatory Expense	13,524	45,833	32,309-	30,086	378,225	224,618-	210,604	607,390
17 Insurance Other Than Group	48,945	60,475	11,530-	258,076	423,325	165,249-	307,722	725,700
18 Customer Accounting	103,201	138,032	34,831-	803,381	909,006	105,625-	933,539	1,583,610
19 Rents	6,001	3,015	2,986	23,817	19,105	4,712	21,448	32,180
20 General Office Expense	91,484	37,358	54,126	366,048	312,916	53,132	240,589	463,939
21 Miscellaneous	260,021	231,941	28,080	1,680,806	1,732,758	51,952-	1,336,565	2,840,795
25 Other Maintenance	202,974	238,927	36,953-	1,435,784	1,429,700	6,084	1,146,798	2,330,353
Total Maintenance & Operations Expense	2,548,525	2,739,488	190,963-	17,396,614	17,899,627	503,013-	16,133,283	30,616,617
27 Depreciation	471,365	597,564	126,199-	3,515,027	4,147,418	632,391-	3,985,824	7,173,281
28 Amortization	42,670	34,215	8,455	297,717	239,505	58,212	272,086	410,580
29 General Taxes	269,188	291,384	22,196-	1,803,737	2,019,455	215,718-	1,692,653	3,470,130
30 State Income Taxes	112,713	76,038	36,675	455,537	290,760	164,777	308,200	648,505
31 Federal Income Taxes	464,896	511,938	47,042-	2,418,976	1,789,985	628,991	1,640,539	4,264,136
32 Tax Savings Acquisition Adjustment								
33 Total Operating Expenses	3,909,357	4,250,627	341,270-	25,887,608	26,386,750	499,142-	24,032,585	46,583,249
34 Utility Operating Income	1,666,466	1,400,318	266,148	7,431,131	6,668,164	762,967	5,672,670	12,956,506
35 OTHER INCOME & DEDUCTIONS								
36 Non-Operating Rental Income								
37 Dividend Income-Common								
38 Dividend Income-Preferred								
39 Interest Income								
40 AFUDC Equity	97,840	90,330	7,510	76,000	501,148	5,843	127,120	1,507,094
42 M & J Miscellaneous Income	12,782-		12,782-	26,085-		247,603	394,314	
43 Gain(Loss)on Disposition						37,066	163,211	
45 Total Other Income	85,058	90,330	5,272-	791,660	501,148	290,512	684,645	1,507,094
46 Miscellaneous Amortization	35-	64	29-	35-	448	696-	248-	768
47 Tax Savings Acquisition Adjustment								
48 Misc. Other Deductions	29,560	11,153	18,407	206,577	271,117	64,540-	234,418	362,613
49 General Taxes	1,875-	920-	955-	7,243-	22,366-	15,123	1,721	29,914-
51 Federal Income Taxes	10,904-	3,582-	7,322-	42,120-	87,063-	44,943	15,393	116,445-
52 Total Other Deductions	16,746	6,715	10,031	156,966	162,136	5,170-	251,284	217,022
53 Total Other Income	68,312	83,615	15,303-	634,694	339,012	295,682	433,361	1,290,072
54 Income Before Interest Charges	1,734,778	1,483,933	250,845	8,065,825	7,007,176	1,058,649	6,106,031	14,246,578
55 INTEREST CHARGES								
56 Interest on Long-Term Debt	470,209	487,253	17,044-	3,344,113	3,464,012	119,899-	2,734,023	5,900,277
57 Amortization and Debt Expense	7,296	5,954	1,342	6,018	41,678	10,001	42,400	71,448
58 Interest-Short Term Bank Debt	34,793	51,576	16,783-	197,241	322,425	92,680	748,305	1,045,249
59 Other Interest Expense								
60 AFUDC-Debt	45,889-	41,022-	4,867-	34,503-	227,588-	89,121-	179,039-	684,424-
61 Total Interest Charges	466,409	503,761	37,352-	3,494,188	3,600,527	106,339-	3,307,514	6,332,550
62 Net Income	1,268,369	980,172	288,197	4,571,637	3,406,649	1,164,988	2,798,517	7,914,028
64 Preferred Dividend Declared	6,179	38,325	31,846-	45,764	268,275	222,511-	45,912	459,900
65 Net Income to Common Stock	1,261,990	941,847	320,043	4,525,873	3,138,374	1,387,499	2,752,605	7,454,128

=====



KENTUCKY
AMERICAN WATER

**Operations Review
August 2008**



**Kentucky American Water
Operations Review August 2008**

Operational Issues Review

1. Source of Supply and New Water Treatment Plant

There are currently no source-of-supply issues impacting operations. Precipitation for the month of August was less than average (2.2" vs. 3.8"), though rainfall early and late in the month impacted sales. There was an 18-day period without rainfall during the middle of the month that impacted river flow. The lower flow prompted several days of lower than normal withdrawal limits and KAW sampling of river water quality. The late month rainfall increased river flow and led to a return to normal permit withdrawal. System delivery ended the month 89 million gallons below plan.

