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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)	

ORDERING PARAGRAPH 9 REPORT

In accordance with Ordering Paragraph 9 of the Commission’s April 25, 2008 Order, Kentucky-American Water Company (“KAW”) provides the following report on the status of the development and implementation of its water conservation, leak mitigation and demand-side management plans and the water usage effects resulting from those plans.

As set forth in previous reports, KAW retained Gannett Fleming, Inc. to assist with the development of a leak mitigation plan and Strand Associates, Inc. to assist with the development of a conservation/demand management plan in accordance with Ordering Paragraph 8 of the Commission’s April 25, 2008 Order.

As for the leak mitigation plan, the consultant completed its final report and it has been submitted to the Commission. KAW has formed a task force comprised of KAW personnel from various disciplines and job areas that is in the process of implementing many of the recommendations in the report and assessing how and whether the other recommendations can be implemented cost-effectively. Progress has been steady. A copy of the latest task force status report is attached.

As for the conservation/demand management plan, KAW has formed a task force to assess the conservation study that has been submitted to the Commission. This task force is also

comprised of KAW personnel from various disciplines and job areas. The task force will determine the appropriateness, effectiveness, and best methods of implementing the conservation recommendations set forth in the conservation study. The task force requested additional information from the consultant relating to objective results normally achieved from the implementation of various conservation efforts. The task force received the supplemental information from the consultant and met in January to establish a timeline for implementation of some of the consultant recommendations. The task force determined that a team needs to be assembled that will focus on raising customer awareness of existing conservation programs and on internal efforts recommended by the consultant. The team met in February and implemented a winter conservation education program that included a customer bill insert for the month of February. A copy of the insert is attached. The insert focuses on conservation measures such as repairing leaks and replacing appliances. The team will meet in March to coordinate summer conservation efforts and continue to implement the consultant's recommendations. Finally, the task force also continues to work with the NRW task force to develop the IWA/AWWA water audit information, which was recommended as part of the NRW reduction study.

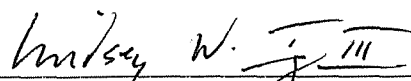
At this time, the plans discussed above are still being finalized. Therefore, to the extent that water usage effects from the implementation of the plans can be isolated and measured, those effects have not occurred.

Respectfully submitted,

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CERTIFICATE OF SERVICE

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By Wendy W. J. III

NRW Status Report

1 March 2010

The recently completed Gannett Fleming (GF) study on Non Revenue Water (NRW) for Kentucky American Water (KAW) was supplied to the PSC in early September. KAW has assembled a task force that includes a cross section of KAW personnel from various disciplines and job duties to assess each recommendation, and determine how to best integrate the recommendation into KAW operations.

The report's Executive Summary identifies 6 tasks and makes recommendations related to each. This NRW Status Report will discuss each in the order presented in GF's Executive Summary.

Under Task 1, GF recommends four actions. KAW is already implementing the first, regarding four main replacement locations. One of the four locations has already been replaced, and the other three are being prioritized for possible replacement. The second recommendation, which involves tracking information that will allow valid assessments as to the costs/benefits of main replacement candidates, is likewise being implemented. The software used for this type of tracking is Computerized Maintenance Management Software, or CMMS. The CMMS program went live in the last week of January in Clark, Jessamine, Bourbon, Harrison and Woodford counties. The input of information for Scott County began in February and will be

completed in March. Input of information for Fayette County is now scheduled to begin in March, with an anticipated completion date around the end of April.

The third recommendation under Task 1 addresses third party breaks. KAW is evaluating options to enhance third party performance to reduce the frequency of damage to KAW facilities that have been marked as part of the BUD system. In the meantime, KAW will try to ensure that all third parties are identified to see if we have any repeat offenders that might require special attention. KAW began tracking third party breaks in January 2008 and is considering whether additional data needs to be gathered. In the meantime, KAW will focus on identifying third party breaks, ensuring that billing occurs for the breaks and phoning those responsible for third-party breaks to make them aware of the problem. Personnel from multiple areas met the first week in December to discuss the billing process regarding damages to company property. As a result of that meeting, the processes are currently being updated and changes implemented.

