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**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

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 2010 to establish a timeline for implementation of some of the consultant recommendations.

The task force also 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 2010 and implemented a winter conservation education program that included a customer bill insert for the month of February. The conservation team continued in March 2010 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. In May 2010, KAW continued efforts to educate customers on how to read their bills to determine actual usage and how it impacts overall costs for the customer through additional distribution of materials. Additionally, KAW scheduled a bill insert for outdoor conservation tips and began billboard advertising for conservation.

In June 2010, KAW continued efforts to educate customers on outdoor conservation tips and continued its billboard advertising for conservation. KAW met with the Fayette County Public Schools to explore opportunities for partnerships both through education and assisting schools in water reduction programs. KAW awarded two grants totaling nearly \$20,000. These two grants went to the Hamburg Homeowners Association and the Friends of Raven Run to

assist with programs that focus on watershed protection and education efforts on preserving water resources.

In July and August 2010, KAW continued efforts to educate customers on outdoor conservation tips and billboard advertising for conservation. A copy of the billboard advertising is attached. KAW hosted an open house at the Richmond Road Station treatment plant on July 27, 2010 which had nearly 400 attendees. In addition to tours of the plant, KAW provided information on outdoor conservation and leak detection kits. On August 20, 2010, KAW participated in the Cane Run Watershed Festival developed by the LFUCG to promote water resource protection. KAW provided a sponsorship, had drinking water available, and provided additional information to participants on conservation tips, water quality, leak detection within the home, and reading the customer bill.

In October 2010, KAW concluded its efforts to educate customers on outdoor conservation tips. The education efforts included radio, television and billboard advertising. KAW ran additional information in the newspaper to help educate customers on reading and understanding their monthly bill, which is a key component of initiating conservation efforts. In addition to the efforts with civic groups, school systems, and industrial customers, KAW met with an apartment organization to discuss partnerships for residential audits, and with groups that are interested in additional information for low-income families.

During October, KAW helped with the promotion of water resource awareness through the promotion of additional watershed festivals, participating with the LFUCG on a water management fee stakeholder committee, and hosting a Medtoss location so that local residents can drop off for disposal expired prescription medications thus preventing their migration into

the water supply. These efforts have helped support the conservation programs through heightened awareness of water as a critical natural resource.

In November 2010, KAW began its efforts to educate customers on indoor conservation starting with cold weather tips. This included a news release and posting on the KAW website. KAW concluded its radio campaign on general wise water tips.

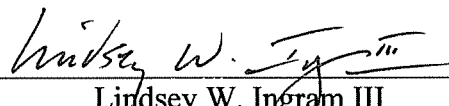
In December 2010, KAW continued its efforts to educate customers on indoor conservation with cold weather tips. This included media and billboard information as well as information on the KAW website. KAW continued to promote to its customers use of the Watersense product program developed by the USEPA that certifies products as being water efficient. KAW also continued to pursue partnerships for additional conservation programs.

In January 2011, KAW continued the indoor conservation efforts and Watersense program mentioned above. KAW also initiated a partnership with the Chrysalis House, a non-profit organization in Lexington by providing a grant for water efficient fixtures and providing a consultant to review the facilities and recommend the most cost effective upgrades. Finally, KAW continues to pursue partnerships for additional conservation programs with civic groups, school systems, industrial customers, and other organizations.

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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BY: 

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CERTIFICATE OF SERVICE

This is to certify that the original and ten (10) copies of the foregoing have been filed with the Public Service Commission this the 1st day of February, 2011, and a copy mailed to:

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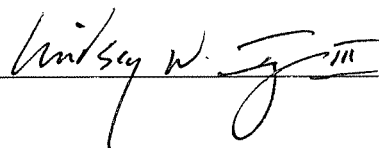
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NRW Status Report

1 February 2011

The Gannett Fleming (GF) study on Non Revenue Water (NRW) for Kentucky American Water (KAW) was supplied to the PSC in early September 2009. 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. Only the tasks with pending actions in October are referenced in this report.

Under Task 1, GF recommended four actions. Three of the four recommended main replacement projects are complete. Hanover Court Construction started in October with the main replacement portion of the project complete in December. Service renewals were complete in January with restorative work occurring in the Spring, 2011.

Under Task 4, GF has recommended two metering studies that may offer value in ensuring metering accuracy. KAW conducted a detailed meter demand study which includes continuous/instantaneous metering. This metering is an ongoing process.

Under Task 5, the GF study made three recommendations. The first and third recommendation, were addressed in prior reports and are complete. The second recommendation deals with property owners who do not address known leaks on private services. KAW continues to work with customers to address these issues.

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 continues to move forward on the third. The company's 12 month rolling NRW is 11.7% at December 31, as compared to 13.7% at the time of the GF study. This NRW percentage is based solely on system delivery less sales. It is important to note that the PSC standard for NRW does not consider "other water used" in the business as part of NRW. Approximately one percent of system delivery is water used for flushing mains, fire department usage, street cleaning and other operational issues for which no revenue is collected. As of December 31, 2010, the NRW total reported to the PSC was 10.9%.

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.