Water Treatment Plant - Excavation was completed on the treatment plant and intake site. Foundations and slabs were formed and poured on the treatment building. The road at the intake site is complete and access to the intake site from the treatment plant was completed. Approximately 10,128 feet of pipe was installed in August. Pipeline installation was completed on the Mintwood property on Ironworks Pike, accommodating the property owner's schedule. Work began on preparing the bore pit at I-75, and the trencher was moved to Ironworks Road in front of the Horse Park. Work began on Contract A at the treatment plant. A traffic control plan was submitted to the KDOT for detours during work on Contract A. Easement negotiations are continuing. Excavation work continued on the booster site. Progress meetings were held with all three contractors the week of August 25 and work is on schedule.

KAW held a public meeting August 25 with property owners to discuss corridor enhancement opportunities and concerns as part of an effort to develop stakeholder input. The meeting provided some additional insight although most attendees continued to express strong opposition to the project in general. KAW also met with a non-profit organization that is focused on the preservation of dry stone fences, many of which are along the corridor.

KAW was approached by two utilities to provide the costs for interruptible connections, and that information has been provided. At this time, neither utility had decided to move forward with those connections. The Bluegrass Water Supply Commission has taken no further action. A request was made by the Citizens for Alternative Water Supply to expedite the legal schedule, although a formal motion was never made. A procedural schedule has not yet been set by the Court.



**Kentucky American Water
Operations Review August 2008**

2. Operational Costs: Energy, Chemicals, Residuals

	August Actual	August Plan	Variance	August YTD	August YTD Plan	Variance	% variance from plan
Purchased Water	10,966	55,650	(44,684)	76,941	404,900	(327,959)	-81%
Fuel and Power	392,737	307,617	85,120	2,089,894	1,819,472	270,422	15%
Chemicals	161,286	168,533	(7,247)	1,030,383	1,091,710	(61,327)	-6%
Waste Disposal	24,099	21,446	2,653	188,960	195,935	(6,975)	-4%
Total Production	589,088	553,246	35,842	3,386,178	3,512,017	(125,839)	

Fuel and power is over plan for the month primarily attributable to a higher than plan fuel adjustment clause, and a \$10,000 true-up to the 2008 energy return. Production costs remain below plan YTD, attributable to lower purchased water and chemical expenses, which offset higher than plan fuel and power. System delivery for August 2008 was 89 MG less than budgeted. Month-to-date chemical expense was under plan, primarily due to a \$47K correction of prior months' sales tax.

3. Rate Case/Orders: Timing, Value, Issues

Schedules and filing information are being assembled in preparation of a fall rate filing.

4. Commission Activity: Customer Complaints, Compliance

Year	YTD Collections	YTD Billing	Pipeline	YTD Total
2008	21	35	1	57
2007	19	33	0	52

5. Divestitures

No additional activity to report.

6. Major Operational Projects

The Carrick Pike main extension project that will replace smaller diameter mains with approximately 34,000 feet of 16-inch main is currently out to bid. This project will enhance operation of the Russell Cave Road tank while assisting the supply to Toyota



**Kentucky American Water
Operations Review August 2008**

during peak demand periods. The main will also enable Muddy Ford tank to be taken out of service for maintenance more readily. Construction is expected to begin in late fall 2008.

Construction on the North Broadway main replacement project is scheduled to commence in September 2008 for the replacement of approximately 5,400 feet of 6-inch CI main with 12-inch main. Approximately 1,100 feet of small mains on Granard Avenue and Morrison Avenue will also be replaced with 8-inch main. The project will substantially increase fire flows for this downtown area and replace mains which date back to early 1900s.

Construction for approximately 4,700 feet of 8-inch DI main on Yarnallton Road from Kearney Road to the North Yarnallton blow-off is currently underway and is expected to be complete by year-end. This project will increase reliability in the area by looping together a back feed from Georgetown Road to the Leestown Road corridor by boring under Interstate 64 to tie in mains currently separated by the Interstate.

12-KY Gross	Original	Q1RF	Q2RF
Full Year Budget	\$55,679,329	\$48,442,182	\$48,442,182
To Date Budget	\$23,732,882	\$18,825,081	\$20,149,975
To Date Actual	\$26,888,008	\$26,888,008	\$26,888,008
To Date Variance	\$3,155,126	\$8,062,927	\$6,738,033

Actual spend is ahead of plan, primarily attributable to ahead of schedule work on the Water Treatment Plant project.

