

SA

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ATTORNEYS

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August 31, 2007

RECEIVED
SEP 04 2007
PUBLIC SERVICE
COMMISSION

VIA FEDERAL EXPRESS

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

Re: *Application of Kentucky-American Water Company, a/k/a Kentucky American Water for Certificate of Convenience and Public Necessity Authorizing Construction of Kentucky River Station II ("KRS II"), Associated Facilities, and Transmission Line; Case No. 2007-00134.*

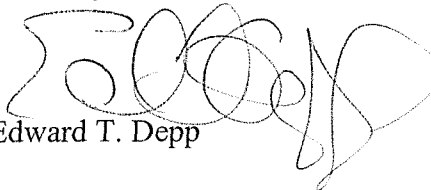
Dear Ms. O'Donnell:

We have enclosed, for filing, documents responsive to the data requests of the Attorney General of the Commonwealth of Kentucky.

Please file-stamp one copy and return it to us in the enclosed, self-addressed stamped envelope.

Thank you, and if you have any questions, please call us.

Sincerely,



Edward T. Depp

ETD/lb

Enclosures

cc: All Parties of Record (w/encl.)
 Barbara K. Dickens (w/encl.)
 John E. Selent, Esq. (w/o encl.)

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38306-1

1400 PNC Plaza, 500 West Jefferson Street Louisville, KY 40202
502.540.2300 502.585.2207 fax www.dinslaw.com

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

RECEIVED

In the Matter of:

SEP 04 2007

THE APPLICATION OF KENTUCKY-AMERICAN)
WATER COMPANY FOR A CERTIFICATE OF)
CONVENIENCE AND NECESSITY AUTHORIZING)
THE CONSTRUCTION OF KENTUCKY RIVER)
STATION II, ASSOCIATED FACILITIES AND)
TRANSMISSION MAIN)

PUBLIC SERVICE
COMMISSION
CASE NO. 2007-00134

**LOUISVILLE WATER COMPANY RESPONSES TO THE DATA REQUESTS
OF THE OFFICE OF THE ATTORNEY GENERAL**

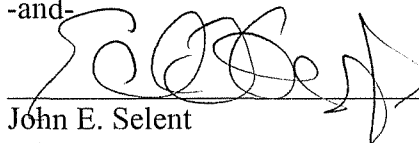
Louisville Water Company ("LWC"), by counsel and consistently with its August 27, 2007 filing cover letter to the Public Service Commission of the Commonwealth of Kentucky (the "Commission"), hereby produces the responsive documents identified in its August 27, 2007 responses to the data requests of the Office of the Attorney General of the Commonwealth of Kentucky ("Attorney General"). For convenience of review, the attached documents are indexed to the particular data request to which they are responsive.

Respectfully submitted,



Barbara K. Dickens
Vice President and General Counsel
Louisville Water Company
550 South Third Street
Louisville, KY 40202
tel: (502) 569-0808
fax: (502) 569-0850

-and-



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CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing was served by was served via first-class United States mail, sufficient postage prepaid, on the following individuals this 31st day of August, 2007:

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Lexington, KY 40502



Counsel to Louisville Water Company

INDEX OF RESPONSIVE DOCUMENTS

- Tab 3. Document(s) responsive to Attorney General data request #3.
- Tab 9. Document(s) responsive to Attorney General data request #9.
- Tab 11. Document(s) responsive to Attorney General data request #11.

I-64 CORRIDOR PIPELINE SOLUTION

16.3 MILES (86,000') OF 36" MAIN STORAGE TANK BOOSTER PUMP STATION \$26 M TOTAL

42 MILES (222,000') OF 36" MAIN \$56 M TOTAL

ENGLISH STATION 10 MG RESERVOIR

Legend

- 1" Main
- 4" Main
- 10" Main
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- 24" Main
- 30" Main
- 36" Main
- 42" Main
- 48" Main
- 60" Main
- 72" Main
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- 96" Main
- 108" Main
- 120" Main
- 144" Main
- 168" Main
- 192" Main
- 216" Main
- 240" Main
- 264" Main
- 288" Main
- 312" Main
- 336" Main
- 360" Main
- 384" Main
- 408" Main
- 432" Main
- 456" Main
- 480" Main
- 504" Main
- 528" Main
- 552" Main
- 576" Main
- 600" Main
- 624" Main
- 648" Main
- 672" Main
- 696" Main
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- 7656" Main
- 7680" Main
- 7

