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PUBLIC SERVICE
COMMISSION

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:)	
)	
THE APPLICATION OF KENTUCKY-AMERICAN)	
WATER COMPANY FOR A CERTIFICATE OF)	CASE NO. 2007-00134
CONVENIENCE AND NECESSITY AUTHORIZING)	
THE CONSTRUCTION OF KENTUCKY RIVER)	
STATION II, ASSOCIATED FACILITIES AND)	
TRANSMISSION MAIN)	

NOTICE

Kentucky-American Water Company gives notice of a correction to Harold Walker, III's November 13, 2007 rebuttal testimony and the exhibit attached to his testimony. Mr. Walker's November 13, 2007 filing contained an error in the formula used to account for inflation for some of the expense line items listed on pages 1 through 4 of Schedule 4. The erroneous formula resulted in an understatement of those expense line items.

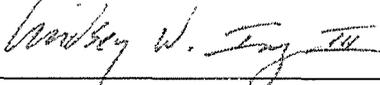
A revised and corrected Schedule 4 is attached. As a result of the correction to Schedule 4, the present value cost of the Pool 3 Option increases from \$257,401,565 to the corrected amount of \$260,001,254, as shown on "revised" Schedule 4. As a result of revising Schedule 4, Mr. Walker's November 13, 2007 rebuttal testimony should state on page 8 at line 44 that the present value cost of the Pool 3 Option is \$260,001,254 rather than the existing figure of \$257,401,565. Additionally, within Table 1 on page 9: the "Pool 3 Option" line item should be to \$260,001,254; the "Difference" line item should be \$51,596,830; and the "% Difference" line item should be 20%.

Respectfully submitted,

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CERTIFICATE OF SERVICE

This is to certify that the original and eight (8) copies of the foregoing have been filed with the Public Service Commission this 21st day of November, 2007, and a copy mailed and e-mailed to:

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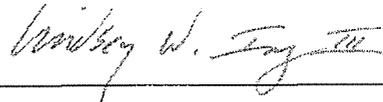
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By _____



