

RECEIVED

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

OCT 11 2006

PUBLIC SERVICE
COMMISSION

IN THE MATTER OF:)	
)	
APPLICATION OF KENTUCKY-AMERICAN)	CASE NO. 2006-00418
WATER COMPANY FOR CONTINUED)	
PARTICIPATION WITH AMERICAN WATER)	
CAPITAL CORP.)	

**AMENDED APPLICATION OF
KENTUCKY-AMERICAN WATER COMPANY**

Comes Kentucky-American Water Company ("Kentucky American Water") and for its Application for approval of continued participation in the borrowing program with American Water Capital Corp. states as follows:

1. That it incorporates herein all of the statements made in its Application filed September 21, 2006, with the exception of those contained in numerical paragraph 6.

2. Numerical paragraph 6 of the Application of Kentucky American Water Company filed September 21, 2006, is amended in its entirety to read as follows:

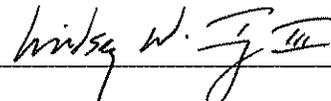
6. The Order dated July 21, 2000, also authorized Kentucky American Water to issue securities in the form of notes or debentures in an aggregate amount of \$41,500,000 from time to time prior to December 31, 2005, for the purpose of refunding/refinancing existing short-term and long-term debt. Pursuant to that authorization, including some long-term debt issued by Kentucky American Water with Commission approval prior to Case No. 2000-189, Kentucky American Water now has stock and debt outstanding as shown on the financial exhibit attached hereto, marked Amended Exhibit No. 3, as required by 807 KAR 5:001, Section 11, (2), (a).

3. This application does not include any request to issue any stock of any kind by Kentucky American Water.

WHEREFORE, Kentucky American Water requests that the Commission, pursuant to the authority contained in KRS 278.300, authorize its continued participation in the borrowing program of American Water Capital Corp.

Respectfully submitted,

LINDSEY W. INGRAM, JR.
LINDSEY W. INGRAM III
STOLL KEENON OGDEN PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-1801
Telephone: 859-231-3000

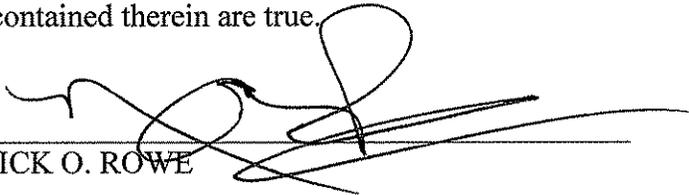
BY:  _____
ATTORNEYS FOR KENTUCKY-AMERICAN
WATER COMPANY

LEX 010311/124828/3462769.1

COMMONWEALTH OF KENTUCKY)

COUNTY OF FAYETTE)

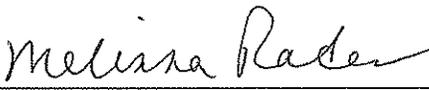
After having been duly sworn, Nick O. Rowe states that he is President of Kentucky-American Water Company, that he has knowledge of the matters set forth in this Amended Application, that he has been designated by Kentucky-American Water Company to sign and file the Amended Application on its behalf, and that he has read the Amended Application and that the statements contained therein are true.



NICK O. ROWE

Subscribed and sworn to before me by Nick O. Rowe this the 11th day of October, 2006.

My Commission expires: 6-28-09



NOTARY PUBLIC, STATE AT LARGE, KY.

**FINANCIAL STATEMENT
OF
KENTUCKY-AMERICAN WATER COMPANY**

(as of August 25, 2006 except where noted)

(1) The amount and kinds of stock of the Applicant authorized are as follows:

Cumulative Preferred Stock, par value \$100 per share:

Series B, 5 - $\frac{3}{4}$ %	5,000 Shares
Series C, 5 - $\frac{1}{2}$ %	5,000 Shares
Series D, 5%	6,000 Shares
Unclassified	5,000 Shares

Preference Stock, par value \$100 per share:

8.47% Series	45,000 Shares
Unclassified	85,000 Shares

Common Stock, no par value 2,000,000 Shares

(2) The amounts and kinds of stock of the Applicant issued and outstanding as of August 25, 2006 are as follows:

Cumulative Preferred Stock, par value \$100 per share:

Series B, 5 - $\frac{3}{4}$ %	3,918 Shares
Series C, 5 - $\frac{1}{2}$ %	4,889 Shares
Series D, 5%	5,866 Shares

Preference Stock, par value \$100 per share:

8.47% Series	45,000 Shares
--------------	---------------

Common Stock, no par value 1,567,391 Shares

(3) The Cumulative Preferred Stock is cumulative as to dividends. If dividends on the Cumulative Preferred Stock shall be in arrears and such arrears shall aggregate an amount equal to or in excess of four (4) quarterly dividends upon such stock, the number of directors then constituting the Board of

Directors shall be increased by two (2) and the holders of the Preferred Stock voting separately as a class shall be entitled to elect the two (2) additional directors.

