

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

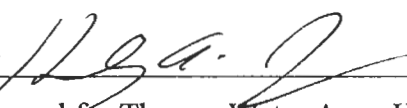
IN THE MATTER OF:

COMPLIANCE OF KENTUCKY-AMERICAN)	
WATER COMPANY, AMERICAN WATER WORKS)	
COMPANY, RWE AKTIENGESELLSCHAFT AND)	
THAMES WATER AQUA HOLDINGS GMBH WITH)	
THE PROVISIONS OF THE ORDERS)	CASE NO.
APPROVING THE TRANSFER OF CONTROL OF)	2002-00277
KENTUCKY-AMERICAN WATER COMPANY TO)	
RWE AKTIENGESELLSCHAFT AND THAMES)	
WATER AQUA HOLDINGS GMBH)	

**NOTICE OF CONDITION 10 REPORT – CAPITAL AND
OPERATION AND MAINTENANCE BUDGETS**

Come Thames Water Aqua Holdings GmbH, RWE Aktiengesellschaft, American Water Works Company, Inc., Thames Water Aqua U.S. Holdings, Inc. and Kentucky-American Water Company, and pursuant to Condition 10 of the Commission’s Order dated December 20, 2002, in Case No. 2002-00317, file herewith the Two-Year Capital and Operation and Maintenance Budgets of Kentucky-American Water Company.

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By  _____
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Thames Water Aqua U.S. Holdings, Inc. and
Kentucky-American Water Company

CERTIFICATION

In conformity with paragraph 7 of the Commission's Order dated January 30, 2002, in Case No. 2002-00018, this is to certify that the electronic version of this pleading is a true and accurate copy of the pleading filed in paper medium; that the Petitioners have notified the Commission and the parties in Case No. 2002-00018 by electronic mail on March 31, 2005, that the electronic version of this pleading has been transmitted to the Commission, and that a copy has been served by mail upon:

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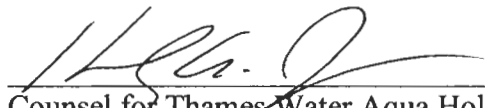
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and that the original and three copies have been filed with the Public Service Commission in paper medium on the 31st day of March, 2005.



Counsel for Thames Water Aqua Holdings GmbH,
RWE AG, American Water Works Company, Inc.,
Thames Water Aqua U.S. Holdings, Inc. and
Kentucky-American Water Company

STRATEGIC CAPITAL EXPENDITURE PLAN

Kentucky American Water

Units = \$

Revision Date Mar 28, 2005

Status Approved 2005 Q1 Reforecast, proposed 2006

Brief Description of Proposed Expenditures	Prior	Total 2005	Plan Total 2006	Comment:
Mains, Hydrants, Valves, Meters - Deposit/Contribution		4,080,000	4,161,600	
Network - Replacement Renewal		600,000	650,000	
Network - Extension		255,000	260,100	
Hydrants - Replacement		25,500	26,000	
Hydrants - New		300,000	306,000	
Services - Replacement		500,000	525,000	
Services - New		1,157,000	1,180,100	
Meters - Replacement		415,090	450,000	
Meters - New		1,121,500	1,118,900	
ITS Equipment & Systems		75,500	100,000	
Offices and Operations Centers		55,000	54,000	
Vehicles		0	0	
Tools and Equipment		160,000	90,000	Major equipment replaced in 2005
Process Plant - Replacement		350,000	225,000	Major equipment replaced in 2005
Process Plant - Additions		50,000	50,000	
Treatment Media Replacement and Process Rehabilitation (capitalized)		0	0	
Tank Rehabilitation / Painting (capitalized)		0	0	
Comprehensive Planning Studies		0	300,000	
TOTAL RECURRING PROJECTS		9,144,591	9,496,700	
Owenton Acquisition		200,000	0	Project complete in 2005
Owen County Main Extensions (343)		300,000	170,000	Scheduled reduction to match grant funding
STEP project - Technology Implementation		1,307,750	922,968	Five-year schedule
UV Installation - KRS/RRS (332)		0	0	
Source of Supply Development Project (343)	345,120	320,215	1,179,785	