7. Operational Regulatory Compliance: Status

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
Regulatory Maintenance:					
Meter Changes (1)	16,198	12,704	0	G	↑
Other Program Maintenance:					
Valve Operation (<16") PUC (2)	2782	3371	589	Y	→
Valve Operation (>16") PUC	209	299	90	Y	→
Tank Painting (#/\$000's) (3)	1 of 1 YTD \$72K	1 of 1 FY \$281K	0		
Hydrant Inspections (4)	3660	4775	1,115	Y	→



**Kentucky American Water
Operations Review August 2008**

(1) Meter Changes – To date, 16,198 of 2008's planned total of 19,050 5/8-inch meters have been changed. These represent both routine change-outs, and those change-outs arising from the former meter life pilot program.

(2) Valve operations remain behind plan, though on track for year-end target.

(3) The fairgrounds tank painting project in Owenton has been cancelled until such time as water supply issues (with tank out of service) are adequately mitigated.

(4) Fire Hydrant Inspection Information – Fire hydrant inspections continued in August. Inspections continue to lag plan, attributable to the program beginning one month later than expected. Inspections are expected to meet year-end target, though are likely to extend beyond the October planned completion time frame.

8. Regulatory Compliance - Other

The Kentucky Public Service Commission conducted inspections of the Rockwell Village and Owenton wastewater treatment facilities, including lift stations. The PSC also inspected the Northern Division water system, including the Owenton water treatment plant. PSC staff found no deficiencies and were generally complimentary of operations.

The Kentucky Division of Water conducted an unannounced inspection of our Northern Division waste water treatment plant. During this inspection, they reviewed data, observed all sampling and analyses, and collected split samples. No deviations are anticipated. The DOW also performed an inspection of the Central Division bacteriological laboratory, which passed certification.

9. Union/Labor Issues/Activities

A mediation session is scheduled September 29 regarding a confined space grievance. KAW has agreed to the session, though the Company's position, supported by OSHA, remains that the current practice is in compliance with all OSHA regulations.

10. Explanation of NOVs, OSHA violations, etc.

The Lexington Fayette Urban County Government (LFUCG) has recently entered into a consent decree with the US EPA regarding storm and wastewater issues, resulting in new regulations and a higher degree of scrutiny. In this heightened state of awareness, LFUCG inadvertently issued a Notice of Violation to Kentucky American Water for failing to file for a grading permit. KAW initiated and facilitated a meeting with several LFUCG staff members to discuss regulations and procedures, with the outcome that the notice had been issued incorrectly, and is considered abated. This NOV has not been entered into the Environmental Database as it was never considered a NOV.



**Kentucky American Water
Operations Review August 2008**

There were no vehicular accidents and 1 minor occupational injury reported during the month. YTD KAW results remain on track to meet the year-end target.

KAW	Month	2008 YTD	2008 Year End Target	2007 YTD	2007 Year End
Injury Frequency Rate	0.00	4.17	5.76	4.38	6.06

11. Revenue Generating Projects/Opportunities

Current Business Development Strategy and Initiative

KAW developed a CDC proposal encompassing several regional growth opportunities, including North Middletown, Jackson, South Shore and Elkhorn City. The final submission to CDC is anticipated during September. Following CDC approval, KAW plans to proceed with due diligence evaluations, inspections and verification of water and waste water assets, as well as conducting any legal and accounting activities needed to support these system evaluations.

KAW meetings with the Mayor of Greensburg, Mayor of Lancaster, the Oldham County Judge Executive, and South Shore Water Works owner moved each of those opportunities along the development path. Meetings continue with the Mayor of Midway. A successful meeting with the Bluegrass Area Development District developed potential opportunities in regional waste water opportunities.

12. O&M Contracts – Significant Operational/Financial Variances

Year-to-Date Contracts

No activity to report this period.

13. Other Operational Issues

Non-Revenue Water Reduction

Increased activity to reduce non-revenue water totals was initiated during the month of August. The following action items were part of our monthly NRW focus:

- All 12 blowoffs running for water quality purposes were reviewed. Flow rates were adjusted on 3, while 4 others were completely shut off. There are currently 8 blowoffs running to resolve water quality issues in the outer-lying areas of Scott and Clark counties (primarily attributable to large mains and small customer density). These blowoffs accounted for 5,212,344 gallons in July (metered), before flow adjustments. KAW expects to actively monitor water quality and flow rates, and adjust where necessary to minimize this component of NRW.



**Kentucky American Water
Operations Review August 2008**

- A higher priority was assigned to generating and working zero read and inactive with consumption orders to reduce possible losses associated with stuck meters and unauthorized usage.
- A re-allocation of resources to increase the level of leak sounding in areas of suspected leaks also began this past month, resulting in a high number of identified leaks. KAW prioritized repair of those and previously known leaks, and will begin to reduce the backlog of known leaks while continuing to sound for potential leaks. Forty-one leaks were repaired during the month, and 642 orders were completed for consecutive estimates, inactives with consumption, and zero usage.