The Cumulative Preferred Stock is redeemable at any time upon thirty (30) days' notice at the following prices: the Series B at \$101 per share; the Series C at \$100.50 per share; and the Series D at \$100.

The Cumulative Preferred Stock, Series B, Series C and Series D are redeemable at par (\$100) in cases of (a) governmental or municipal acquisition of the Applicant's facilities or common stock, or (b) upon liquidation or dissolution of the Applicant.

The Preference Stock is cumulative as to dividends. If dividends on the Preference Stock shall be in arrears and such arrears shall aggregate an amount equal to or in excess of eight (8) quarterly dividends upon such stock, the number of directors then constituting the Board of Directors shall be increased by one (1) and the holders of the Preference Stock voting separately as a class shall be entitled to elect the one (1) additional director.

The shares of the 8.47% Preference Stock may be redeemed at any time, or from time to time, on or after December 1, 2001 at the option of the Company, in whole or in part, upon payment of a redemption price equal to the sum of \$100 per share plus a premium equal to the Make-Whole Premium as defined in the Articles of Incorporation.

At any time during the period of twelve (12) consecutive calendar months beginning on December 1, 2011 and ending November 30, 2012, both dates inclusive, and during each like period of twelve (12) consecutive calendar months thereafter so long as any shares of the 8.47% Series remain outstanding, the Company may at its option redeem up to and including, but not exceeding, four thousand five hundred (4,500) shares of the 8.47% Series at a redemption price equal to the sum of \$100 per share.

All then outstanding shares of the 8.47% Series shall be redeemed by the Company on December 1, 2036 at a redemption price equal to the sum of \$100 per share.

(4) The following are the only mortgages on the property of the Applicant:

General Mortgage Indenture dated as of May 1, 1968, executed by the Applicant to The Fidelity Bank (now US Bank), as Trustee, and supplemental indentures thereto dated as of December 1, 1970 (as supplemented on

December 17, 1970); September 1, 1974; November 1, 1977; December 1, 1982; June 1, 1983; August 1, 1985; January 1, 1987; September 1, 1988; October 1, 1989; November 1, 1990; December 1, 1991; December 1, 1992; December 1, 1993; September 1, 1995; February 1, 1997, and June 1, 1998.

The Indenture of Mortgage provides for the issue of General Mortgage Bonds which together with all other long-term debt cannot exceed 65% of Applicants total capitalization, which percentage is \$100,225,000 as of August 25, 2006. The amount of indebtedness actually secured by a lien on all the property owned or hereafter acquired by the Company is \$23,500,000. There are no sinking fund provisions associated with the General Mortgage Bonds.

- (5) At August 25, 2006, \$23,500,000 in General Mortgage Bonds were issued and outstanding.

General Mortgage Bonds:

Principal amount authorized by Indenture:

No maximum limit of bonds fixed

Name of utility issuing bonds:

All bonds were issued by Kentucky-American Water Company

Principal amount issued and outstanding:

GMB:	<u>Issued</u>	<u>Outstanding</u>
6.96% Series	\$ 7,000,000	\$ 7,000,000
7.15% Series	7,500,000	7,500,000
6.99% Series	9,000,000	9,000,000

Date of issue (nominal date):

6.96% Series	December 22, 1993
7.15% Series	February 20, 1997
6.99% Series	June 17, 1998

Rate of interest:

6.96% Series	6.96%
7.15% Series	7.15%
6.99% Series	6.99%

Date of maturity:

6.96% Series	December 1, 2023
7.15% Series	February 1, 2027
6.99% Series	June 1, 2008

Security: All outstanding General Mortgage Bonds are secured by the lien of the General Mortgage Indenture upon all property of the Company.