Major Highway Relocations (343)	567,181	1,202,000	530,000	Major projects completed in 2005 include Leestown Rd, Loudon Avenue
Replace Trac-Vac System at RRS (332)		50,000	700,000	
Sludge Handling Improvements - RRS (332)	0	50,000	0	
Russell Cave Road Main - 34,000' of 12" (343)		500,000	800,000	
6400"-20" Main, Clays Mill Road		0	0	
Emergency Power Improvements		0	0	
SCADA - Owen County - New Columbus Tank		0	0	
Replace Parkers Mill Pump and Diesel	0	0	0	
Mallard Point Pressure Improvments				
Ground Storage Tank - 3.0 MG (342)		75,000	700,000	
Incline Car Replacement @KRS (311)		12,345	250,000	
KRS Clearwell Improvements (332)		0	0	
North Broadway Main Replacement (343)		0	0	
North Upper Street Main Replacement Project (343)	0	0	0	
Install 22,700';12" in Todds and Cleveland Rd				
Valve House Upgrades at KRS (332)		0	0	
Replace Trash Rake @ KRS (311)		0	0	
Leestown Road Main Improvements (343)		765	0	
Russell Cave Road Tank - 1.0 MG (342)	570,477	929,553	0	Project complete in 2005
Elevated Storage Tank - 2.0 MG (342)	480,216	2,689,784	0	Project complete in 2005
Electrical Reliability upgrades /System Reliability (332)	725,151	374,849	0	Project complete in 2005
KRS Filter Media Replacement - Hyd 3 & 4 (332)	0	0	0	
Yarnallton Road Main (343)	0	0	0	
Mechanical Upgrades - KRS Valve Houses		0	0	
Non Budgeted Ips		62,709	0	
Rockwell Village Wastewater Pipeline		350,000	0	Project complete in 2005
KRS Valve Mechanical Improvement		350,000	0	Project complete in 2005
		0	0	
TOTAL INVESTMENT PROJECTS		8,774,970	5,252,753	The overall Investment Projects have been reduced in 2006 to potentially accommodate capital participation with the Bluegrass Water Supply Commission. The extent of this participation is unclear at this time.
TOTAL GROSS CAPEX	0	17,919,561	14,749,453	

**KENTUCKY-AMERICAN WATER COMPANY
ANNUAL BUSINESS PLAN**

	Proposed 2005 Plan	Proposed 2006 Plan
1 OPERATING REVENUES		
2 WATER	50,145,755	50,145,755
3 SEWER	358,492	360,467
4 OTHER	1,115,608	1,116,532
5 MANAGEMENT	0	0
6 TOTAL	51,619,855	51,622,754
7 OPERATING EXPENSE		
8 LABOR	3,998,926	4,108,454
9 PURCHASED WATER	351,774	351,774
10 FUEL & POWER	2,176,259	2,176,395
11 CHEMICALS	1,432,353	1,494,475
12 WASTE DISPOSAL	241,732	253,832
13 MANAGEMENT FEES	5,512,986	5,462,357
14 GROUP INSURANCE	1,715,424	1,863,158
15 PENSIONS	863,741	773,811
16 REG. EXPENSE	230,412	231,996
17 INSURANCE NOT GROUP	370,180	401,512
18 CUSTOMER ACCTG	1,142,432	1,176,951
19 RENTS	64,502	65,204
20 GENERAL OFFICE	360,704	362,522
21 MISCELLANEOUS	2,380,778	2,514,511
25 OTHER MAINT. EXPENSE	1,297,187	1,378,006
22 TOTAL	22,139,391	22,614,959
27 DEPRECIATION	7,114,674	7,489,411
28 AMORTIZATION	673,596	447,300
29 GENERAL TAXES	2,319,255	2,561,762
30 SIT	1,281,930	1,206,812
31 FIT	4,746,276	4,468,944
33 TOTAL OPERATING EXP	38,275,121	38,789,187
34 UTILITY OPER INCOME	13,344,735	12,833,568
35 OTHER INCOME & DED		
36 NONOPERATING RENTAL INCOME		
37 DIVIDEND INCOME - COMMON		
38 - PREFERRED		
39 INTEREST INCOME		
40 AFUDC (AFUDC WORKSHEET)	529,733	485,092
42 M&J MISC INC	30,202	30,430
43 GAIN (LOSS) ON DISPOSITION		
45 TOTAL OTHER INCOME	559,935	515,522
46 MISC AMORTIZATION	768	768
48 MISC OTHER DEDUCTIONS	345,433	345,433
49 GENERAL TAXES		
50 SIT	(26,007)	(28,555)
51 FIT	(101,229)	(111,149)
52 TOTAL OTHER DEDUCTIONS	218,966	206,497
53 TOTAL OTHER INCOME NET	340,970	309,025
54 INCOME BEFORE INTEREST	13,685,704	13,142,593
55 INTEREST CHARGES:		
56 LONG TERM DEBT	4,987,367	4,903,400
57 AMORTIZATION	76,436	72,108
58 SHORT TERM DEBT	171,802	233,877
59 OTHER		
60 AFUDC DEBT	(252,690)	(231,396)
61 TOTAL INTEREST	4,982,914	4,977,989
62 NET INCOME	8,702,790	8,164,604
64 PREFERRED DIVIDENDS	464,745	464,745
65 NET INCOME TO COMMON	8,238,045	7,699,859