09/10/08
20:14:06

American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAAP)
Income Statement Month & YTD
For the Period Ending 08/31/2008

83500
G50121SNP
0001R
Kentucky-American Water Co.

1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33	34	35	36	37	38	39	40	41	42	43	44	45	46	47	48	49	50	51	52	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81	82	83	84	85	86	87	88	89	90	91	92	93	94	95	96	97	98	99	100	101	102	103	104	105	106	107	108	109	110	111	112	113	114	115	116	117	118	119	120	121	122	123	124	125	126	127	128	129	130	131	132	133	134	135	136	137	138	139	140	141	142	143	144	145	146	147	148	149	150	151	152	153	154	155	156	157	158	159	160	161	162	163	164	165	166	167	168	169	170	171	172	173	174	175	176	177	178	179	180	181	182	183	184	185	186	187	188	189	190	191	192	193	194	195	196	197	198	199	200	201	202	203	204	205	206	207	208	209	210	211	212	213	214	215	216	217	218	219	220	221	222	223	224	225	226	227	228	229	230	231	232	233	234	235	236	237	238	239	240	241	242	243	244	245	246	247	248	249	250	251	252	253	254	255	256	257	258	259	260	261	262	263	264	265	266	267	268	269	270	271	272	273	274	275	276	277	278	279	280	281	282	283	284	285	286	287	288	289	290	291	292	293	294	295	296	297	298	299	300	301	302	303	304	305	306	307	308	309	310	311	312	313	314	315	316	317	318	319	320	321	322	323	324	325	326	327	328	329	330	331	332	333	334	335	336	337	338	339	340	341	342	343	344	345	346	347	348	349	350	351	352	353	354	355	356	357	358	359	360	361	362	363	364	365	366	367	368	369	370	371	372	373	374	375	376	377	378	379	380	381	382	383	384	385	386	387	388	389	390	391	392	393	394	395	396	397	398	399	400	401	402	403	404	405	406	407	408	409	410	411	412	413	414	415	416	417	418	419	420	421	422	423	424	425	426	427	428	429	430	431	432	433	434	435	436	437	438	439	440	441	442	443	444	445	446	447	448	449	450	451	452	453	454	455	456	457	458	459	460	461	462	463	464	465	466	467	468	469	470	471	472	473	474	475	476	477	478	479	480	481	482	483	484	485	486	487	488	489	490	491	492	493	494	495	496	497	498	499	500	501	502	503	504	505	506	507	508	509	510	511	512	513	514	515	516	517	518	519	520	521	522	523	524	525	526	527	528	529	530	531	532	533	534	535	536	537	538	539	540	541	542	543	544	545	546	547	548	549	550	551	552	553	554	555	556	557	558	559	560	561	562	563	564	565	566	567	568	569	570	571	572	573	574	575	576	577	578	579	580	581	582	583	584	585	586	587	588	589	590	591	592	593	594	595	596	597	598	599	600	601	602	603	604	605	606	607	608	609	610	611	612	613	614	615	616	617	618	619	620	621	622	623	624	625	626	627	628	629	630	631	632	633	634	635	636	637	638	639	640	641	642	643	644	645	646	647	648	649	650	651	652	653	654	655	656	657	658	659	660	661	662	663	664	665	666	667	668	669	670	671	672	673	674	675	676	677	678	679	680	681	682	683	684	685	686	687	688	689	690	691	692	693	694	695	696	697	698	699	700	701	702	703	704	705	706	707	708	709	710	711	712	713	714	715	716	717	718	719	720	721	722	723	724	725	726	727	728	729	730	731	732	733	734	735	736	737	738	739	740	741	742	743	744	745	746	747	748	749	750	751	752	753	754	755	756	757	758	759	760	761	762	763	764	765	766	767	768	769	770	771	772	773	774	775	776	777	778	779	780	781	782	783	784	785	786	787	788	789	790	791	792	793	794	795	796	797	798	799	800	801	802	803	804	805	806	807	808	809	810	811	812	813	814	815	816	817	818	819	820	821	822	823	824	825	826	827	828	829	830	831	832	833	834	835	836	837	838	839	840	841	842	843	844	845	846	847	848	849	850	851	852	853	854	855	856	857	858	859	860	861	862	863	864	865	866	867	868	869	870	871	872	873	874	875	876	877	878	879	880	881	882	883	884	885	886	887	888	889	890	891	892	893	894	895	896	897	898	899	900	901	902	903	904	905	906	907	908	909	910	911	912	913	914	915	916	917	918	919	920	921	922	923	924	925	926	927	928	929	930	931	932	933	934	935	936	937	938	939	940	941	942	943	944	945	946	947	948	949	950	951	952	953	954	955	956	957	958	959	960	961	962	963	964	965	966	967	968	969	970	971	972	973	974	975	976	977	978	979	980	981	982	983	984	985	986	987	988	989	990	991	992	993	994	995	996	997	998	999	1000
1	OPERATING REVENUES	5,834,653	5,465,386	369,267	4,793,866																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																																		