WATER SUPPLY OPTION ANALYSIS
KENTUCKY AMERICAN WATER COMPANY &
BLUEGRASS WATER SUPPLY COMMISSION
POOL THREE OPTION SHARE

Ln #	Basis		2007	2008	2009	2010	2011	2012	
	%	Note							
Capital Expenditures									
1.	KAW Pool 3 Related Rate Base								
2.		Gross Property Plant & Equipment	(1)			\$145,719,016	\$145,719,016	\$145,719,016	
3.		Accumulated Depreciation	(1)			0	(2,685,567)	(5,371,134)	
4.		Net Property Plant & Equipment				<u>\$145,719,016</u>	<u>\$143,033,449</u>	<u>\$140,347,882</u>	
5.	BWSC Pool 3 Related Property Plant & Equipment								
6.		Gross Property Plant & Equipment	(1)			\$36,429,753	\$36,429,753	\$36,429,753	
7.		BWSC Issuance Expense	1.00%			364,298	364,298	364,298	
8.		Total BWSC Pool 3 Related Debt Capital				<u>36,794,051</u>	<u>36,794,051</u>	<u>36,794,051</u>	
9.		BWSC Cumulative Principal Repayment				(398,656)	(816,269)	(1,253,741)	
10.		BWSC Ending Amount Outstanding				<u>\$36,395,395</u>	<u>\$35,977,782</u>	<u>\$35,540,310</u>	
Annual Operating Expenses									
11.	Labor Costs								
12.		Supervisor - Salary	3.0%	\$55,000	\$56,650	\$58,350	\$60,100	\$61,903	\$63,760
13.		Benefits/Overhead/Taxes	3.0%	35,750	36,823	37,928	39,066	40,238	41,445
14.		Operators	3.0%	174,720	179,961	185,360	190,921	196,649	202,549
15.		Benefits/Overhead/Taxes	3.0%	113,568	116,975	120,484	124,099	127,822	131,657
16.		Maintenance/Relief Operator	3.0%	87,360	89,981	92,681	95,461	98,325	101,275
17.		Benefits/Overhead/Taxes	3.0%	56,784	58,488	60,243	62,050	63,911	65,828
18.		Water Quality Supervision	3.0%	4,800	4,944	5,092	5,245	5,402	5,564
19.		Maintenance Supervision	3.0%	4,800	4,944	5,092	5,245	5,402	5,564
20.		Administrative support/supervision	3.0%	9,840	10,135	10,439	10,752	11,075	11,407
		Labor Costs Total		<u>542,622</u>	<u>558,901</u>	<u>575,669</u>	<u>592,939</u>	<u>610,727</u>	<u>629,049</u>
21.	Power Costs								
22.	Treatment Plant/Raw Water Pump Station								
23.		Annual costs at 6 mgd	3.0%	478,772	493,135	507,929	523,167	538,862	555,028
24.	Booster Station								
25.		Annual costs at 6 mgd	3.0%	109,388	112,670	116,050	119,531	123,117	126,811
26.		Power Costs Total		<u>588,159</u>	<u>605,805</u>	<u>623,979</u>	<u>642,698</u>	<u>661,979</u>	<u>681,839</u>
27.	General Maintenance								
28.	Transmission Mains								
29.		Valve Operations/Signs & Markers/Transportation	3.0%	60,000	61,800	63,654	65,564	67,531	69,557
30.	Plant/Booster Station								
31.		Repair Parts, Grounds and Sampling	3.0%	300,000	309,000	318,270	327,818	337,653	347,783
32.		General Maintenance Total		<u>360,000</u>	<u>370,800</u>	<u>381,924</u>	<u>393,382</u>	<u>405,184</u>	<u>417,340</u>
33.		Total Labor, Power & Maintenance		1,490,781	1,535,506	1,581,572	1,629,019	1,677,890	1,728,228
34.		Property Insurance	3.0%	(2)			273,224	276,234	279,116
35.		KAW Gross Receipt Tax	0.0%	(3)			30,695	30,377	30,059
36.		Chemical Costs	3.0%	153,300	157,899	162,636	167,515	172,540	177,716
37.		Security Monitoring	3.0%	300,000	309,000	318,270	327,818	337,653	347,783
38.		KRA Withdrawal Fee	\$0.05				109,500	109,500	109,500
39.		Depreciation	(1)				2,685,567	2,685,567	2,685,567
40.		Property Taxes	3.0%	(4)			1,034,316	1,045,940	1,057,332
41.		Income Taxes & Sales Taxes	(5)				4,254,995	4,176,577	4,098,158
42.		Total Annual Operating Expenses					<u>10,512,649</u>	<u>10,512,278</u>	<u>10,513,459</u>
43.		KAW - Income Before Interest Charges	(6)				11,147,505	10,942,059	10,736,613
44.		BWSC - Annual Debt Service	(7)				2,123,347	2,123,347	2,123,347
45.		KAW & BWSC Pool 3 Related Revenue Requirement					<u>\$23,783,501</u>	<u>\$23,577,684</u>	<u>\$23,373,419</u>
46.		Discounted Value					<u>\$20,251,743</u>	<u>\$19,175,252</u>	<u>\$18,155,804</u>
47.		Total Discounted Cost		\$260,001,254	(8)				
48.		Discount Rate		4.700%	(9)				

Comment: See the last page of this schedule for notes

**WATER SUPPLY OPTION ANALYSIS
KENTUCKY AMERICAN WATER COMPANY &
BLUEGRASS WATER SUPPLY COMMISSION
POOL THREE OPTION SHARE**