Jessamine-South Elkhorn
Water District

**4.2 MILES (22,000') OF 36" MAIN
\$56 M TOTAL**

DATE: 7/03/07

SCALE: 1"=9000'

Dr. John W. Smith, MD, PhD, is a professor of medicine and director of the Division of Endocrinology and Metabolic Diseases at the University of California, San Diego. He is also a senior advisor to the National Institutes of Health. Dr. Smith is a past president of the American Diabetes Association and a past president of the American Society of Human Genetics. He is also a past president of the American Society of Human Genetics. He is also a past president of the American Society of Human Genetics. He is also a past president of the American Society of Human Genetics.

Regional Water Management Planning in Kentucky

By: Greg Heitzman and Roger Recktenwald

presentation for the
**American Water Works Association
Annual Conference**

June 20, 2002

KRS 224A and Senate Bill 409

- The Kentucky Infrastructure Authority (KIA) was created in 1988 as a funding mechanism for planning and construction of regional infrastructure projects in Kentucky.
- Senate Bill 409, adopted in 2000, expanded the role of KIA to include financing, planning, management and development of water and wastewater services to serve all of Kentucky.
- Senate Bill 409 also directed KIA to work with other state agencies to encourage and promote economies of scale through regionalization.

12 Key Provisions of Senate Bill 409

1. Develop a Water Resource Information System (WRIS) under KIA Management.
2. Establish Regional Water Management Councils by July 2001. The Councils are currently organized by Area Development Districts (ADD).
3. Establish Water Management Areas (WMA) throughout Kentucky. The WMA's are currently being formed with guidance from the Regional Water Management Councils and Area Development Districts.

Senate Bill 409 ...

4. Update the County Water Supply Plans by July 2001.
5. Establish Water Supply Coordinators to serve the Regional Water Management Planning Councils.
6. Regional Water Management Councils will identify and prioritize projects for un-served and underserved areas in Kentucky and submit recommendations to KIA by July 2001.

Senate Bill 409 ...

7. Establish 2020 Water Service Account to fund water infrastructure projects in Kentucky.
8. Establish a Uniform System of Accounts standard for use by water systems throughout Kentucky.
9. Encourage water system audits for water loss and leakage to determine performance of water distribution system.

Senate Bill 409 ...

10. KIA to develop project prioritization criteria and incentive programs for Regionalization.
11. Revise KIA Board membership to include representation from the Water Industry.
12. Promulgate Kentucky Administrative Regulations (KAR) - currently under development by KIA.

KIA Board Representation

- ① Secretary, Finance & Adm Cabinet - Kevin Flanery (Chair KIA)
- ② Secretary, Natural Res & Env Protection Cabinet, James Bickford
- ③ Commissioner, Dept for Local Government - Jody Lassiter
- ④ Executive Director, Public Service Commission - Tom Dorman
- ⑤ Secretary, Economic Development Cabinet - Gene Strong
- ⑥ Kentucky League of Cities - Shirlee Yassney (Vice-Chair KIA)
- ⑦ Kentucky Association of Counties - Hugh McCormick
- ⑧ Kentucky Rural Water Association - Damon Talley
- ⑨ American Water Works Association - Greg Heitzman
- ⑩ Private (investor owned) Water System - Roy Mundy

KIA Drinking Water Loan and Grant Programs

- **Infrastructure Revolving Fund**
 - Fund B – Trust Funds for Program Admin and Leveraging
 - Fund B1 - \$3.9 million FY 2001-02
 - 2020 Water Service Account - \$50.0 million FY 2001-02
- **Governmental Agencies Program - Fund C**
 - Market Rate Loans
- **Drinking Water State Revolving Fund (Federal)**
 - Fund F and F1- \$11.9 million FY 2000

Infrastructure Revolving Funds Fund B, B1, and 2020 Water Service Account

- The Fund B program provides financing (grants and loans) for water related community infrastructure.
- Appropriations of the 2000 General Assembly (HB 502) targeted to communities in Kentucky for water and sewer infrastructure projects are referred to as Fund B1 projects.
- Amendments to KRS 224A as contained in SB 409 expands the Fund B program to incorporate the new 2020 Water Service Account.