KENTUCKY
AMERICAN WATER

**Operations Review
September 2008**



**Kentucky American Water
Operations Review September 2008**

Operational Issues Review

1. Source of Supply and New Water Treatment Plant

Kentucky American Water had been subject to water withdrawal restrictions due to low flows in the Kentucky River for portions of September and early October. The lower river flow also prompted KAW to begin sampling and reporting river water quality results to KY Division of Water. The restriction did not impact service to customers, given the level of customer demand. Although precipitation for the month of September was less than average (1.42" vs. 3.11"), with central Kentucky now in a moderate drought, water releases from upstream impoundments have increased river flows above the threshold which triggers restrictions.

Water Treatment Plant

Excavation and site work on the water treatment plant and booster station continued in July, following the June groundbreaking. Construction is progressing as scheduled, with slabs and walls formed for various sections of the Water Treatment Plant and Intake station. The first change order was processed for \$477,902 to include changes at the intake station as required by building code, installation of the third raw water screen and piping for reliability and additional blasting work adjacent to the treatment building. The road to the intake station was cleared and graded, and grading work was completed at the intake site.

Approximately 11,706 feet of pipe was installed in September, raising the total length installed to 21,834. Fifty percent of easements have been acquired, with another 35 percent in active negotiations. Meetings were held on September 19th and 26th with Franklin County Emergency Services to coordinate road closures for pipeline installation in the right-of-way. The contractor has made adjustments to allow traffic flow to continue around trenching equipment following the Transportation Cabinet's recent refusal to permit road closure on Indian Gap Road. Work is continuing on Iron Works Pike between Newtown Pike and I-75.

KAW held a public meeting August 25 with property owners to discuss corridor enhancement opportunities and concerns as part of an effort to develop stakeholder input. The meeting provided some additional insight although most attendees continued to express strong opposition to the project in general. KAW also met with a non-profit organization that is focused on the preservation of dry stone fences, many of which are along the corridor.

Excavation work is continuing on the booster station site, with materials ordered for pipe connections. The tank subcontractor is expected to begin in October. This portion of the project is also on schedule.

Overall, the project is on schedule with the project approximately 18% complete. A procedural schedule has not been set in the Franklin Circuit Court for the appeal by Citizens for Alternative Water Supply of Kentucky American Water's Certificate of Convenience and Necessity approved by the Kentucky Public Service Commission. On



**Kentucky American Water
Operations Review September 2008**

September 19, four property owners in Franklin County filed a Petition for a Declaration of Rights by the Franklin Circuit Court, challenging Kentucky American Water's ability to condemn property for easements in Franklin County if necessary. KAW will file its response on October 13. Some property owners have indicated they are not willing to negotiate while this issue is pending in the court.

2. Operational Costs: Energy, Chemicals, Residuals

	September Actual	September Plan	Variance	September YTD	September YTD Plan	Variance
Purchased Water	11	55	(45)	87	460	(373)
Fuel and Power	339	302	37	2,429	2,053	376
Chemicals	234	169	65	1,264	1,261	3
Waste Disposal	17	28	(11)	206	224	(18)
Total Production	600	554	46	3,986	3,998	(11)

Fuel and power is over plan for the month primarily attributable to increased energy costs. Production costs remain below plan YTD, attributable to lower purchased water which offset higher than plan fuel and power. The chemical overage is due to the need to enhance coagulation at KRS to meet regulatory requirements and the need to feed excess carbon at KRS and RRS. System delivery ended September 191 million gallons below plan and 459 million gallons under plan for the quarter.

3. Rate Case/Orders: Timing, Value, Issues

Schedules and filing information are being assembled in preparation of a fall rate filing.

4. Commission Activity: Customer Complaints, Compliance

Year	YTD Collections	YTD Billing	Pipeline	YTD Total
2008	26	39	1	66
2007	33	32	0	65

5. Divestitures

No additional activity to report.



**Kentucky American Water
Operations Review September 2008**

6. Major Operational Projects

The Carrick Pike main extension project will replace smaller diameter mains with approximately 28,000 feet of 16-inch main. This project will enhance operation of the Russell Cave Road tank while assisting the supply to Toyota during peak demand periods. The main will also enable Muddy Ford tank to be taken out of service for maintenance more readily. Bids for construction were received on September 17. Easement acquisition is progressing with construction expected to begin in late fall 2008.