Ln #	Basis		2013	2014	2015	2016	2017	2018
	%							
Capital Expenditures								
1.	KAW Pool 3 Related Rate Base							
2.		Gross Property Plant & Equipment	\$145,719,016	\$145,719,016	\$145,719,016	\$145,719,016	\$145,719,016	\$145,719,016
3.		Accumulated Depreciation	(8,056,701)	(10,742,268)	(13,427,835)	(16,113,402)	(18,798,969)	(21,484,536)
4.		Net Property Plant & Equipment	\$137,662,315	\$134,976,748	\$132,291,181	\$129,605,614	\$126,920,047	\$124,234,480
5.	BWSC Pool 3 Related Property Plant & Equipment							
6.		Gross Property Plant & Equipment	\$36,429,753	\$36,429,753	\$36,429,753	\$36,429,753	\$36,429,753	\$36,429,753
7.		BWSC Issuance Expense	364,298	364,298	364,298	364,298	364,298	364,298
8.	1.00%	Total BWSC Pool 3 Related Debt Capital	36,794,051	36,794,051	36,794,051	36,794,051	36,794,051	36,794,051
9.		BWSC Cumulative Principal Repayment	(1,712,015)	(2,192,081)	(2,694,976)	(3,221,784)	(3,773,643)	(4,351,745)
10.		BWSC Ending Amount Outstanding	\$35,082,036	\$34,601,970	\$34,099,075	\$33,572,267	\$33,020,408	\$32,442,306
Annual Operating Expenses								
11.	Labor Costs							
12.	3.0%	Supervisor - Salary	\$65,673	\$67,643	\$69,672	\$71,762	\$73,915	\$76,133
13.	3.0%	Benefits/Overhead/Taxes	42,689	43,970	45,289	46,648	48,048	49,489
14.	3.0%	Operators	208,625	214,884	221,330	227,970	234,809	241,853
15.	3.0%	Benefits/Overhead/Taxes	135,607	139,676	143,866	148,182	152,627	157,206
16.	3.0%	Maintenance/Relief Operator	104,314	107,444	110,668	113,988	117,408	120,930
17.	3.0%	Benefits/Overhead/Taxes	67,803	69,837	71,932	74,090	76,313	78,603
18.	3.0%	Water Quality Supervision	5,731	5,903	6,080	6,262	6,450	6,644
19.	3.0%	Maintenance Supervision	5,731	5,903	6,080	6,262	6,450	6,644
20.	3.0%	Administrative support/supervision	11,749	12,101	12,464	12,838	13,223	13,620
		Labor Costs Total	647,922	667,361	687,381	708,002	729,243	751,122
21.	Power Costs							
22.		Treatment Plant/Raw Water Pump Station						
23.	3.0%	Annual costs at 6 mgd	571,679	588,829	606,494	624,689	643,430	662,733
24.		Booster Station						
25.	3.0%	Annual costs at 6 mgd	130,615	134,534	138,570	142,727	147,008	151,418
26.		Power Costs Total	702,294	723,363	745,064	767,416	790,438	814,151
27.	General Maintenance							
28.		Transmission Mains						
29.	3.0%	Valve Operations/Signs & Markers/Transportation	71,643	73,792	76,006	78,286	80,635	83,054
30.		Plant/Booster Station						
31.	3.0%	Repair Parts, Grounds and Sampling	358,217	368,963	380,032	391,433	403,176	415,271
32.		General Maintenance Total	429,860	442,755	456,038	469,719	483,811	498,325
33.		Total Labor, Power & Maintenance	1,780,076	1,833,479	1,888,483	1,945,137	2,003,492	2,063,598
34.	3.0%	Property Insurance	282,036	284,801	287,568	290,155	292,709	295,057
35.	0.0%	KAW Gross Receipt Tax	29,744	29,430	29,119	28,809	28,501	28,195
36.	3.0%	Chemical Costs	183,047	188,538	194,194	200,020	206,021	212,202
37.	3.0%	Security Monitoring	358,217	368,963	380,032	391,433	403,176	415,271
38.	\$0.05	KRA Withdrawal Fee	109,500	109,500	109,500	109,500	109,500	109,500
39.		Depreciation	2,685,567	2,685,567	2,685,567	2,685,567	2,685,567	2,685,567
40.	3.0%	Property Taxes	1,068,465	1,079,315	1,089,853	1,100,052	1,109,884	1,119,315
41.		Income Taxes & Sales Taxes	4,019,740	3,941,321	3,862,902	3,784,484	3,706,065	3,627,647
42.		Total Annual Operating Expenses	10,516,392	10,520,914	10,527,218	10,535,157	10,544,915	10,556,352
43.		KAW - Income Before Interest Charges	10,531,167	10,325,721	10,120,275	9,914,829	9,709,384	9,503,938
44.		BWSC - Annual Debt Service	2,123,347	2,123,347	2,123,347	2,123,347	2,123,347	2,123,347
45.		KAW & BWSC Pool 3 Related Revenue Requirement	\$23,170,906	\$22,969,982	\$22,770,840	\$22,573,333	\$22,377,646	\$22,183,637
46.		Discounted Value	\$17,190,543	\$16,276,482	\$15,411,051	\$14,591,576	\$13,815,743	\$13,081,150
47.		Total Discounted Cost	\$260,001,254					
48.		Discount Rate		4.700%				

