

March 18, 2006

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PUBLIC SERVICE
COMMISSION

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

RE: Kentucky American Water
Case No. 2005-00437

Dear Ms. O'Donnell,

We enclose for filing on behalf of Kentucky American Water in the above-captioned case an original and three (3) copies of the "Feasibility Study of the Transfer of the Peaks Mill Water District Water Line in Owen County on US 127" dated March 10, 2006. This filing is in response to the Commission's Order dated February 24, 2006. Thank you for your kind attention to this matter.

Respectfully submitted,



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I certify that, on March 13, 2006, copies of the foregoing response were sent by first class mail to:

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James R. Goff
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Kentucky American Water

Kentucky American Water

**Feasibility Study
Of the
Transfer of the Peaks Mill Water District Water Line
In Owen County on US 127**

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Brief Summary

Mr. Jeffrey Charles Quarles owns property at 15480 Owenton Road in Owen County adjacent to US 127 north of the Owen/Franklin County line. When Peaks Mill Water District installed a water line north on US 127 to the county line in Franklin County, Mr. Quarles applied for water service from Peaks Mill Water District. At that time, there was not water service along US 127 in Owen County. Peaks Mill set a meter in Franklin County and allowed Mr. Quarles to run his house line to the meter in Franklin County although they did not have a defined service territory in Owen County at that point.

Subsequent to those events, Kentucky American Water purchased the Tri Village Water District and extended water service along US 127 to 700 feet north of the Owen/Franklin County line. Kentucky American Water stopped short of the County line as all property owners all property owners had water service.

In 2004, Peaks Mill Water District extended its facilities 700 feet into Owen County to connect to a master meter and purchase water from Kentucky American Water as a result of complaint regarding inadequate pressure in northern Franklin County. This resulted in eight (8) Peaks Mill customers receiving water that had been purchased from Kentucky American Water from that point including Mr. Quarles.

In October 2005, Mr. Quarles filed a complaint against Peaks Mill alleging that Peaks Mill denied him service from the Peaks Mill water line that crosses his driveway in Owen County. Kentucky American Water was made a party to the case for the purpose of furnishing information to the Commission. An informal conference was held to discuss the respective water facilities in the area and service option for Mr. Quarles. Following the informal conference, Kentucky American Water and Peaks Mill were asked to respond to a potential transfer of the water line in Owen County to Kentucky American Water and relocating the master meter to the County line.

Statement of the Problem

The existing master meter is adjacent to Mr. Quarles' property in Owen County, meaning that Mr. Quarles has access to both the existing Kentucky American Water line

and the Peaks Mill water line adjacent to his property. Mr. Quarles believes that running an additional service line for an additional home on his property to the existing Kentucky American Water pipe would be more expensive than running an additional service line to the existing Peaks Mill water line adjacent to his property.

Peak Mill does not have authority to serve property in Owen County along US 127. Although they had provided service previously to help people including Mr. Quarles who did not otherwise have access to water service, they have stated that they do not believe it is appropriate to provide additional customers in Owen County, particularly when Mr. Quarles has access to an additional service from Kentucky American Water adjacent to his property.

One solution is to transfer ownership of the water line in Owen County to Kentucky American Water and relocate the master meter to the county line.

Alternatives for Resolution

Kentucky American Water believes that there are seven potential alternatives for resolution of the situation that include the resolution of the jurisdictional issue:

1. Transfer of Ownership of the existing Peaks Mill water line in Owen County to Kentucky American Water and relocation of the master meter from its existing location to the county line. Mr. Quarles reimburses Kentucky American Water for the cost of relocation of the master meter less the appropriate refund amount for an additional customer. Mr. Quarles reimburses Peaks Mill Water District for the cost of the water line to be contributed to Kentucky American Water. Mr. Quarles installs his house line to the location he desires and pays Kentucky American Water the tap fee for a new meter setting. Existing service by Peaks Mill within Owen County remains from meter settings within Franklin County.
2. Transfer of Ownership of the existing Peaks Mill water line in Owen County to Kentucky American Water and relocation of the master meter from its existing location to the county line. Mr. Quarles reimburses Kentucky American Water for the cost of relocation of the master meter less the appropriate refund amount for an additional customer. Mr. Quarles reimburses Peaks Mill Water District for the cost of the water line to be contributed to Kentucky American Water. Mr. Quarles installs his house line to the location he desires and pays Kentucky American Water the tap fee for a new meter setting. Existing service by Peaks Mill within Owen County is changed to Kentucky American Water new meter settings within Owen County.
3. No change to the existing facilities. Mr. Quarles installs his house line to a service line from the adjacent Kentucky American Water main. Peaks Mill petitions the Owen County Fiscal Court to grant service territory for the existing customers within Owen County.