Interest paid during the 12 months ended August 25, 2006:

6.96% Series	\$487,000.00
7.15% Series	\$536,250.00
6.99% Series	\$629,100.00

Interest paid during the 12 months ended December 31, 2005

6.96% Series	\$487,000.00
7.15% Series	\$536,250.00
6.99 Series	\$629,100.00

(6) Notes are payable to AWCC, bear interest as listed below.

<u>Payee</u>	<u>Date of Issue</u>	<u>Interest Rate*</u>	<u>8/25/06 Amount Outstanding</u>	<u>Maturity Date</u>	<u>Interest paid 12 mos. ended 8/25/06</u>
AWCC	January 1, 2005	Variable	\$6,475,433	Revolver	\$394,560

* Interest is calculated at the LIBOR market index rate and the interest expense for the period 1/1/05 – 12/31/05 was \$183,367.

<u>Payee</u>	<u>Date of Issue</u>	<u>Interest Rate*</u>	<u>8/25/06 Amount Outstanding</u>	<u>Maturity Date</u>	<u>Interest paid 12 mos. ended 12/31/05 & 8/25/06</u>
AWCC	June 12, 2002	5.65%	\$24,000,000	June 12, 2007	\$1,356,000
AWCC	March 29, 2001	6.87%	\$15,500,000	March 29, 2011	\$1,064,850
AWCC	March 1, 2004	4.75%	\$14,000,000	March 1, 2014	\$665,140

(7) There is no other indebtedness of the Applicant, but there are liabilities shown on its Balance Sheet annexed hereto and marked "Amended Exhibit 3, page 7" consisting of, as of August 25, 2006, current and accrued items on which no interest is payable, other than an insignificant amount of interest payable on customer deposits of \$6,560.

(8) Dividends were paid by the Applicant during the five fiscal years as follows:

Common Stock

<u>12 Mos. Ended December 31</u>	<u>Rate per Share</u>	<u>Number of Shares Outstanding</u>	<u>Amount</u>
2001	\$ 3.06	1,567,391	\$ 4,796,216
2002	3.01	1,567,391	4,717,847
2003	2.17	1,567,391	3,401,238
2004	1.22	1,567,391	1,912,217
2005	1.10	1,567,391	1,724,130

Cumulative Preferred Stock, Series B, 5 – ¾%

<u>12 Mos. Ended December 31</u>	<u>Rate per Share</u>	<u>Number of Shares Outstanding</u>	<u>Amount</u>
2001	\$ 5.75	4,700	\$ 27,025
2002	5.75	4,700	27,025
2003	5.75	4,642	26,692
2004	5.75	4,642	26,692
2005	5.75	3,918	22,529

Cumulative Preferred Stock, Series B, 5 – ½%

<u>12 Mos. Ended December 31</u>	<u>Rate per Share</u>	<u>Number of Shares Outstanding</u>	<u>Amount</u>
2001	\$ 5.50	5,000	\$ 27,500
2002	5.50	5,000	27,500
2003	5.50	4,947	27,209
2004	5.50	4,947	27,209
2005	5.50	4,889	26,890

Cumulative Preferred Stock, Series D, 5%

<u>12 Mos. Ended December 31</u>	<u>Rate per Share</u>	<u>Number of Shares Outstanding</u>	<u>Amount</u>
2001	5.00	6,000	\$ 30,000
2002	5.00	6,000	30,000
2003	5.00	5,939	29,695
2004	5.00	5,896	29,480
2005	5.00	5,866	29,330

Preference Stock, 8.47% Series

<u>12 Mos. Ended December 31</u>	<u>Rate per Share</u>	<u>Number of Shares Outstanding</u>	<u>Amount</u>
2001	8.47	45,000	\$ 381,150
2002	8.47	45,000	381,150
2003	8.47	45,000	381,150
2004	8.47	45,000	381,150
2005	8.47	45,000	381,150

- (9) Applicant's Balance Sheet as of August 25, 2006 and a statement of Applicant's earnings and expenses for the twelve months ended on such date are shown on pages 7 and 8, respectively, which are annexed hereto.

Kentucky-American Water Co.

