

**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)
APPROVING THE TRANSFER OF CONTROL OF)
KENTUCKY-AMERICAN WATER COMPANY TO)
RWE AKTIENGESELLSCHAFT AND THAMES)
WATER AQUA HOLDINGS GMBH)**

**CASE NO.
2002-00277**

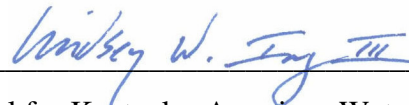
**NOTICE OF ORDERING PARAGRAPH 8 AND CONDITION
19 REPORT – BEST PRACTICES**

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 8 and Condition 19 of the Commission's Order dated December 20, 2002, in Case No. 2002-00317, herewith give notice of the filing of a Report on Compliance related to the implementation of best practices for Kentucky-American Water Company, a copy of which is filed herewith electronically.

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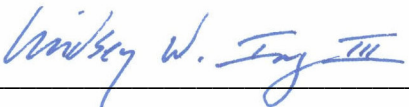
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and that the original and three paper copies have been filed with the Public Service Commission on the 1st day of April, 2008.

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.

**TABLE 1 OF 2007 REPORT
KENTUCKY-AMERICAN WATER COMPANY
RWE MERGER COSTS/SAVINGS INFORMATION**

OP EX COSTS/SAVINGS FROM PROCUREMENT INITIATIVE

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>TOTAL</u>
Operating Expense Savings as shown on Table 1.1.	\$10,400	\$279,000	\$302,000	\$279,173	\$225,591	\$1,096,164
Revenue Requirement Reduction	\$10,400	\$279,000	\$302,000	\$279,173	\$225,591	\$1,096,164

CAP EX COSTS/SAVINGS FROM PROCUREMENT INITIATIVE

Capital Expense Savings as shown on Table 1.2	\$17,500	\$106,000	\$70,000	\$296,329	\$274,860	
Less: allocated Portion of Implementation costs	\$0	\$0	\$0	\$0	\$0	
Net Capital Expense (Rate Base) Savings	\$17,500	\$106,000	\$70,000	\$296,329	\$274,860	
Rate of Return	8.25%	7.75%	7.75%	7.75%	7.75%	
Reduction in Utility Operating Income	\$1,444	\$8,215	\$5,425	\$22,965	\$21,302	
Revenue Requirement Reduction (At 1.4 times)	\$2,021	\$13,522	\$21,117	\$53,269	\$83,091	\$173,021

**COSTS/SAVING FROM DESIGN AND BUILD CONSTRUCTION INITIATIVE
Capital projects Over \$1,500,000 With Design/Build Expenditures in 2004, 2005, 2006 & 2007**

	<u>Total Expenditures</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	
IP 03-01 Elevated storage Tank - 2.0 MG	\$3,199,701	0	\$480,216	\$2,719,485	\$0	\$0	
IP 05-06 Sludge Handling RRS	\$2,000,000	0	\$0	\$25,000	\$472,408	\$0	
IP 05-02	\$1,800,000	0	\$0	\$471,363	\$845,493	\$0	
IP-07-12020508	<u>\$2,336,087</u>	<u>0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$2,336,087</u>	
Total Capital Expenditures From Qualifying Projects	\$9,335,788	\$0	\$480,216	\$3,215,848	\$1,317,901	\$2,336,087	
Forecasted Percent of Saving From Changes in Design/Build Practices			3.00%	3.00%	3.00%	3.00%	
Forecasted Rate Base Savings			\$14,406	\$96,475	\$39,537	\$70,083	
Cumulative Savings			\$14,406	\$110,882	\$150,419	\$220,502	
Rate of Return			8.25%	7.75%	7.75%	7.75%	
Reduction in Utility Operating Income			\$1,189	\$8,593	\$11,657	\$17,089	
Revenue Requirement Reduction (At 1.4. times0			\$1,664	\$12,031	\$16,320	\$23,924	\$53,940

COSTS/SAVINGS FROM IMPROVED DEBT RATING

Interest and Issuance Cost Savings (Table 1.3)	\$247,659	\$286,159	\$286,159	\$286,159	\$212,850	
Total Kentucky-American Interest Savings	<u>\$247,659</u>	<u>\$286,159</u>	<u>\$286,159</u>	<u>\$286,159</u>	<u>\$212,850</u>	<u>\$1,318,986</u>
NET COST/SAVINGS						
Total Savings - Best Practices Implementation	\$260,080	\$580,345	\$621,307	\$634,921	\$545,457	\$2,642,110

