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Thomas M. Dorman
Executive Director
Public Service Commission

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August 29, 2002

Roy W. Mundy
President
Kentucky-American Water Company
2300 Richmond Road
Lexington, Kentucky 40502

Dear Mr. Mundy:

I have received your letter requesting confirmation of your assumption that advertising costs are not recoverable in utility rates in Kentucky.

Your assumption is correct. As you are aware, 807 KAR 5:016 outlines the advertising related expenses that are allowed, and those that are disallowed in rates. I have included a copy of the regulation for your convenience. Section 2 indicates that no such expenditures will be considered "unless such advertising will produce a material benefit for the ratepayers." "Material benefit" is explicitly defined in Section 3 of the regulation, and includes, but is not limited to such items as advertising related to reducing bills, safety information, etc.

Section 4 (2) of the regulation explicitly places the following restrictions on such expenditures:

Advertising expenditures for political and institutional advertising by telephone, water, or sewage utilities shall not be considered as producing a material benefit to the ratepayers and, as such, these expenditures are expressly disallowed for rate-making purposes.

"Political advertising" is further defined in Section 4(2)(a) as

. . .any advertising for the purpose of influencing public opinion with respect to legislative, administrative, or electoral matters, or with respect to any controversial issue of public importance.

If my office can be of further assistance, please let me know.

Sincerely,

A handwritten signature in black ink, appearing to read "Thomas M. Dorman".

Thomas M. Dorman
Executive Director



AN EQUAL OPPORTUNITY EMPLOYER M/F/D