The North Broadway Main Replacement Project will substantially increase fire flows for the downtown area of Lexington. The project will also replace approximately 5,400 feet of 6-inch main which dates back to the late 1800's and early 1900's. The first phase of the project, which is about to commence will be the replacement of approximately 1,100 feet of small mains on Granard Avenue and Morrison Avenue. This will connect to the mains on North Broadway. The remainder of the project on North Broadway will begin in early Spring 2009.

Construction for approximately 4,700 feet of 8-inch DI main on Yarnallton Road from Kearney Road to the North Yarnallton blow-off is nearing completion and is scheduled to be in service by mid-October 2008. This project will increase reliability in the area by looping together a back feed from Georgetown Road to the Leestown Road corridor by boring under Interstate 64 to tie in mains currently separated by the Interstate.

12-KY Gross	Original	Q1RF	Q2RF	Q3RF
Full Year Budget	\$55,679,329	\$48,442,182	\$48,442,182	\$52,800,082
To Date Budget	\$33,361,629	\$25,076,006	\$25,691,230	\$33,601,543
To Date Actual	\$34,502,198	\$34,502,198	\$34,502,198	\$34,502,198
To Date Variance	\$1,140,569	\$9,426,192	\$8,810,968	\$900,655

Actual spend is ahead of plan, primarily attributable \$1.627 work on the Water Treatment Plant project.

7. Operational Regulatory Compliance: Status

KY	Actual (YTD)	Plan (YTD)	Backlog	Status	Trend
Regulatory Maintenance:					
Meter Changes (1)	20,330	14,292	0	G	↑



**Kentucky American Water
Operations Review September 2008**

Other Program Maintenance:						
Valve Operation (<16") PUC (2)		3345	3921	576	Y	→
Valve Operation (>16") PUC		209	329	120	Y	↓
Tank Painting (#/\$000's) (3)		1 of 1 YTD \$72K	1 of 1 FY \$281K	0		
Hydrant Inspections (4)		4775	5700	925	Y	↑

(1) Meter Changes – To date, 20,330 meters have been replaced. These represent both routine periodic change-outs, and those change-outs arising from the former meter life pilot program.

(2) Valve operations remain behind plan, attributable in part to redirection of personnel to other activities including NRW and leak repair. An assessment is underway to determine whether, and how, the year end target can be attained.

(3) The fairgrounds tank painting project in Owenton has been cancelled until such time as water supply issues (with tank out of service) are adequately mitigated.

(4) Fire Hydrant Inspection Information – Fire hydrant inspections continued in September. Inspections continue to lag plan, attributable to the program beginning one month later than expected. Inspections are expected to meet year-end target, though are likely to extend beyond the October planned completion time frame.

8. Regulatory Compliance - Other

The Kentucky Public Service Commission conducted inspections of the Rockwell Village and Owenton wastewater treatment facilities, including lift stations in August. The PSC also inspected the Northern Division water system, including the Owenton water treatment plant. PSC staff found no deficiencies and were generally complimentary of operations.

Also in August, the Kentucky Division of Water conducted an unannounced inspection of our Northern Division waste water treatment plant. During this inspection, they reviewed data, observed all sampling and analyses, and collected split samples. No deviations were noted. The DOW also performed an inspection of the Central Division bacteriological laboratory, which passed certification.

Kentucky American has retained Gannett Fleming, Inc. to assist in developing a leak mitigation plan and Strand Associates, Inc. to assist in development of a water conservation/demand management plan. This satisfies Condition No. 8 of the Commission's April 25, 2008 Order requiring KAW to retain a qualified consultant to



**Kentucky American Water
Operations Review September 2008**

review these plans consistent with the best practices in the water industry. The first report providing initial status to the PSC is due November 1.

On September 23, KAW hosted a tour of its facilities for PSC Commissioners and staff, and representatives from the Attorney General's office. KAW provided technical demonstrations of certain operational practices, as well as information regarding the Company and key personnel. The event provided a close-up view of water company operations for newer commissioners and staff, and an opportunity for newer KAW team members to interact with the PSC staff. PSC Executive Director Stephanie Stumbo personally sent a letter to thank the KAW team for its efforts and hospitality.

9. Union/Labor Issues/Activities

The mediation on the confined space issue was held on September 29, 2008. The Company and the Union agreed on a resolution to the grievance.

10. Explanation of NOVs, OSHA violations, etc.

There were no notices of violation reported in September.

There were 3 occupational injuries and 4 chargeable vehicular accidents reported during the quarter. One of the occupational injuries reported was denied by the company but is currently under investigation by Travelers Insurance. The other two occupational injuries were non-recordable. YTD KAW results remain on track to meet the year-end target.