**TABLE 1A OF 2007 REPORT KENTUCKY-AMERICAN WATER COMPANY
OPERATING EXPENSE SAVINGS FROM RWE PROCUREMENT INITIATIVE**

	2003	2004	2005	2006	2007 TOTAL	
Accounts Payable Audit Advertising		1,000			13,817	14,817
Bill inserts & CCR Chemicals		9,000		25,960	2,449	37,409
Field Op's Equipment Facility		30,000		38,338	6,196	74,534
Plumbing Supplies/ Plumbing Supplies		72,000	121,000	151,220	2,505	346,725
Courier Services		2,000	2,000			4,000
Fleet		1,000		984	1,275	3,259
Instrumentation 7 process Control						0
Information Technology (IT)		7,000	2,000	319	18,549	27,868
Laboratory supplies		12,000	20,000	9,859	35	41,894
Maintenance, Repair & Operations (MRO)	200	13,000	17,000	8,031	29,323	67,554
Equipment		3,000		874	2,236	6,110
Office Supplies	2,400	7,000	6,000	7,688	20,396	43,484
P-Card Rebate	7,000	3,000				10,000
Professional Services		7,000	6,000	272	353	13,625
Professional Services - Lock box		40,000	29,000		29,148	98,148
Tank Rehabilitation					3,092	3,092
Telecommunications		20,000	36,000	3,674	12,580	72,254
Temporary Labor		31,000	40,000	14,894	36,525	122,419
Tires	800	9,000	8,000	15,742		33,542
Travel		7,000	12,000			19,000
Uniforms		5,000	3,000	1,318	17,424	26,742
Chemicals				91,003	29,688	120,691
TOTAL	\$10,400	\$279,000	\$302,000	\$370,176	\$225,591	\$1,187,167

**TABLE 1.2 OF 2007 REPORT KENTUCKY-AMERICAN WATER COMPANY
CAPITAL EXPENSE SAVINGS FROM RWE PROCUREMENT INITIATIVE**

	2003	2004	2005	2006	2007 TOTAL	
Construction Equipment		34,000	7,000		17,574	58,574
Copper Tubing		28,000	1,000	2,001		31,001
Fleet		4,000	57,000	3,351	93,260	157,611
Instrumentation & Process Control	200	11,000		1,320	11,554	24,074
Office Equipment						0
Information Technology (IT)	17,300	24,000	4,000	3,969	11,604	60,873
Lab Supplies		3,000		1,611	16,114	20,725
Meters			1,000	50,616	62,913	114,529
Package Pump Stations & Well Rehab		2,000			10,263	12,263
Hydrants				60,029		60,029
Distribution System Materials				60,728	5	60,733
Contract Services				112,704	51,573	164,277
TOTAL	\$17,500	\$106,000	\$70,000	\$296,329	\$274,860	\$764,689

**KENTUCKY-AMERICAN WATER COMPANY
CONSTS/SAVINGS INFORMATION THRU US OF AWCC
SAVINGS ON THE COST OF LONG-TERM DEBT**

Debt Security	Date Issued	Interest Rate	Amount Issued	Term of the Loan	Basis Point Savings	Annual Interest Savings	Avoided Issuance Costs	Avoided Annual Issuance Costs	Net Annual Savings
2001	3/29/2001	6.87%	\$15,500,000	10 Years	250	\$200,000	(\$508,296)	(\$35,741)	\$164,259
Total Savings - 2001						\$200,000		(\$35,741)	\$164,259
2002	06/12/2002	5.65%	\$24,000,000	5 Years	20	\$48,000	\$177,000	\$35,400	\$83,400
Total Savings - 2002						\$248,000		(\$341)	\$247,659
2003									
Total Savings - 2003						\$248,000		(\$341)	\$247,659
2004	3/1/2004	4.75%	\$14,000,000	10 Years	20	\$28,000	\$105,000	\$10,500	\$38,500
Total Savings - 2004						\$276,000		\$10,159	\$286,159
2005									
Total Savings - 2005						\$276,000		\$10,159	\$286,159
2006									
Total Savings - 2006						\$276,000		\$10,159	\$286,159
2007	10/15/2007	0.0659	\$47,000,000	30 Years	10	\$47,000	\$352,500	(\$34,150)	
Total Savings - 2007						\$247,000		(\$34,150)	\$212,850