

S T O L L | K E E N O N | & | P A R K | L L P

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January 21, 2005

Via Hand Delivery

Beth O'Donnell, Esq.
Executive Director
Public Service Commission
211 Sower Boulevard
Frankfort, Kentucky 40601

RECEIVED
JAN 21 2005
PUBLIC SERVICE
COMMISSION

RE: Kentucky-American Water Company
Winchester Road Tank

Case 2005-00039

Dear Ms. O'Donnell:

Enclosed you will find the four copies of the Application of Kentucky-American Water Company for a Certificate of Public Convenience and Necessity authorizing the construction of a two million gallon elevated storage tank near Winchester Road and 1,200 feet of associated 24-inch pipeline. Four copies of all exhibits are being supplied.

Very truly yours,

STOLL, KEENON & PARK, LLP

By

Lindsey

Lindsey Ingram, Jr.

/s/

Encs.

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COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

RECEIVED

JAN 21 2005

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:

APPLICATION OF KENTUCKY-AMERICAN WATER)
COMPANY FOR A CERTIFICATE OF PUBLIC)
CONVENIENCE AND NECESSITY AUTHORIZING) CASE NO. 2005-00039
THE CONSTRUCTION OF A TWO (2) MILLION)
GALLON ELEVATED STORAGE TANK AND)
1200 FEET OF 24-INCH WATER MAIN)

Comes Kentucky-American Water Company ("Kentucky American Water") and states as follows:

1. That Kentucky American Water is a corporation organized and existing under the laws of the Commonwealth of Kentucky with its principal office and place of business in Lexington, Fayette County, Kentucky, and is engaged in the distribution and sale of water in the City of Lexington, Kentucky, and in other areas of Fayette County, Kentucky. In addition it renders direct service in its Central Division to customers in Bourbon, Clark, Harrison, Jessamine, Scott and Woodford Counties, along with service to seven (7) water resale customers; the cities of Midway, North Middleton and Georgetown; Harrison County Water Association; Jessamine-South Elkhorn Water District, and a standby connection to the city of Versailles. Kentucky American Water also provides water services to a Northern Division, a separate system in Owen, Gallatin and Grant Counties, with a sale for resale customer in Franklin County from a purchased water connection with the city of Owenton. The post office address of Kentucky American Water is 2300 Richmond Road, Lexington, Kentucky 40502.

2. Those copies of the Articles of Incorporation of Kentucky American Water, together with all amendments thereto, have heretofore been filed with this Commission or its predecessor in connection with prior proceedings of Kentucky American Water. Copies of the Articles of Incorporation of Kentucky American Water, together with all amendments thereto to date thereof, were filed as Exhibit 4 in Case No. 95-554, Notice of Adjustment of Rates of Kentucky-American Water Company Effective On and After February 29, 1996. The Articles of Incorporation of Kentucky American Water, together with all amendments thereto, are hereby incorporated herein by reference pursuant to 807 KAR 5:001(8)(3).

3. Kentucky American Water currently owns thirteen (13) water storage tanks at twelve (12) facilities with a total water storage capacity of 19.58 million gallons (MG) to serve its Central Division. These tanks maintain system pressures and provide storage for peak hourly demands in order to serve its Central Division. At seven (7) of the facilities (serving a total of eight [8] tanks), booster pumps are used to force water stored in the tanks back into the distributions system. The amount of floating storage in the five (5) remaining tanks is 2.58 MG. Of this 2.58 MG, only 1.25 MG is available to serve the main part of the Central Division. The remaining 1.33 MG serves Scott County and Sadieville. A new one (1) million gallon ground storage tank and booster pump station is currently under construction in the Fayette County / Scott County area that will be able to service the Central Division and is scheduled to be in service by the end of 2005. Kentucky American Water also owns nine (9) tanks in its Northern Division with a capacity of 1.24 MG. A report of the modeling for the tank is attached as Exhibit A.

4. The demand upon Kentucky American Water for water service in its Central Division has increased significantly in recent years and continues to increase. June 13, 2000, service pumpage of 66 MGD was required and August 5, 2002, service pumpage of 72 MGD was required. Because of the continuous increase in customer demand in the Central Division, it is necessary to increase the reliable storage capacity of the system.