Comment: See the last page of this schedule for notes

**WATER SUPPLY OPTION ANALYSIS
KENTUCKY AMERICAN WATER COMPANY &
BLUEGRASS WATER SUPPLY COMMISSION
POOL THREE OPTION SHARE**

Ln #		Basis %	2019	2020	2021	2022	2023	2024
Capital Expenditures								
1.	KAW Pool 3 Related Rate Base							
2.	Gross Property Plant & Equipment		\$145,719,016	\$145,719,016	\$145,719,016	\$145,719,016	\$145,719,016	\$145,719,016
3.	Accumulated Depreciation		(24,170,103)	(26,855,670)	(29,541,237)	(32,226,804)	(34,912,371)	(37,597,938)
4.	Net Property Plant & Equipment		\$121,548,913	\$118,863,346	\$116,177,779	\$113,492,212	\$110,806,645	\$108,121,078
5.	BWSC Pool 3 Related Property Plant & Equipment							
6.	Gross Property Plant & Equipment		\$36,429,753	\$36,429,753	\$36,429,753	\$36,429,753	\$36,429,753	\$36,429,753
7.	BWSC Issuance Expense	1.00%	364,298	364,298	364,298	364,298	364,298	364,298
8.	Total BWSC Pool 3 Related Debt Capital		36,794,051	36,794,051	36,794,051	36,794,051	36,794,051	36,794,051
9.	BWSC Cumulative Principal Repayment		(4,957,336)	(5,591,725)	(6,256,280)	(6,952,436)	(7,681,697)	(8,445,635)
10.	BWSC Ending Amount Outstanding		\$31,836,715	\$31,202,326	\$30,537,771	\$29,841,615	\$29,112,354	\$28,348,416
Annual Operating Expenses								
11.	Labor Costs							
12.	Supervisor - Salary	3.0%	\$78,417	\$80,770	\$83,193	\$85,689	\$88,259	\$90,907
13.	Benefits/Overhead/Taxes	3.0%	50,974	52,503	54,078	55,700	57,371	59,092
14.	Operators	3.0%	249,108	256,582	264,280	272,209	280,375	288,786
15.	Benefits/Overhead/Taxes	3.0%	161,922	166,780	171,784	176,938	182,246	187,714
16.	Maintenance/Relief Operator	3.0%	124,558	128,294	132,143	136,107	140,191	144,397
17.	Benefits/Overhead/Taxes	3.0%	80,961	83,390	85,891	88,467	91,121	93,855
18.	Water Quality Supervision	3.0%	6,843	7,048	7,259	7,477	7,701	7,932
19.	Maintenance Supervision	3.0%	6,843	7,048	7,259	7,477	7,701	7,932
20.	Administrative support/supervision	3.0%	14,029	14,450	14,884	15,331	15,791	16,265
	Labor Costs Total		773,655	796,865	820,771	845,395	870,756	896,880
21.	Power Costs							
22.	Treatment Plant/Raw Water Pump Station							
23.	Annual costs at 6 mgd	3.0%	682,615	703,094	724,187	745,912	768,289	791,338
24.	Booster Station							
25.	Annual costs at 6 mgd	3.0%	155,960	160,639	165,458	170,422	175,535	180,801
26.	Power Costs Total		838,575	863,733	889,645	916,334	943,824	972,139
27.	General Maintenance							
28.	Transmission Mains							
29.	Valve Operations/Signs & Markers/Transportation	3.0%	85,545	88,111	90,755	93,478	96,282	99,171
30.	Plant/Booster Station							
31.	Repair Parts, Grounds and Sampling	3.0%	427,729	440,560	453,776	467,390	481,411	495,853
32.	General Maintenance Total		513,274	528,671	544,531	560,868	577,693	595,024
33.	Total Labor, Power & Maintenance		2,125,504	2,189,269	2,254,947	2,322,597	2,392,273	2,464,043
34.	Property Insurance	3.0%	297,339	299,536	301,481	303,308	304,995	306,524
35.	KAW Gross Receipt Tax	0.0%	27,891	27,589	27,289	26,991	26,695	26,401
36.	Chemical Costs	3.0%	218,568	225,125	231,879	238,835	246,000	253,380
37.	Security Monitoring	3.0%	427,729	440,560	453,776	467,390	481,411	495,853
38.	KRA Withdrawal Fee	\$0.05	109,500	109,500	109,500	109,500	109,500	109,500
39.	Depreciation		2,685,567	2,685,567	2,685,567	2,685,567	2,685,567	2,685,567
40.	Property Taxes	3.0%	1,128,312	1,136,842	1,144,868	1,152,353	1,159,257	1,165,537
41.	Income Taxes & Sales Taxes		3,549,228	3,470,810	3,392,391	3,313,973	3,235,554	3,157,135
42.	Total Annual Operating Expenses		10,569,638	10,584,798	10,601,698	10,620,514	10,641,252	10,663,940
43.	KAW - Income Before Interest Charges		9,298,492	9,093,046	8,887,600	8,682,154	8,476,708	8,271,262
44.	BWSC - Annual Debt Service		2,123,347	2,123,347	2,123,347	2,123,347	2,123,347	2,123,347
45.	KAW & BWSC Pool 3 Related Revenue Requirement		\$21,991,477	\$21,801,191	\$21,612,645	\$21,426,015	\$21,241,307	\$21,058,549
46.	Discounted Value		\$12,385,709	\$11,727,354	\$11,104,040	\$10,513,997	\$9,955,452	\$9,426,740
47.	Total Discounted Cost		\$260,001,254					
48.	Discount Rate		4.700%					

