

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

IN THE MATTER OF:

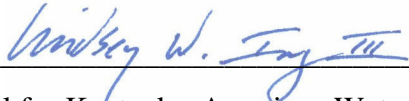
COMPLIANCE OF KENTUCKY-AMERICAN)	
WATER COMPANY, AMERICAN WATER WORKS)	
COMPANY, RWE AKTIENGESELLSCHAFT AND)	
THAMES WATER AQUA HOLDINGS GMBH WITH)	
THE PROVISIONS OF THE ORDERS)	CASE NO.
APPROVING THE TRANSFER OF CONTROL OF)	2002-00277
KENTUCKY-AMERICAN WATER COMPANY TO)	
RWE AKTIENGESELLSCHAFT AND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

**NOTICE OF ORDERING PARAGRAPH 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 ordering paragraph 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.

Respectfully submitted,

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BY: 

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Water Aqua US Holdings, Inc., RWE AG and
American Water Works Company, Inc.

CERTIFICATION

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. 2002-00317 by electronic mail on March 31, 2008 that the electronic version of this pleading has been transmitted to the Commission and that a paper copy has been served by mail upon:

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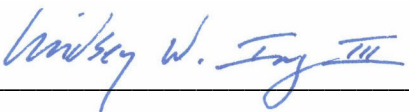
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and that the original and three paper copies have been filed with the Public Service Commission on the 1st day of April, 2008.

BY: 
Counsel for Kentucky-American Water Company,
Thames Water Aqua Holdings GmbH, Thames
Water Aqua US Holdings, Inc., RWE AG and
American Water Works Company, Inc.

STRATEGIC CAPITAL EXPENDITURE PLAN
Kentucky American Water
Units = \$

Revision Date Mar 14, 2008
 Status Approved 2008 Q1 Reforecast, proposed 2009

Project Number	Brief Description of Proposed Expenditures	Prior	Total 2008	Plan Total 2009	Comment:
DV	Projects Funded by Others (Contrib. /Adv./ Refunds)		4,000,000	4,500,000	
A	Mains - New		535,000	560,000	
B	Mains - Replaced / Restored		1,886,000	2,010,600	
C	Mains - Unscheduled		221,937	239,400	
D	Mains - Relocated		420,000	0	Expenditures are transferred to Item B in 2009
E	Hydrants, Valves, and Manholes - New		427,992	392,000	
F	Hydrants, Valves, and Manholes - Replaced		125,000	150,000	
G	Services and Laterals - New		855,915	980,000	
H	Services and Laterals - Replaced		641,603	1,400,000	
I	Meters - New		1,149,930	1,215,048	
J	Meters - Replaced		1,473,399	1,500,000	
K	ITS Equipment and Systems		259,750	102,000	Major Equipment replaced in 2008
L	SCADA Equipment and Systems		51,000	20,000	
M	Security Equipment and Systems		10,000	0	
N	Offices and Operations Centers		400,000	80,000	Office Building improvements budgeted for 2008
O	Vehicles		500,000	327,932	2009 Capex reduced to accommodate IP expenditures
P	Tools and Equipment		218,014	165,000	2009 Capex reduced to accommodate IP expenditures
Q	Process Plant Facilities and Equipment		820,600	800,000	
R	Capitalized Tank Rehabilitation / Painting		100,000	0	
S	Engineering Studies		81,100	50,000	
	TOTAL RECURRING PROJECTS		14,177,241	14,491,980	
12020204	Source of Supply Project Dev	1,639,787	109,069	64,200	Regulatory costs expected to decrease under construction
12020201	LEX-Leestown Rd Main Improvmts	151,115	0	0	
12020402	Major Highway Relocations	3,174,112	329,581	1,000,000	Major Projects include US 25, Liberty Road
12020502	Russell Cave Road Main	1,305,163	(112)	0	
12020505	Replace Trac-Vac System at	1,078,317	115,241	0	Project complete in 2008
12020506	Sludge Handling Improvement	1,915,990	238,359	0	Project complete in 2008
12020508	Kentucky Reliability Improvemt	4,586,868	1,210,964	0	Project complete in 2008
12020602	Yarnallton Road Main Extension	25,815	0	0	
12020605	Mallard Point Pressure	338,744	274	0	
12020606	Parker's Mill Pump & Diesel	772,825	(394)	0	
12020607	New WTP On Pool 3 of Kentucky	4,976,933	26,415,482	70,670,430	
12020702	KY MAJOR HIGHWAY	2,104,746	1,078,937	0	Completion of Newtown Pike, LFUCG projects
12300403	Owen County Main Extensions	2,198,119	426,063	0	Project complete in 2008
	Owenton Sewer	0	0	0	
IP-1202-5	North Broadway Main Replacement	0	1,861,178	500,000	Two-year project
	Install 34,000' of 20" US 460 and Russell Cave Rd	0	1,000,000	1,700,000	Two-year project
IP-1232-1	Owenton-Post Acquisition Phase 2	0	824,836	0	Bulk storage project
12020501	Ground Storage Tank	0	0	575,000	
12020613	Highway Relocation-Clays Mill	0	70,542	930,000	
12020701	KENTUCKY INCLINE CAR	50,000	280,709	815,288	
12500503	Rockwell Village WW Pipe	26,750	399,750	0	Project complete in 2008
	Nonbudgeted Ips		(95,699)		
	TOTAL INVESTMENT PROJECTS		34,264,779	76,254,918	The total CAPEX has been significantly increased due to new WTP on Pool 3 of the Kentucky River and will not be sustained once project is complete.
	TOTAL GROSS CAPEX	0	48,442,020	90,746,898	