Governmental Agencies Program - Fund C

This program provides local governmental agencies access to funding through the municipal bond market. By grouping community project needs into a single bond issue, the overall capital cost to the respective community is less.

- Market rate
- Debt service reserve is required but included in the loan amount
- Projects must be financially feasible as determined by KIA staff

Drinking Water State Revolving Fund - Fund F

Fund F was established to coordinate with US EPA to provide financing for drinking water projects. The Kentucky Division of Water partners with KIA in selecting local and regional projects involving water source, treatment, storage, and distribution of safe drinking water.

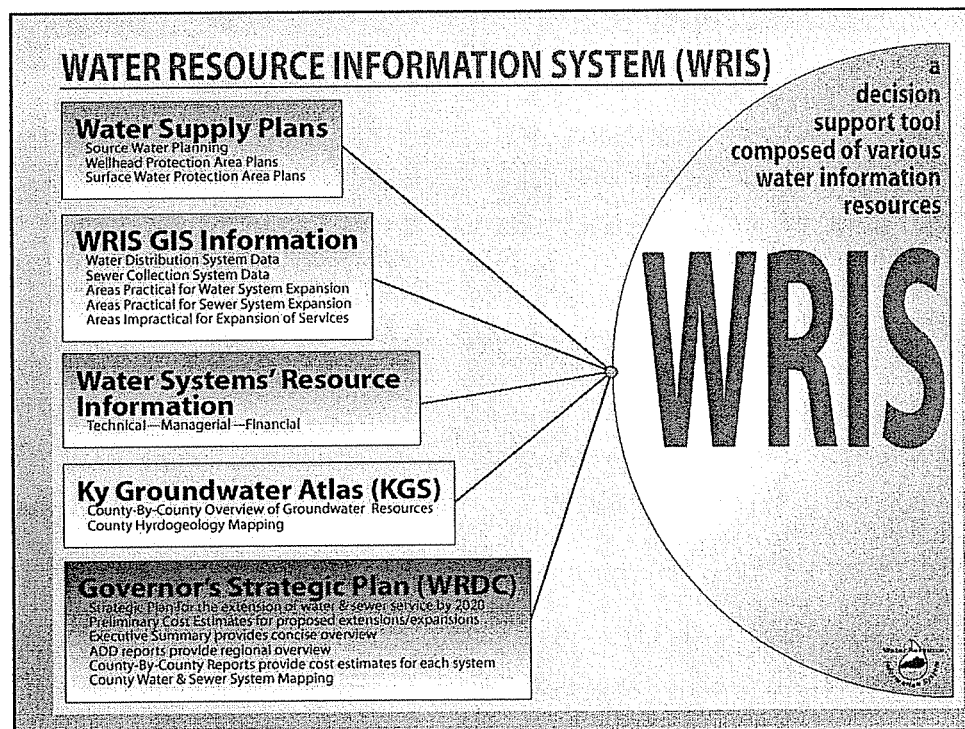
- State appropriations provide required matching funds.
- Loans are made to communities at either 1.8% or 3.8% based on income and current local water rate.
- Loans for planning and design (F1) are available to expedite a project, which may be rolled into a construction loan.

Loan Rates and Terms

Interest rates and terms for each program may change periodically as the market changes but always remain low and attractive compared to most alternatives.

- Rates for Funds A & F are set @ 1.8% and 3.8% based on a community's median household income and community water rates.
- Terms vary depending upon the useful life of the facility being financed. Most loans are for terms of 20 to 30 years and payable semi-annually.
- No application fees are charged. A 0.2% administrative fee is charged for Funds B and C projects and 0.25% for Fund F projects.