5. In order to more effectively meet its responsibility to reliably deliver a safe and adequate supply of potable water to its customers, it is necessary for Kentucky American Water to construct a two (2) million gallon elevated storage tank in the vicinity of Strader Drive and Winchester Road. The Strader Drive area of Lexington is one of the highest ground elevation points in Kentucky American Water's service territory and is an area where system pressures generally vary between 30 and 40 pounds per square inch. The proposed facility will be connected to the existing distribution system through approximately 1200 feet of 24-inch ductile iron.

6. The installation of the proposed facilities will increase the amount of floating storage within the center portion of the Central Division by approximately 260 percent, will improve system response should a power outage occur at either of Kentucky American Water's water treatment plants, will provide for more consistent service pressures (i.e., less fluctuations in pressure) and will stabilize the pressures in the immediate vicinity of the tank.

7. The construction of the facilities shall be completed in accordance with the plans contained in Exhibit B and the specifications, which are attached hereto and

marked Exhibit C. A copy of the letter from the Kentucky Division of Water approving the submitted plans and specifications is attached in Exhibit D.

8. This project is in accordance with Kentucky American Water's March 21, 2001, filing with the Public Service Commission, Case No. 2001-117.

9. On December 6, 2002, Kentucky American Water filed a review of the July 31, 2002 Power Outage Incident and an updated Storage Capacity Analysis dated November 15, 2002, with the Public Service Commission, Cases No. 2003-00478 and 2004-00254. This project is consistent with that report and analysis.

10. The total cost of this project is estimated to be \$3,200,000. The actual construction is estimated to cost \$2,500,000 with the balance for land acquisition, design, inspection, planning and administration. A breakdown of the project cost is attached as Exhibit E. The construction of the facilities as requested herein will be the most reasonable in terms of the investment in relation to efficiency and productivity and will not result in wasteful duplication of facilities or an unnecessary multiplicity of properties. The project will be initially funded by either available funds from a previous financing or short-term bank borrowings, which will subsequently be converted to permanent financing consisting of long-term debt and equity, as approved by this Commission on July 21, 2000, in Case No. 2000-189.

11. Kentucky American Water anticipates that the cost of operation of its facility will increase because of this installation. Routine maintenance expenses will increase including formal tank inspections every seven years, estimated to cost \$5,000 each and beginning in 2020 and interior and exterior recoating every 15 to 20 years at a present worth \$350,000 per application. The increase in estimated annual depreciation is

\$70,400. There will be additional costs attributable to the facilities for the cost of debt and equity.

12. Kentucky American Water does not believe that this facility will compete with any other water purveyor.

13. Kentucky American Water received construction bids for the tank portion of project on January 11, 2005. Attached as Exhibit F is the tabulations of the bids received for this project. The bid price has been incorporated with the engineer's estimate.

14. Kentucky American Water has exercised on Option to Purchase Agreement for the property at 1210 Eastland Drive, Lexington, Kentucky, for construction of the facility. All necessary permits have been obtained except for the permission to construct in the right-of-way and the state approval for the 24-inch main. These permits are expected to be issued prior to the end of the month.

15. Kentucky American Water has submitted a letter to the Lexington-Fayette Urban County Government Planning Commission and is scheduled to appear before it on January 27, 2005 to allow Planning Commission input.

WHEREFORE, Kentucky American Water prays for a Certificate of Convenience and Necessity authorizing construction of the facilities as described herein pursuant to KRS 278.020 and 807 KAR 5:001 Section 9.

KENTUCKY AMERICAN WATER

BY: _____


Nick O. Rowe

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Telephone: (859) 231-3000

BY: Lindsey Ingram Jr.
Lindsey Ingram, Jr.
Lindsey Ingram III

COMMONWEALTH OF KENTUCKY)

COUNTY OF FAYETTE)

Subscribed, sworn to and acknowledged before me on this 21st day of January, 2005, by Nick O. Rowe, President of Kentucky-American Water Company, for and on behalf of said corporation.

My Commission expires: 1-24-07

Janice Dickson
NOTARY PUBLIC, Fate at Large Ky.