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ATTORNEYS

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November 20, 2007

VIA FEDERAL EXPRESS
Ms. 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:

Pursuant to the letter that was filed with Public Service Commission of the Commonwealth of Kentucky on November 14, 2007 in the above-styled case, enclosed is an original and ten copies of the revised analysis from R.W. Beck, Inc.

Please return to us a file stamped in the self addressed, postage prepaid envelope provided.

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

Sincerely,

Edward T. Depp

JES/bmt
Enclosure
cc: All parties of record (Case No. 2007-00134) (w/ encl.)
Barbara K. Dickens, Esq. (w/ encl.)
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38306-1

November 14, 2007

R·W·BECK

Mr. Jim Smith
Manager, Infrastructure Planning
Louisville Water Company
550 South Third Street
Louisville, KY 40202

Subject: **Results of the Financing Alternatives Analyses for Phase 1**

Dear Jim:

It has come to our attention that the return on rate base for the capital investment related to UV plant (approximately $8.3 million in 2011) in the Pool 3 financial models has been included twice in that it was included as both a line item and within the total plant return. As a result, the cumulative Present Worth Costs have been overstated by approximately $9.3 million for all Pool 3 2030 models and approximately $12.3 million for all Pool 3 2050 models. This does not alter the conclusions of our Final Report that Louisville Water Company's (LWC) water supply proposal is the least cost alternative in each of the scenarios summarized in our Final Report.

We have completed the additional requested analyses utilizing the corrected return on rate base for the UV plant for the Pool 3 financial models. Based on Louisville Water Company's (LWC's) proposal to the PSC filed with Greg Heitzman' testimony on October 15th, 2007, LWC is the least cost alternative in each of the scenarios which are summarized below and illustrated in Exhibit 1.

1. Kentucky River Pool 3 option, including a 25 MGD intake, water treatment plant and high-service pump station at Pool 3, and a 30 mile, 42-inch transmission main from the treatment plant to the connection to the KAW system at Iron Works Road (KY 1973) and Newtown Pike (KY 922) in Fayette County.
2. A 42 mile, 42-inch finished water transmission main from KY 53 in Shelby County, along the I-64 corridor to approximately the same point of connection with the KAW system in Fayette County.
3. A 42 mile, 36-inch finished water transmission main from KY 53 in Shelby County, along the I-64 corridor to approximately the same point of connection with the KAW system in Fayette County.

These models were completed using financing alternatives, including:

1. 100% Public Ownership.
2. 80% Public/20% Private Ownership.
3. 50% Public/50% Private Ownership.
4. 20% Public/80% Private Ownership.
5. 100% Private Ownership.

The wholesale water rate for the pipeline increases as follows:
2011 – 2015: remains flat at the rate of $1.71 per thousand gallons.
2016: Rate increases to $1.93 per thousand gallons to reflect cumulative inflation from 2011-2015.
2017 – End of study period: increases annually at inflation plus two percent, or 4.4% annually.

The results of the analyses are as summarized below:

1. 100% Public Ownership provides a range of savings between $108 million and $147 million.
2. 80% Public/20% Private Ownership provides a range of savings between $99 million and $139 million.
3. 50% Public/50% Private Ownership provides a range of savings between $87 million and $127 million.
4. 20% Public/80% Private Ownership provides a range of savings between $75 million and $114 million.
5. 100% Private Ownership provides a range of savings between $66 million and $106 million.

See Exhibits 2 and 3 for a graphical representation of the results of Exhibit 1.

Very truly yours,
R. W. BECK, INC.