	September	2008 YTD	2008 Year End Target	2007 YTD	2007 Year End
Injury Frequency Rate	0.00	2.83	5.76	4.93	6.06

11. Revenue Generating Projects/Opportunities

KAW expects to present a request to the regional Commercial Development Committee for development approval on two local projects during October. The City of North Middletown has approximately 375 water and 250 sewer customers and purchases water from KAW. South Shore Water Company (investor owned), located in Greenup County, provides water to 2,282 customers including the City of South Shore.

Business development activities are on-going with Elkhorn City in Pike County and Jackson Municipal in Breathitt County. Elkhorn City has 550 water and 500 sewer customers. Jackson Municipal has 2,189 water and 1,197 sewer customers.

New contacts for the month of September 2008 include Center Ridge Water District in Calloway County (Western KY) serving 350 residential customers and Cedarbrook, a privately owned waste water treatment facility in Harrison County.



**Kentucky American Water
Operations Review September 2008**

A follow-up meeting with the Mayor of Midway and his water/sewer staff continued to build consensus with the Mayor. Midway currently purchases water from KAW and operates their own waste water treatment plant.

12. O&M Contracts – Significant Operational/Financial Variances

Year-to-Date Contracts

No activity to report this period.

13. Other Operational Issues

Kentucky American Water was one of just seven companies, out of 70 nominees, who received 2008 Republic Bank We CARE awards at the annual We CARE dinner held recently. The company was nominated in the Public Works, Services and Education category for the award, which recognizes companies who contribute to the community through corporate giving programs and employee volunteerism. WLEX-TV (NBC) was a media sponsor of the event, and will be showcasing winners in its news segments the next few weeks.

The Kentucky Division of Water (DOW) recently approved an internal general permitting process for Kentucky American Water. Company personnel can now internally review and approve main extension projects for 3 to 12 inch mains, and up to 10,000 feet in length. Previously every project was submitted to the DOW for this review, along with a permit fee for each project. Projects were not started until the DOW-approved permit was received. KAW began the extensive application process in 2005, actively participating in the process which established baseline standards for all utilities hoping to qualify for in-house review. Continued follow-up inquiries after the initial 2006 application eventually resulted in the recently executed order. The new process is expected to reduce overall operating costs; however, the greater benefit is that KAW expects to have faster turnaround time for projects which no longer have to wait in the DOW queue for permit approval. The majority of KAW projects are expected to fall into this self-approval category, with only the larger replacement/extension projects still requiring DOW approval.

There were two boil water advisories posted in September, one resulting from a 3rd party hit to a water main, the other attributable to a main break.

Non-Revenue Water

Field Operations and Production staff worked together to assess non-revenue water used in blow offs for water quality purposes. There are currently 10 blowoffs running in the outer lying areas of Scott and Clark counties which are necessary to address issues related to low demand from the small number of customers served. Changes made to blow off flow rates have reduced non-revenue water.



**Kentucky American Water
Operations Review September 2008**

Newer versions of permalog leak monitoring equipment are replacing all 895 units that have been in use throughout the system. A representative of Fluid Conservation Systems is doing the work to address equipment performance issues. Approximately 300 were replaced in September, with the remainder scheduled for replacement in October.

10/08/08
17:38:00

American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAP)
Income Statement Month & YTD
For the period Ending 09/30/2008

Kentucky-American Water Co.