KENTUCKY AMERICAN WATER
ANNUAL BUSINESS PLAN 2007-2011

DESCRIPTION	Proposed 2008 Plan	Proposed 2009 Plan
OPERATING REVENUES		
Water	57,285,667	57,810,113
Sewer	277,656	277,656
Other	1,976,432	1,976,677
Management		
Total	59,539,755	60,064,446
OPERATING EXPENSES		
Labor	6,735,000	7,036,503
Purchased Water	603,650	613,482
Fuel & Power	2,794,405	2,877,703
Chemicals	1,637,082	1,675,552
Waste Disposal	294,647	307,608
Management Fees	7,369,000	7,422,415
Group Insurance	1,984,392	2,337,680
Pensions	518,280	525,850
Regulatory Expense	607,390	593,052
Insur. Oth. Than Group	725,700	777,170
Customer Accounting	1,586,154	1,597,345
Rents	32,180	35,972
General Office Expense	457,218	498,815
Miscellaneous	2,936,255	3,057,156
Other	1,482,553	1,538,572
Total O&M	29,763,906	30,894,874
Depreciation	8,021,083	8,457,108
Amortization	410,580	410,580
General Taxes	3,470,131	3,692,200
Total Operating Exp.	41,665,700	43,454,762
Utility Operating Income	17,874,055	16,609,683
OTHER INC & DEDUCT		
Nonoperating Rent. Inc.		
Dividend Income-Common		
-Preferred	-	-
Interest Income	-	-
AFUDC - Equity	1,507,093	2,265,087
M & J & Miscell Income	-	-
Gain (Loss) on Dispos.	-	-
Tot.Other Inc.36-44	1,507,093	2,265,087
Misc. Amortization	768	768
Misc. Other Deductions	362,613	361,599
General Taxes		
Tot.Oth.Deducts 46-51	363,381	362,367
Tot.Oth.Inc Net 45-52	1,143,712	1,902,720
Income Before Taxes and Interest	19,017,767	18,512,403
INTEREST CHARGES		
Interest Long Term Dbt	5,900,273	6,606,385
Amort Of Debt Expense	71,448	112,137
Int Short Term Bank Dbt	1,045,249	1,885,151
Other Interest Expense	-	-
AFUDC - Debt	(684,425)	(1,028,657)
Total Interest Expense	6,332,544	7,575,016
Income Before Taxes	12,685,223	10,937,387
State Income Taxes	648,505	530,764
Federal Income Taxes	4,264,136	3,789,751
State Income Taxes	(29,916)	(29,832)
Federal Income Taxes	(116,444)	(116,118)
Total Income Taxes	4,766,281	4,174,564
NET INCOME 54-61	7,918,942	6,762,823
Preferred Dividends	459,898	460,069
Net Income Common Stock	7,459,044	6,302,754