Comment: See the last page of this schedule for notes

**WATER SUPPLY OPTION ANALYSIS
KENTUCKY AMERICAN WATER COMPANY &
BLUEGRASS WATER SUPPLY COMMISSION
POOL THREE OPTION SHARE**

Ln #		Basis %	2025	2026	2027	2028	2029	2030
Capital Expenditures								
1.	KAW Pool 3 Related Rate Base							
2.	Gross Property Plant & Equipment		\$145,719,016	\$145,719,016	\$145,719,016	\$145,719,016	\$145,719,016	\$145,719,016
3.	Accumulated Depreciation		(40,283,505)	(42,969,072)	(45,654,639)	(48,340,206)	(51,025,773)	(53,711,340)
4.	Net Property Plant & Equipment		\$105,435,511	\$102,749,944	\$100,064,377	\$97,378,810	\$94,693,243	\$92,007,676
5.	BWSC Pool 3 Related Property Plant & Equipment							
6.	Gross Property Plant & Equipment		\$36,429,753	\$36,429,753	\$36,429,753	\$36,429,753	\$36,429,753	\$36,429,753
7.	BWSC Issuance Expense	1.00%	364,298	364,298	364,298	364,298	364,298	364,298
8.	Total BWSC Pool 3 Related Debt Capital		36,794,051	36,794,051	36,794,051	36,794,051	36,794,051	36,794,051
9.	BWSC Cumulative Principal Repayment		(9,245,900)	(10,084,219)	(10,962,403)	(11,882,346)	(12,846,034)	(13,855,548)
10.	BWSC Ending Amount Outstanding		\$27,548,151	\$26,709,832	\$25,831,648	\$24,911,705	\$23,948,017	\$22,938,503
Annual Operating Expenses								
11.	Labor Costs							
12.	Supervisor - Salary	3.0%	\$93,635	\$96,444	\$99,338	\$102,318	\$105,388	\$108,549
13.	Benefits/Overhead/Taxes	3.0%	60,865	62,691	64,572	66,509	68,504	70,559
14.	Operators	3.0%	297,450	306,374	315,565	325,032	334,783	344,827
15.	Benefits/Overhead/Taxes	3.0%	193,345	199,145	205,119	211,273	217,611	224,140
16.	Maintenance/Relief Operator	3.0%	148,729	153,190	157,786	162,520	167,395	172,416
17.	Benefits/Overhead/Taxes	3.0%	96,670	99,570	102,557	105,633	108,802	112,066
18.	Water Quality Supervision	3.0%	8,170	8,415	8,667	8,927	9,195	9,471
19.	Maintenance Supervision	3.0%	8,170	8,415	8,667	8,927	9,195	9,471
20.	Administrative support/supervision	3.0%	16,753	17,256	17,774	18,307	18,856	19,422
	Labor Costs Total		923,787	951,500	980,045	1,009,446	1,039,729	1,070,921
21.	Power Costs							
22.	Treatment Plant/Raw Water Pump Station							
23.	Annual costs at 6 mgd	3.0%	815,078	839,530	864,716	890,657	917,377	944,898
24.	Booster Station							
25.	Annual costs at 6 mgd	3.0%	186,225	191,811	197,565	203,492	209,597	215,885
26.	Power Costs Total		1,001,303	1,031,341	1,062,281	1,094,149	1,126,974	1,160,783
27.	General Maintenance							
28.	Transmission Mains							
29.	Valve Operations/Signs & Markers/Transportation	3.0%	102,146	105,210	108,366	111,617	114,966	118,415
30.	Plant/Booster Station							
31.	Repair Parts, Grounds and Sampling	3.0%	510,728	526,049	541,830	558,085	574,828	592,073
32.	General Maintenance Total		612,874	631,259	650,196	669,702	689,794	710,488