Description	September Actual	September Plan	September Variance	September Prior Year	Yr to Date September Actual	Yr to Date September Plan	Yr to Date September Variance	Yr to Date September Prior Year	Annual Forecast
1 OPERATING REVENUES									
2 Water	5,511,386	5,469,284	42,102	4,648,251	43,043,960	42,673,356	370,604	37,781,955	57,285,664
3 Sewer	27,625	24,558	3,031	31,485	231,209	211,573	19,636	256,243	577,659
4 Other	224,983	164,702	60,281	242,505	1,890,779	1,462,524	408,455	1,627,990	1,976,432
5 Management									
6 Total Revenues	5,763,998	5,658,584	105,414	4,922,241	45,165,948	44,367,253	798,695	39,666,194	59,539,755
7 OPERATIONS & MAINTENANCE EXPENSE									
8 Labor	616,654	571,999	44,655	458,287	4,891,066	4,998,003	106,937	4,342,005	6,735,008
9 Purchased Water	10,502	55,150	44,648	57,844	87,444	460,050	372,606	330,603	603,650
10 Fuel & Power	338,821	302,169	36,652	284,451	2,428,715	2,121,641	307,074	2,056,918	2,885,689
11 Chemicals	233,800	168,905	64,815	166,608	1,264,483	1,260,695	3,488	1,224,995	1,637,082
12 Waste Disposal	16,935	27,910	10,975	11,182	205,936	223,845	17,949	211,323	294,647
13 Management Fees	636,836	599,863	36,973	590,506	5,979,719	5,576,534	423,185	5,608,146	7,373,898
14 Group Insurance	148,676	165,088	16,412	153,998	1,276,867	1,485,792	208,925	1,313,480	1,984,386
15 Pensions	53,186	43,190	9,996	53,039	497,790	388,710	109,080	470,574	518,280
16 Regulatory Expense	13,414	45,833	32,419	30,086	180,350	469,891	289,541	270,776	607,390
17 Insurance Other Than Group	26,152	60,475	34,323	54,100	333,256	544,275	211,019	413,331	725,700
18 Customer Accounting	154,219	138,088	16,131	105,176	1,074,073	1,185,147	111,074	1,096,868	1,583,610
19 Rentals	96,927	2,515	94,412	790	23,054	24,135	1,081	22,841	32,180
20 General Office Expense	60,585	38,007	22,578	25,798	389,484	389,484	110,690	310,473	463,939
21 Miscellaneous	260,384	237,533	22,851	185,047	2,206,055	2,210,414	4,359	1,734,377	2,840,795
22 Other Maintenance	271,133	176,871	94,262	167,147	1,912,281	1,778,587	133,694	1,444,337	2,330,353
Total Maintenance & Operations Expense	2,840,370	2,633,676	206,694	2,344,039	22,880,923	23,117,203	236,280	20,891,047	30,616,617
27 Depreciation	468,235	600,166	131,931	585,555	4,453,736	5,346,490	892,754	5,153,472	7,173,281
28 Amortization	34,215	9,353	24,862	67,115	384,088	307,935	76,153	378,070	410,580
29 General Taxes	274,778	292,597	17,819	251,068	2,330,148	2,599,072	268,924	2,193,501	3,470,130
30 State Income Taxes	79,263	83,537	4,274	45,179	459,668	459,668	215,631	414,136	648,505
31 Federal Income Taxes	692,019	580,945	111,074	383,930	3,502,162	2,953,551	548,611	2,419,285	4,264,136
32 Tax Savings Acquisition Adjustment									
33 Total Operating Expenses	4,398,233	4,225,136	173,097	3,676,886	34,628,378	34,783,939	157,561	31,449,511	46,583,249
34 Utility Operating Income	1,365,765	1,433,448	67,683	1,245,355	10,539,570	9,583,314	956,256	8,216,683	12,956,506
35 OTHER INCOME & DEDUCTIONS									
36 Non-Operating Rental Income									
37 Dividend Income-Common									
38 Dividend Income-Preferred									
39 Interest Income									
40 AFUDC Equity	22,787	175,806	153,019	87,193	5,843	809,999	5,843	127,120	1,507,094
42 M & J Miscellaneous Income	31,968		31,968	48	838,392		28,393	566,785	
43 Gain/(Loss) on Disposition					18,801		18,801	168,101	
45 Total Other Income	54,755	175,806	121,051	87,241	863,036	809,999	53,037	862,006	1,507,094
46 Miscellaneous Amortization	35	64	29	35	318	576	894	318	768
47 Tax Savings Acquisition Adjustment									
48 Misc. Other Deductions	24,472	13,134	11,338	9,616	252,662	302,960	50,298	255,108	362,613
49 General Taxes	685	1,084	399	321	8,277	24,993	16,716	1,210	29,914
50 State Income Taxes	1,896	4,218	2,322	1,031	42,254	97,289	55,035	12,664	116,445
51 Federal Income Taxes									
52 Total Other Deductions	25,648	7,896	17,752	8,229	201,013	181,254	20,559	268,664	217,022
53 Total Other Income	80,403	167,910	87,507	79,012	661,223	628,745	32,478	593,342	1,290,072
54 Income Before Interest Charges	1,285,362	1,601,358	315,996	1,324,367	11,200,793	10,212,059	988,734	8,810,025	14,246,578
55 INTEREST CHARGES									
56 Interest on Long-Term Debt	470,209	487,253	17,044	295,882	4,284,530	4,438,518	153,988	3,325,786	5,900,277
57 Amortization and Debt Expense	8,224	5,954	2,270	6,017	67,351	53,586	13,765	54,472	71,448
58 Interest-Short Term Bank Debt	44,702	109,385	64,683	199,457	507,986	507,986	12,523	1,154,124	1,045,249
59 Other Interest Expense	9		9						
60 AFUDC-Debt	10,127	79,840	69,713	39,591	379,619	367,848	11,771	257,351	684,424
61 Total Interest Charges	512,999	522,752	9,753	461,765	4,467,725	4,632,242	164,517	4,238,856	6,332,550
62 Net Income	772,363	1,078,606	306,243	862,602	6,733,068	5,579,817	1,153,251	4,571,169	7,914,028
64 Preferred Dividend Declared	6,497	38,325	31,828	6,560	58,775	344,925	286,150	59,084	459,900
65 Net Income to Common Stock	765,866	1,040,281	274,415	856,042	6,674,293	5,234,892	1,439,401	4,512,075	7,454,128