4. No change to the existing facilities. Mr. Quarles installs his house line to a service line from the adjacent Peaks Mill Water District main. Peaks Mill Water District petitions the Owen County Fiscal Court for a section of service territory within Owen County that includes this water line.
5. Kentucky American Water assumes ownership of all of the line currently owned by Peaks Mill Water District that provides service from water purchased through the master meter, and removes the master meter. Either Peaks Mill contributes this property or Kentucky American Water reimburses Peaks Mill for the property. Because some of this line was installed with Rural Development loan money, this alternative is probably not feasible.
6. Peaks Mill assumes ownership of the Kentucky American Water line in Owen County up to Cedar Creek Road and relocates the master meter or serves the area from another feed. This is 8,005 feet in Owen County and was installed at a cost of \$9.48/foot or \$75,887.40. Kentucky American Water either contributes this line to Peaks Mill or Peaks Mill reimburses Kentucky American Water for this line. Because of long range plans by Kentucky American, this alternative is not desirable by Kentucky American.
7. Transfer of Ownership of the existing Peaks Mill water line in Owen County to Kentucky American Water and relocation of the master meter from its existing location to the county line. Kentucky American Water bears the cost of relocation of the master meter and either reimburses Peaks Mill for the cost of the transferred line or receives it as contributed property. Mr. Quarles installs his house line to the location he desires and pays Kentucky American Water the tap fee for a new meter setting. Because this means that either Kentucky American Water customers solely, or in conjunction with Peaks Mill customers are bearing the entire cost of allowing Mr. Quarles to provide additional water service to his subdivided property, this alternative is not equitable for either Kentucky American Water customers or Peaks Mill Water District's customers and is not desirable to either utility.

Transfer of Ownership of the Line

Peaks Mill paid for the installation of the line in Owen County out of its customer revenues without any grant, loan or additional debt. Kentucky American Water paid for the installation of the master meter from its customer revenues without a grant, loan or additional debt. The master meter can be relocated through a variety of construction methods and varied interruptions of service depending on the method of construction. Those methods include removing the entire meter setting and relocating, or simply removing the meter, installing a spool piece in the meter setting, and constructing a new master meter. Price estimates for moving the master meter range from \$2,500 to \$5,000 depending on the method of construction. For long-term maintenance, Kentucky American believes the most appropriate method of construction is to completely remove the existing meter setting and replace it with a piece of 4" PVC, while constructing a new meter setting. Efforts should be made to minimize interruption to other customers.

Peaks Mill has indicated that the original installed cost of the approximate 700 feet of line is \$7,000. Transfer of the ownership of this line can be handled through either purchase by Kentucky American Water or contributed property from Peaks Mill.

Recommendations

Kentucky American Water and Peaks Mill Water District have an obligation and a desire to provide service in a manner that is equitable to their existing customers and potential new customers, and is in conformity with the rules and regulations set forth by the Public Service Commission. Kentucky American Water recommends that Mr. Quarles be given the option of either reimbursing both of the water utilities for the cost of transfer of ownership of the line and relocation of the master meter, or extending his water line to the Kentucky American Water main adjacent to his property based on the most cost effective alternative for Mr. Quarles. Because of the current difference in rates, it may likely cause a hardship to require existing water customers within Owen County served by Peaks Mill to transfer existing service to Kentucky American Water it would be appropriate to let existing service remain as is. Kentucky American Water does not believe that it is appropriate for its customers to bear the cost of relocation of the master meter or transfer of ownership of the line owned by Peaks Mill.