33.	Total Labor, Power & Maintenance		2,537,964	2,614,100	2,692,522	2,773,297	2,856,497	2,942,192
34.	Property Insurance	3.0%	307,871	309,020	309,950	310,639	311,186	311,446
35.	KAW Gross Receipt Tax	0.0%	26,109	25,819	25,531	25,245	24,961	24,680
36.	Chemical Costs	3.0%	260,981	268,811	276,876	285,182	293,737	302,549
37.	Security Monitoring	3.0%	510,728	526,049	541,830	558,085	574,828	592,073
38.	KRA Withdrawal Fee	\$0.05	109,500	109,500	109,500	109,500	109,500	109,500
39.	Depreciation		2,685,567	2,685,567	2,685,567	2,685,567	2,685,567	2,685,567
40.	Property Taxes	3.0%	1,171,152	1,176,053	1,180,195	1,183,528	1,185,997	1,187,550
41.	Income Taxes & Sales Taxes		3,078,717	3,000,298	2,921,880	2,843,461	2,765,043	2,686,624
42.	Total Annual Operating Expenses		10,688,589	10,715,217	10,743,851	10,774,504	10,807,316	10,842,181
43.	KAW - Income Before Interest Charges		8,065,817	7,860,371	7,654,925	7,449,479	7,244,033	7,038,587
44.	BWSC - Annual Debt Service		2,123,347	2,123,347	2,123,347	2,123,347	2,123,347	2,123,347
45.	KAW & BWSC Pool 3 Related Revenue Requirement		\$20,877,753	\$20,698,935	\$20,522,123	\$20,347,330	\$20,174,696	\$20,004,115
46.	Discounted Value		\$8,926,273	\$8,452,549	\$8,004,152	\$7,579,731	\$7,178,053	\$6,797,862
47.	Total Discounted Cost		\$260,001,254					
48.	Discount Rate			4.700%				

Comment: See the last page of this schedule for notes

**WATER SUPPLY OPTION ANALYSIS
KENTUCKY AMERICAN WATER COMPANY &
BLUEGRASS WATER SUPPLY COMMISSION
POOL THREE OPTION SHARE**

Notes: (1) From Schedule 1.

- (2) Property insurance is based on 0.15% of net property, plant & equipment.
- (3) KAW's gross receipt tax based on 0.1454% of net revenue.
- (4) Property taxes are based on KAW's net original cost of capital assets.
- (5) Income taxes & sales taxes are based on the gross up factor found in Case No. 2004 - 00103
- (6) KAW's income before interest charges is based on their pro forma overall rate of return multiplied by their Pool 3 net capital assets. Their pro forma overall rate of return is based on their overall rate of return determined in Case No. 2004 - 00103 adjusted for the capital requirements of Pool 3. Their Pool 3 capital assets are assumed to be financed with 60% long term debt and 40% common equity. See page 1 of Schedule 6 for the development.
- (7) BWSC's annual debt service is based on their total capital requirements shown on line 8 and the assumptions listed on Schedule 3.
- (8) The total discounted cost for Pool 3 is the sum of the discounted revenue requirement show on line 46.
- (9) The discount rate is based upon the rate used in the R.W. Beck Report.

Source of information: Company provided and the R.W. Beck Report.