Implementing the Kentucky Water Management Planning and Project Development Process

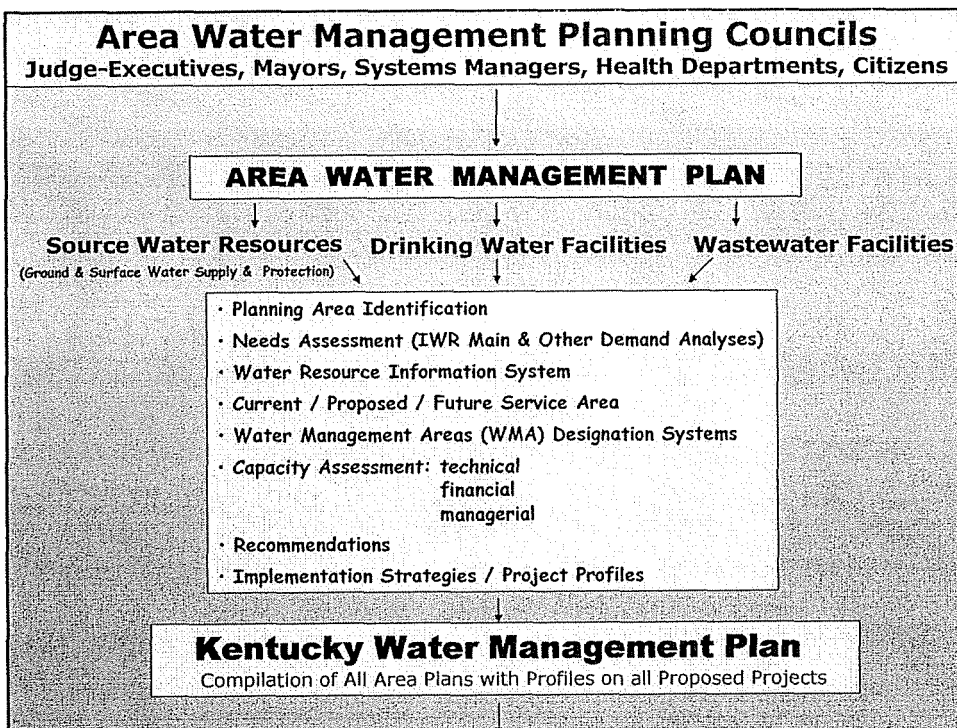


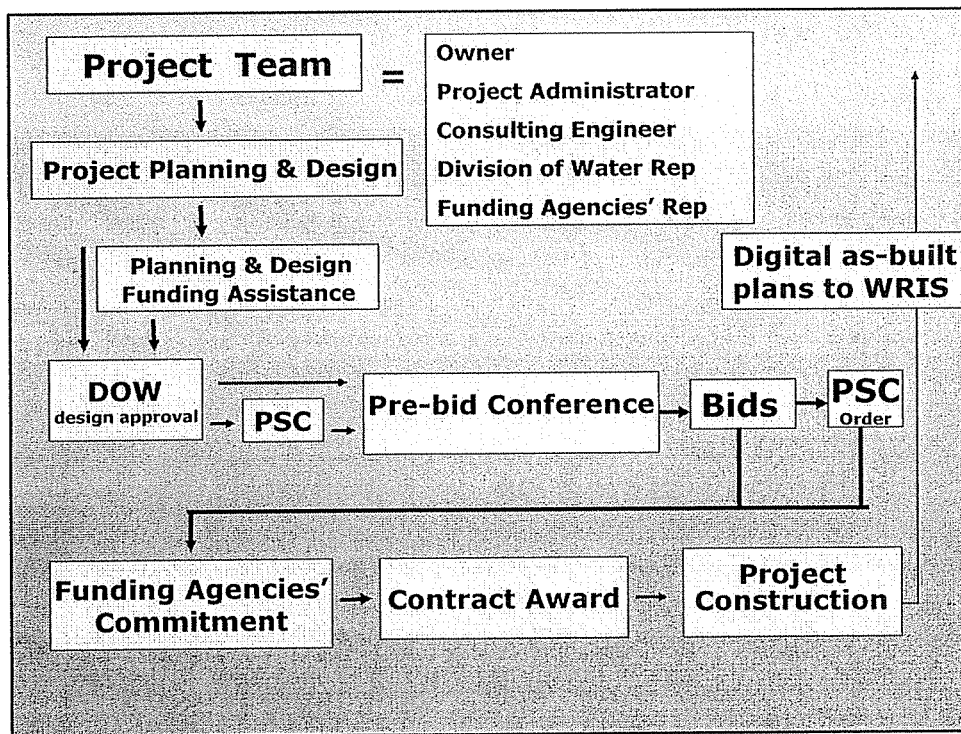
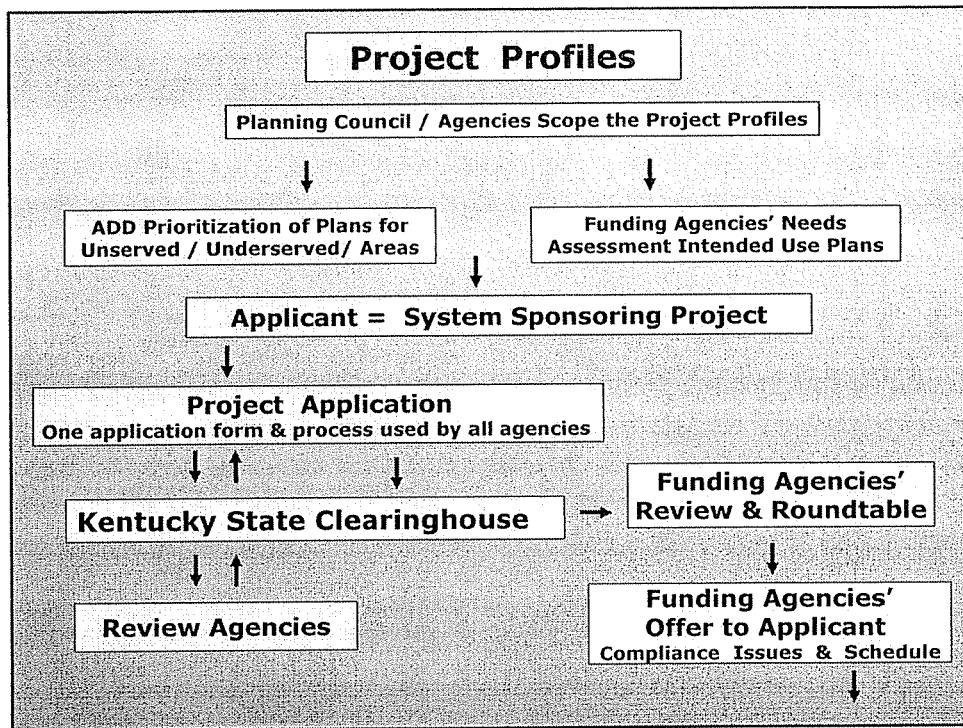
Water Management Areas

Groupings of water systems which share or have commonalities relating to:

- geography
- source
- resources, deficiencies, needs
- other common elements

And whose customers would benefit by the system achieving economies of scale





The Long Term Impacts of SB 409 for Kentucky are:

- **Regional Planning and Management**
- **Coordination among State Agencies**
- **Coordinated Infrastructure Investment and Financing**
- **State-wide project prioritization**
- **Common Industry Standards**
- **Efficient and Effective Use of Capital**

Governor Patton's "2020 Program"

- **Governor Patton budgeted and the 2000 General Assembly approved a \$50.0 million bond issue for the initial support of the initiatives set out in amendments to KRS 224A and KRS 151.**
- **This first year of the 2020 Program is made possible via \$5.0 million resulting from the "tobacco settlement" and subsequent years will require this or other fund sources.**

"2020 Program" Update

In April 2001, KIA Board established the 2001-02 guidelines for project prioritization.

Priority will be given to projects.....

- ✓ **with the highest impact in numbers of households served**
- ✓ **involving regionalization of systems (physical or management)**
- ✓ **having no other available funding agency source(s)**
- ✓ **that allow for a degree of geographic equity**
- ✓ **benefit communities where the MHI is less than the state average**
- ✓ **with a reasonable cost per connection within regional context**
- ✓ **that are "ready-to-go"**
- ✓ **consistent with the appropriate area water management plan**

"2020 Program" Update

- **initial funds will be disbursed as "grants"**
- **KIA is now reviewing project submittals from Regional Water Management Councils.**
- **KIA is now considering funding allocations for service projects (unserved, underserved) and regional projects.**