Edward D. Wetzel, Ph.D., P.E.
Executive Vice President

cc: Barbara Dickens

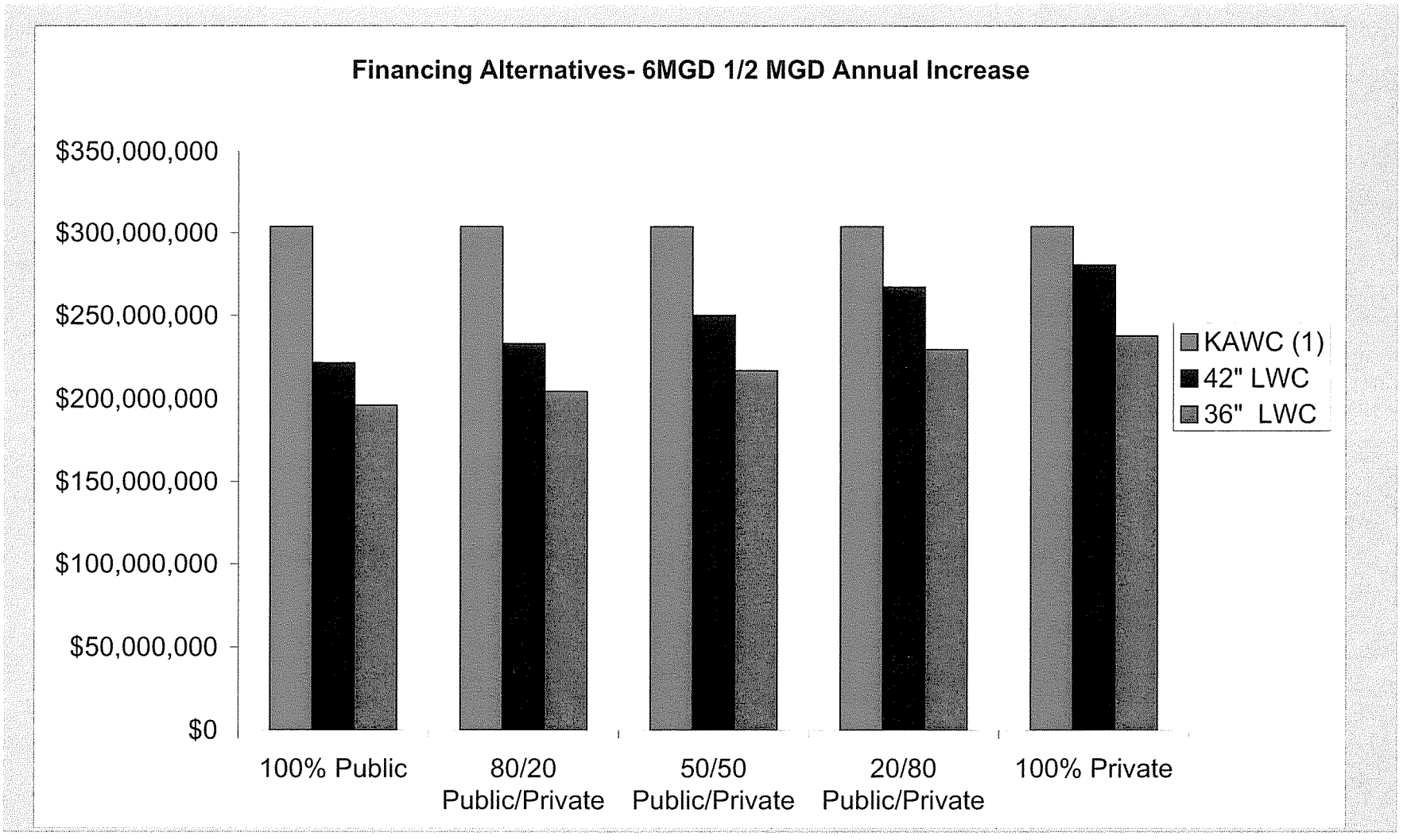
R. W. Beck
Louisville Water Company
Summary of Private vs. Public Ownership Sensitivity Analysis
Present Worth of Life Cycle Cost
Exhibit 1

Scenario	KAWC [1]	42" LWC 6 MGD Flat	36" LWC 6 MGD Flat	Savings [2]
100% Public	$293,986,300	$174,025,816	$146,796,486	$147,189,814
80/20 Public/Private	$293,986,300	$185,406,487	$155,071,919	$138,914,381
50/50 Public/Private	$293,986,300	$202,477,494	$167,485,069	$126,501,232
20/80 Public/Private	$293,986,300	$219,548,501	$179,898,218	$114,088,082
100% Private	$293,986,300	$231,031,793	$188,173,651	$105,812,649

Scenario	KAWC [1]	42" LWC 6 MGD Start (.5 MGD/year increase)	36" LWC 6 MGD Start (.5 MGD/year increase)	Savings [2]
100% Public	$303,899,862	$221,583,568	$196,202,921	$107,696,941
80/20 Public/Private	$303,899,862	$232,964,239	$204,478,354	$99,421,508
50/50 Public/Private	$303,899,862	$250,035,246	$216,891,504	$87,008,358
20/80 Public/Private	$303,899,862	$267,106,253	$229,304,653	$74,595,209
100% Private	$303,899,862	$280,438,228	$237,580,087	$66,319,775

[1] KAWC model assumes 80% Private funding and 20% public funding.
[2] Savings column compares the 36" LWC model to the KAWC pool 3 model.

LOUISVILLE WATER COMPANY
FINANCING ALTERNATIVES ANALYSES
EXHIBIT 2



LOUISVILLE WATER COMPANY
FINANCING ALTERNATIVES ANALYSES
EXHIBIT 3