The fourth recommendation under Task 1, regarding best use of leak detection equipment, is quite detailed and lengthy, and KAW continues to evaluate how to best address the recommendation as part of routine, ongoing NRW activities. During December 2009, KAW installed Permalog sounding equipment on a large special connection. During January 2010, the Company devoted a great deal of time to tracking hydrant usage. Several changes were made, the most significant of which was the planned change-out to AMR meters

for fire connections that are metered. The change-out should be complete sometime this summer.

Under Task 2, GF includes two recommendations, but only the second is actually proposed for adoption. It involves enhancements to KAW's Geographic Information System (GIS) capabilities, and KAW continues to evaluate that recommendation. KAW is in the process of upgrading its mapping software and making it more widely available, and we are also expanding the use of the GIS system as recommended by GF. During January 2010, an effort was begun to enter all large fire services into the GIS system. Any expansion of GIS technology, however, must be coordinated with other record-keeping software to make sure they provide complementary information. That coordination is being evaluated.

Under Task 3, GF offers five recommendations. The first two, calling for surge modeling, require very specialized expertise. We are looking at possible outside experts and their cost compared to the benefits that might be gained and are considering budgeting for those costs. The third recommendation is for a tank operating procedure, and KAW is in the process of evaluating the degree of programming and equipment changes that may be required to implement that procedure. The last two recommendations under this task again involve GIS improvements. KAW is evaluating them along with those for Task 2 and is considering including the associated costs in the upcoming budget.

Under Task 4, GF has recommended two metering studies that may offer value in ensuring metering accuracy. KAW continues to evaluate the scope and

costs of conducting those studies as part of overall ongoing metering strategy. As part of this evaluation, KAW is determining how many of its large meters have bypass meters on them. Earlier KAW installed a flow-search meter on a large meter; in December flow-search meters were installed at two additional locations.

Under Task 5, GF had made three recommendations. The third recommendation, for placing a lien on properties with private mains that leak, is not authorized by Kentucky law and will not be pursued. KAW is already implementing the first, which is a pilot program to use Permaloggers on a private main.

The second, for installation of meters on private mains that are known to leak, is a good idea that KAW is working to implement. Significant effort was begun to this recommendation in December, focusing on private fire services, and it continues. KAW has initiated an end-to-end process review of fire service billings, collections, and leaks, and changes are being implemented.

Under Task 6, GF offers three recommendations, all involving adoption of the IWA/AWWA tracking methodology. KAW is already implementing both of the first two and is moving forward on the third. In conjunction with this process, KAW is replacing all AMR meters in Clark County, which used an old technology, with new AMR meters. The three recommendations taken together require accumulation and tracking of data from numerous sources. KAW continues to assess data for the initial compilation, but an initial, very rough draft of a water audit balance sheet has been compiled. In February, KAW conducted a review of the year end balance worksheet, and credit adjustment trends in 2009 are

being reviewed to determine whether any process changes need to be implemented.

The IWA/AWWA methodology offers transparency into the various components of non-revenue water that may supplement information provided on the current PSC water loss reports.

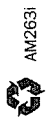
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In a world where everything we touch frequently changes, water is our constant. We've never stopped needing it to drink, to cook, to clean, to live. We'll always need it for sanitation, for the protection of watering our lawns and washing our cars. It's easy to take water for granted. And because so many of us do, we don't.

We are scientists, environmentalists, managers and protectors. We are also residents and employees in the communities we serve. We understand how important, how precious, and how critical water is to life here.

**WE CARE ABOUT WATER.
IT'S WHAT WE DO.**

Printed on paper containing recycled content. Each ton of recycled paper saves 7,000 gallons of water.