"2020 Program" Database Stats

Number and Cost Estimate:

- 809 0-2 year Projects @ \$ 839.5 million
- 517 3-10 year Projects @ \$ 475.5 million
- 191 11-20 year Projects @ \$ 246.3 million
- 1517 Total Projects @ \$ 1.56 billion

Number by Applying Entity:

- 858 projects by 146 Cities
- 571 projects by 110 Water Districts
- 8 projects by 5 Private (profit)
- 80 projects by 20 Private (non-profit)
- 1517 Total projects by 281 Water Suppliers

Stats: 0-2 Year Project Profiles:

Number by Type and \$ request:

- 28 Source @ \$ 128.2 million
- 55 Treatment @ \$ 243.8 million
- 718 Distribution @ \$ 467.3 million
- 8 Other @ \$ 0.2 million
- 809 Projects @ \$ 839.5 million

Number by Category and \$ request:

- 745 Service Projects @ \$ 673.9 million
- 64 Regional Projects @ \$ 165.6 million

The Challenge
is to fairly allocate \$50.0
million towards meeting
the \$1.56 Billion Water
Infrastructure Need in
Kentucky

Next steps:

- KIA Board will review and select projects which best meet criteria.
- Grants will be conditioned on verification of information in the submitted project profile within specified period of time.
- "announcement" letters to applicants anticipated in November-December 2001.

For More Information on KIA contact

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gheitzman@lwcky.com

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502-573-0260
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**Enough already...
now its your turn!**

Questions? Comments?

LOUISVILLE WATER COMPANY
2007 ANNUAL BUDGET AND
LONG RANGE FINANCIAL PLAN



Water

10 Year Pro Forma Income Statement

LOUISVILLE WATER COMPANY
TEN YEAR PROFORMA INCOME STATEMENT AND ROE CALCULATION
(Thousand Dollars)
Scenario with 6.5% Increase