Description	Current Year	Prior Year
ASSETS		
1 Utility Plant	317,405,754	287,756,455
2 Construction work in progress	5,607,419	0,068,921
3 Accumulated depreciation	73,355,004	64,393,210
4 Utility plant acquisition adjustment		
5 Other utility plant adjustments		
6 Sub-total Utility Plant	250,185,435	234,154,635
7 Non-Utility property	249,738	249,738
8 Other investments		
Current Assets	371,278	744,247
10 Cash and cash equivalents	2,838,845	3,115,143
11 Temporary investments	122,822	4,148,630
12 Customer accounts receivable	2,172,737	2,202,930
13 Allowance for uncollectible accounts	1,491,894	2,445,683
14 Unbilled revenues	492,421	444,603
15 Prepaid and due from assoc. companies	571,666	537,006
16 Prepaid expenses and supplies		
17 Materials and supplies		
18 Other	10,014,203	11,691,274
20 Sub-total	487,083	559,956
22 Deferred debits	542,014	902,737
23 Debt and preferred stock	34,868	134,868
24 Expense of rate proceeding	5,578,339	9,009,273
25 Prelim survey & invest charges		
26 Reg Asset-income tax recovery		
27 Other	13,212,474	15,452,882
29 Sub-total	273,661,850	261,548,529
30 Total Assets	36,568,777	36,568,777
CAPITAL AND LIABILITIES	56,139	56,139
31 Common Stock	28,125,162	26,615,545
34 Paid in capital		
35 Retained Earnings		
36 Unearned Compensation		
37 Reacquired C/S & Accum Comp Inc		
38 Total common equity	64,750,078	63,240,461
39 Preferred stock	1,467,300	1,468,700
40 Long term debt	81,500,000	86,723,424
41 Total capitalization	147,717,378	151,432,585
42 Current liabilities	6,475,433	1,804,510
43 Bank debt		8,056
44 Current portion of LTD	1,228,659	2,353,777
45 Accounts Payable	7,614,186	1,688,400
46 Taxes accrued	1,272,384	1,459,709
47 Interest accrued	6,560	6,560
48 Customer deposits		
49 Dividends declared	3,588,587	3,465,342
51 Other	20,186,409	10,770,242
52 Sub-total	19,907,155	15,884,058
54 Deferred credits	34,073,197	36,435,497
55 Customer adv for construction	1,330,912	1,396,999
56 Deferred income taxes	10,171,583	9,032,357
57 Deferred investment tax credits	3,617,778	3,707,223
58 Reg liab-inc tax.refund thru rates	69,100,625	66,456,134
59 Other	36,657,440	32,889,569
60 Sub-total	273,661,852	261,548,530
62 Contributions in aid of construction		
Total capital and liabilities		

American Water Works Company
Kentucky-American Water-Co 12
Total Company (USGAAP)
Income Statement Month & YTD
For the Period Ending 08/25/2006

Kentucky-American Water Co.

