

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

**IN THE MATTER OF:** )  
 )  
**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** )

**CASE NO. 2007-00134**

**RECEIVED**

**APR 01 2010**

**PUBLIC SERVICE  
COMMISSION**

**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. The conservation team continued in March to distribute conservation materials and is developing additional customer education materials, including a bill insert that will provide detailed information to help customers track individual usage. Summer conservation material will be distributed in early summer. The conservation team is also discussing external partnerships for providing conservation programs and customer information. 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.

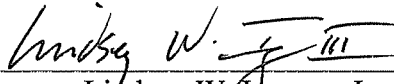
At this time, the plans discussed above are still being finalized. Therefore, to the extent that water usage effects from the implementation of the plans can be isolated and measured, those effects have not occurred.

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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 the 1<sup>st</sup> day of April, 2010, and a copy mailed to:

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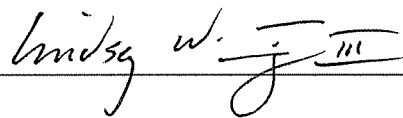
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# NRW Status Report

1 April 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. Warfield Place was replaced in 2005 – 2006, Hanover Court is scheduled to be replaced in July through August 2010, and the other two 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. Scott County has been loaded, is being checked for accuracy, and will be live in the month of April. We anticipate the input of information for Fayette County will be completed around the end of April. Five new "tough books" were purchased and will be operational by the end of April so that the field crews can work from an electronic copy as opposed to a paper copy. New maintenance work orders are now in use to capture all leak detection labor and material expenses, which will allow KAW to track the total cost of the leak detection program and weigh it against the benefits.

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. The emphasis currently is tracking mark out accuracy. 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. KAW believes GF's "tips for optimal operation of leak detection equipment" are valuable, and is utilizing all of them.

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. In the meantime, the main break database has been modified to capture leak location information based on SMZ boundaries. This modification will help identify trends in breaks to assist with the prioritization of main replacements and the leak monitoring process. Tracking and analyzing main breaks is an ongoing process to evaluate if there is a trend for specific areas as well as for certain types of main material.

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. Last year KAW installed a flow-search meter on a large meter. In December KAW bought a second flow-search meter, and they were installed at two additional locations. The two meters are being used to monitor trends in usage and flows in relation to the size of meters. The monitoring is being conducted on large meters (6 and 8 inch) that do not have a low flow or non-compound meter. In addition, KAW has replaced two 2-inch meters that were in a dual meter setting at a location where we have experienced problems with the meters. The new turbine meters will be monitored throughout the summer.



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 on 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. KAW has investigated possible leaks at Colestream Farm and found that unaddressed leakage is not occurring there. The Permaloggers have now been moved to the Horse Park to assess that property. KAW has proposed a change in its fire service tariff in the pending rate case to allow us to charge for known usage detected on theft meters that is unrelated to extinguishing fires. Finally, KAW has identified one fire service showing usage on the theft meter. We are coordinating efforts with the owner to resolve the issue.

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.