	2005	2006	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
1 Operating Revenues													
2 Sale of Water	110,316.7	113,771.6	111,758.6	120,082.0	129,762.8	138,961.5	148,620.5	157,904.6	168,213.8	177,908.4	188,195.7	199,109.4	209,691.7
3 Other Operating Revenue	4,913.6	4,835.0	5,072.1	5,213.9	5,344.2	5,477.9	5,614.8	5,755.2	5,895.0	6,046.5	6,197.7	6,352.6	6,511.4
4 Total Operating Revenue	115,230.3	118,606.6	116,830.7	125,295.9	135,107.0	144,439.4	154,235.3	163,660.7	174,112.8	183,954.9	194,393.4	205,462.0	216,203.1
5 Operation & Maintenance Expense	47,442.0	50,287.4	49,242.3	52,758.0	55,395.9	58,165.7	61,074.0	64,127.7	67,334.1	70,700.8	74,235.8	77,947.6	81,845.0
6 EBITDA (Operating Income)	67,788.3	68,319.2	67,588.4	72,537.9	79,711.1	86,273.7	93,161.3	99,532.1	106,778.8	113,254.1	120,157.6	127,514.5	134,358.1
7 Depreciation and Amortization	18,330.2	20,300.0	21,150.5	22,744.7	25,390.7	26,822.4	28,544.4	29,886.5	32,135.4	34,025.7	37,362.4	40,207.6	44,061.6
8 Retirement of Assets	1,169.3	1,175.0	877.0	1,000.0	1,010.0	1,020.1	1,030.3	1,040.6	1,051.0	1,061.5	1,072.1	1,082.9	1,093.7
9 EBIT	48,288.9	46,864.3	45,560.9	48,793.2	53,310.5	59,431.2	63,586.6	68,595.0	73,592.3	78,166.9	81,723.0	86,224.0	89,202.8
10 Bond Interest (Net including capital interest)	4,855.9	6,425.3	6,910.8	8,583.9	7,726.5	10,261.9	10,786.5	12,524.7	12,957.5	13,308.3	13,103.3	12,368.9	14,031.2
11 Taxes Including Water in Lieu of Taxes	9,435.2	9,986.3	10,052.9	10,708.3	11,402.3	12,114.9	12,890.2	13,534.8	14,279.2	14,850.3	15,444.3	16,062.1	16,544.0
12 Non-operating Income	1,084.0	1,874.2	3,365.8	5,038.7	2,971.5	4,831.4	3,471.5	3,655.1	2,833.6	2,898.8	2,603.6	1,301.8	2,898.8
13 Non-operating Expenses	360.0	300.0	300.0	75.0	115.0	115.0	115.0	115.0	115.0	115.0	115.0	115.0	115.0
14 Extraordinary Items	-	-	-	-	-	-	-	-	-	-	-	-	-
15 Net Income	34,721.7	32,026.9	31,662.9	34,466.6	37,038.2	40,780.9	43,264.3	46,285.7	49,074.3	52,792.1	55,664.0	58,979.8	61,411.5
17 Dividend Distribution	16,178.0	14,842.1	14,842.1	15,673.5	16,066.9	17,076.5	17,211.1	18,435.7	18,943.4	20,819.0	21,865.0	26,826.4	28,323.9
18 Net Income to Unrestricted Retained Earnings	18,543.7	17,184.8	16,820.8	18,793.2	20,971.3	23,704.3	26,053.2	27,849.9	30,130.8	31,973.1	33,799.1	32,153.4	33,087.6
19 Less: Infrastructure Replacement Reserve	1,858.3	480.0	-	980.0	1,460.0	2,310.0	2,810.0	3,560.0	3,310.0	3,560.0	3,560.0	3,560.0	3,310.0
20 Net Income to Restricted Retained Earnings	16,685.4	16,704.8	16,820.8	17,813.2	19,511.3	21,394.3	23,243.2	24,289.9	26,820.8	28,413.1	30,239.1	28,593.4	29,777.6
21 Less: Interest on Construction Fund	-	600.0	716.0	389.2	275.0	700.0	390.0	275.0	700.0	390.0	275.0	700.0	390.0
22 Net Income before Dividend for ROE	32,863.4	30,946.9	30,946.9	33,117.4	35,303.2	37,770.9	40,084.3	42,450.7	45,064.3	48,842.1	51,829.0	54,719.8	57,711.5
23 Net Income	34,721.7	32,026.9	31,662.9	34,466.6	37,038.2	40,780.9	43,264.3	46,285.7	49,074.3	52,792.1	55,664.0	58,979.8	61,411.5
24 Less: Infrastructure Reserve	1,858.3	480.0	0.0	980.0	1,460.0	2,310.0	2,810.0	3,560.0	3,310.0	3,560.0	3,560.0	3,560.0	3,310.0
25 Less: Construction Fund Interest	-	600.0	716.0	389.2	275.0	700.0	390.0	275.0	700.0	390.0	275.0	700.0	390.0
26 Less: Bond Principal (Existing Issues)	5,900.0	6,210.0	6,210.0	6,495.0	6,800.0	7,130.0	7,480.0	7,845.0	8,235.0	8,645.0	9,080.0	9,405.0	9,710.0
27 Less: Bond Principal (New Issues)	-	-	-	500.0	1,725.0	2,180.0	3,899.1	3,879.4	5,256.9	5,498.7	6,307.4	6,604.2	7,100.0
28 Net Income Available for Dividend	26,963.4	24,736.9	24,736.9	26,122.4	26,778.2	28,460.9	28,685.2	30,728.2	31,572.4	34,698.3	36,441.6	44,710.7	47,206.5
29 Dividend Payment	16,178.0	14,842.1	14,842.1	15,673.5	16,066.9	17,076.5	17,211.1	18,435.7	18,943.4	20,819.0	21,865.0	26,826.4	28,323.9
30 Net Income for ROE *	32,863.4	30,946.9	30,946.9	33,117.4	35,303.2	37,770.9	40,084.3	42,450.7	45,064.3	48,842.1	51,829.0	54,719.8	57,711.5
31 Beginning Unrestricted Equity Capital	293,201.6	309,604.9	309,886.9	326,707.7	344,540.9	364,052.2	385,446.5	408,689.7	432,979.7	459,800.5	488,213.6	518,452.6	547,046.1
32 Current Year addition to Retained Earnings **	16,685.4	16,704.8	16,820.8	17,813.2	19,511.3	21,394.3	23,243.2	24,289.9	26,820.8	28,413.1	30,239.1	28,593.4	29,777.6
33 Ending Unrestricted Equity Capital	309,886.9	326,309.7	326,707.7	344,540.9	364,052.2	385,446.5	408,689.7	432,979.7	459,800.5	488,213.6	518,452.6	547,046.1	576,823.7
34 Return on Equity	10.61%	9.48%	9.47%	9.61%	9.70%	9.80%	9.80%	9.80%	9.80%	10.00%	10.00%	10.00%	10.01%
35 Return on Equity Target	9.22%	9.48%	9.48%	9.74%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
36 Annual Rate Increases	6.50%	5.00%	5.00%	6.50%	6.50%	6.25%	6.40%	5.00%	5.50%	4.00%	4.00%	4.00%	3.00%