Description	August Actual	August Plan	August Variance	August Prior Year	Yr to Date Actual	Yr to Date Plan	Yr to Date Variance	Yr to Date Prior Year	Annual Forecast
OPERATING REVENUES									
1 Water	4,106,106	4,474,354	208,148	4,040,079	30,255,866	32,536,693	2,280,827	31,747,295	49,309,002
2 Sewer	26,783	29,191	2,408	4,039	192,141	235,120	42,979	30,063	352,692
4 Other	161,235	145,633	15,602	159,953	1,253,362	1,165,064	88,298	1,099,605	1,747,596
5 Management									
6 Total Revenues	4,374,094	4,649,278	275,184	5,004,071	31,701,369	33,936,885	2,235,516	32,876,963	51,409,290
OPERATIONS & MAINTENANCE EXPENSE									
7 Labor	403,720	453,139	49,419	358,455	3,336,151	3,418,472	82,321	3,091,222	5,156,940
8 Purchased Water	53,614	35,320	18,294	315,475	3,185,475	3,040,000	145,475	3,166,517	4,170,500
9 Fuel & Power	278,022	182,399	95,623	250,333	1,604,709	1,395,065	209,644	1,465,100	2,127,636
11 Chemicals	171,563	94,940	76,623	126,010	810,455	866,324	55,869	694,106	1,388,523
12 Waste Disposal	421,286	87,253	334,033	489,432	4,053,342	4,203,000	149,658	3,729,045	253,117
13 Management Fees	181,256	152,954	28,302	122,178	1,091,340	1,213,282	121,942	1,081,399	6,254,569
15 Group Insurance	63,540	67,006	3,466	62,276	490,485	535,046	44,561	529,715	804,072
16 Regulatory Expense	30,066	29,451	615	32,033	249,280	235,608	13,672	191,636	353,412
17 Insurance Other Than Group	52,261	41,824	10,437	39,673	474,465	334,592	139,873	310,400	501,088
18 Customer Accounting	112,946	96,511	16,435	109,711	847,708	774,780	72,928	822,109	1,160,838
19 Rents	792	3,756	2,964	2,901	19,369	30,048	10,679	24,791	45,072
20 General Office Expense	26,109	25,486	623	26,722	314,170	221,584	92,586	295,083	329,299
21 Miscellaneous	220,608	201,939	18,669	267,303	1,870,581	1,750,889	119,692	6,086,554	2,534,604
25 Other Maintenance	160,486	96,082	64,404	205,678	1,494,942	917,950	576,992	1,621,518	1,248,104
Total Maintenance & Operations Expense	2,220,533	2,045,750	174,783	2,180,252	17,309,306	16,303,355	925,951	20,476,917	24,432,728
27 Depreciation	571,484	614,595	43,111	470,465	4,184,608	4,863,732	679,124	3,424,215	7,324,681
28 Amortization	86,094	40,507	45,587	59,135	283,608	323,056	39,448	474,681	731,009
29 General Taxes	234,022	228,589	5,433	211,727	1,853,897	1,812,918	40,979	1,771,803	2,731,809
30 State Income Taxes	67,870	110,487	42,617	159,030	309,799	622,635	312,836	266,038	947,225
31 Federal Income Taxes	277,963	410,016	132,053	543,209	1,515,916	2,260,498	744,582	909,059	3,588,510
32 Tax Savings Acquisition Adjustment									
33 Total Operating Expenses	3,419,966	3,449,544	29,578	3,624,030	25,765,316	26,267,201	501,885	27,707,536	39,535,617
34 Utility Operating Income	954,148	1,199,734	245,686	1,300,033	5,936,043	7,669,684	1,733,641	5,169,427	11,873,673
OTHER INCOME & DEDUCTIONS									
35 Non-Operating Rental Income	17,924	11,341	6,583	28,502	205,494	100,670	86,824	184,689	175,822
37 Dividend Income-Common	4,010	11,217	7,207	3,659	24,659	29,308	5,649	264,715	86,058
38 Dividend Income-Preferred									
39 Interest Income									
40 Non-Utility Miscellaneous Income	19,752	24,350	4,598	33,161	180,795	137,978	42,817	449,404	241,890
43 Gain/Loss on Disposition	35	64	29		309	512	203		769
45 Total Other Income	10,088	7,083	2,995	12,273	243,501	239,955	3,546	276,627	200,419
46 Miscellaneous Amortization									
47 Tax Savings Acquisition Adjustment									
48 Misc. Other Deductions									
49 General Taxes									
50 State Income Taxes									
51 Federal Income Taxes									
52 Total Other Deductions	10,853	6,798	4,055	2,923	129,376	137,280	7,904	275,242	160,435
53 Total Other Income	8,899	17,760	8,861	36,074	51,419	690	50,729	174,162	73,455
54 Income Before Interest Charges	961,037	1,217,494	256,457	1,416,107	5,907,462	7,670,374	1,682,912	5,343,589	11,947,120
INTEREST CHARGES									
55 Interest on Long-Term Debt	426,629	394,067	32,562	458,421	3,413,034	3,150,936	262,100	3,667,360	4,738,404
57 Amortization and Debt Expense	6,073	6,009	64	6,613	48,072	48,072	510	52,907	72,108
59 Interest-Short Term Bank Debt	31,664	51,635	19,971	6,211	274,956	402,118	127,162	64,033	625,948
59 Other Interest Expense				55	46	46	46	2,614	
60 AFUDC-Debt	8,139	6,059	2,080	12,033	94,490	49,351	45,139	80,718	79,851
61 Total Interest Charges	456,227	446,452	9,775	459,267	3,645,128	3,559,775	85,353	3,706,204	5,386,609
62 Net Income	506,000	771,042	265,042	956,840	2,302,334	4,110,599	1,760,265	1,637,385	6,590,519
64 Preferred Dividend Declared	6,282	38,125	31,843	8,269	254,595	258,596	4,001	52,689	493,900
65 Net Income to Common Stock	500,238	732,717	232,479	950,272	2,209,829	3,803,999	1,514,170	1,584,716	6,110,619