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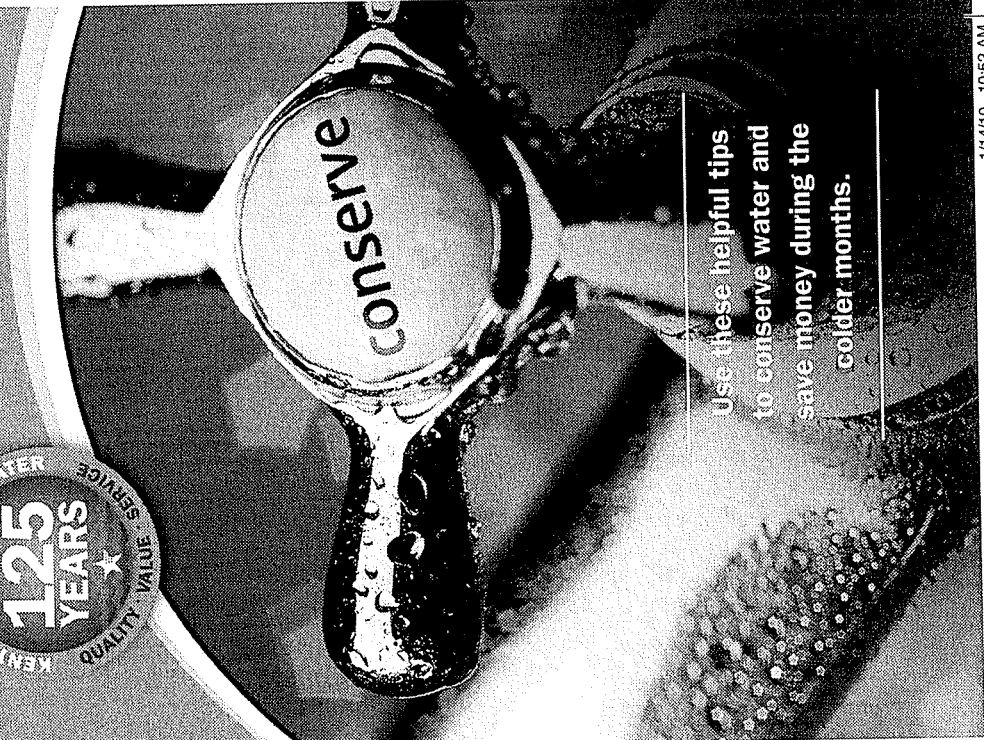
**KENTUCKY
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www.kentuckyamericanwater.com
1-800-678-6301

Conserving Water in Winter



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Use these helpful tips
to conserve water and
save money during the
colder months.

The typical household with

no water-saving devices

uses an average of 100

gallons of water per person each day. Of

those 100 gallons, only one percent is used

for drinking. As winter approaches, look

inside your home to find ways to conserve

water and save money.

Warm water with less waste.

The next time you turn on a faucet or shower and wait for it to heat up, think about all the unused water going down the drain. Consider installing hot water adapters to faucets and showerheads. These water-saving devices connect to your water system to provide hot water in seconds. Adapters require little to no maintenance and can save up to 10,000 gallons of water a year or more.

Protecting your pipes.

- Know what areas of your home, such as basements, crawl spaces, unheated rooms and outside walls, are most vulnerable to freezing.
- Eliminate sources of cold air near water lines by fixing windows, insulating walls, closing off crawl spaces and eliminating drafts near doors.
- Know where your main water shut-off valve is. If a pipe freezes or bursts, shut the water off immediately.
- Protect your pipes and water meter. Wrap exposed pipes with insulation or an electrical pipe heater.

Winter water-saving tips.

Although most homeowners use nearly twice as much water in the summer, hundreds of gallons are still wasted down the drain in the winter. Here are a few useful tips and reminders to help keep your home water-efficient throughout the winter:

- Keep unused pools and spas covered with a solar or other safety-type pool cover to save energy and prevent water evaporation.
- Check all toilets, sinks and water-using appliances for leaks. Quick identification and repair can help save water, prevent mold growth, and protect floors and walls from water damage. Call 1-800-678-6301 for your free leak detection kit.
- Install a low-flow showerhead and save an average of ten gallons of water per shower.
- Consider installing high-efficiency aerators on kitchen and bathroom faucets. Installation takes only minutes and the savings can be substantial.
- Wash clothes and dishes only when machines are full, and you will save gallons of water per wash cycle.

To learn more about water conservation and what you can do to make a difference, visit www.kentuckyamwater.com.

Encouraging water conservation is one more way we are helping to ensure an adequate supply of high-quality and reliable water service for Central Kentucky.

The cost to our customers? Still less than a penny per gallon.

To learn more about the Central Kentucky Water Supply Solution and to subscribe to our monthly e-newsletter, visit www.kentuckywatersolution.com.



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