Notes:

*Excludes Infrastructure reserve deposits and construction interest

**Excludes current year infrastructure reserve deposits

Unrestricted Equity Capital excludes all cumulative deposits to infrastructure reserve

10 Year CIP Funding & Debt Plan

CIP Funding and Debt Plan

	Estimated 2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Net Operating Revenue	46,835,860	52,641,866	53,463,902	58,113,324	60,159,911	64,208,307	67,568,838	72,485,603	77,511,153	89,061,117	91,624,099
Less: Dividend Payment	14,842,150	15,673,452	16,066,945	17,076,524	17,211,110	18,435,742	18,943,435	20,819,001	21,864,958	26,826,397	28,323,877
Net Revenue	31,993,710	36,968,413	37,396,957	41,036,800	42,948,800	45,772,565	48,625,403	51,666,602	55,646,195	62,234,719	63,300,222
Change in Working Capital	5,300,000	622,234	433,627	455,309	478,074	501,978	527,077	553,431	581,102	610,157	640,665
Cash from Operations	26,693,710	36,346,179	36,963,329	40,581,491	42,470,726	45,270,587	48,098,326	51,113,172	55,065,093	61,624,562	62,659,557
Beginning Fund Balance	2,750,313	8,050,313	8,672,547	9,106,175	9,561,483	10,039,558	10,541,535	11,068,612	11,622,043	12,203,145	12,813,302
Change in Fund Balance	5,300,000	622,234	433,627	455,309	478,074	501,978	527,077	553,431	581,102	610,157	640,665
Ending Fund Balance	8,050,313	8,672,547	9,106,175	9,561,483	10,039,558	10,541,535	11,068,612	11,622,043	12,203,145	12,813,302	13,453,967
CIP Funding Amount	\$ 73,161,729	\$ 78,401,468	\$ 86,498,637	\$ 81,106,446	\$ 87,340,304	\$ 79,189,812	\$ 73,539,719	\$ 73,539,719	\$ 73,539,719	\$ 73,539,719	\$ 73,539,719
CIP Funding Sources											
Contributed Capital	15,369,058	15,481,757	12,838,646	11,616,046	12,259,646	11,259,646	11,259,646	11,259,646	11,259,646	11,259,646	11,259,646
Infr. Replacement Withdrawal	-	26,577,313	36,697,080	(36,697,080)	32,610,904	(32,610,904)	14,183,370	(14,183,370)	7,217,365	658,283	(7,875,648)
Cash from Operations	26,693,710	36,346,179	36,963,329	40,581,491	42,470,726	45,270,587	48,098,326	51,113,172	55,065,093	61,624,562	62,659,557
Debt Financed	21,337,961	-	-	65,605,989	-	55,270,484	-	25,350,271	-	-	7,496,164
Total	73,161,729	78,405,249	86,499,055	81,106,446	87,341,276	79,189,812	73,541,342	73,539,719	73,542,104	73,542,491	73,539,719
Debt Amount											
CIP Portion	82,605,664	-	-	65,605,989	-	55,270,484	-	25,350,271	-	-	7,496,164
COI and DSRF	3,645,295	-	-	5,248,479	-	4,421,639	-	2,028,022	-	-	599,693
Total Debt Amount	86,250,959	-	-	70,854,468	-	59,692,122	-	27,378,293	(0)	-	8,095,858