

**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, 2009 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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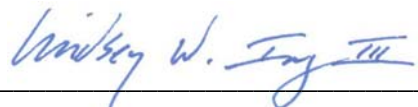
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and that the original and three paper copies have been filed with the Public Service Commission on the 1<sup>st</sup> day of April, 2009.

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 2008 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>2008</u>	<u>TOTAL</u>
Operating Expense Savings as shown on Table 1.1.	\$10,400	\$279,000	\$302,000	\$370,176	\$225,591	\$89,055	\$1,276,222
Revenue Requirement Reduction	\$10,400	\$279,000	\$302,000	\$370,176	\$225,591	\$89,055	\$1,276,222

**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	\$197,134	
Less: allocated Portion of Implementation costs	\$0	\$0	\$0	\$0	\$0	\$0	
Net Capital Expense (Rate Base) Savings	\$17,500	\$106,000	\$70,000	\$296,329	\$274,860	\$197,134	
Rate of Return	8.25%	7.75%	7.75%	7.75%	7.75%	7.75%	
Reduction in Utility Operating Income	\$1,444	\$8,215	\$5,425	\$22,965	\$21,302	\$15,278	
Revenue Requirement Reduction (At 1.4 times)	\$2,021	\$13,522	\$21,117	\$53,269	\$83,091	\$102,459	\$275,480

**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>	<u>2008</u>	
IP 03-01 Elevated storage Tank - 2.0 MG	\$3,199,701	0	\$480,216	\$2,719,485	\$0	\$0	\$0	
IP 05-06 Sludge Handling RRS	\$2,000,000	0	\$0	\$25,000	\$472,408	\$0	\$0	
IP 05-02	\$1,800,000	0	\$0	\$471,363	\$845,493	\$0	\$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>	<u>\$0</u>	
Total Capital Expenditures From Qualifying Projects	\$9,335,788	\$0	\$480,216	\$3,215,848	\$1,317,901	\$2,336,087	\$0	
Forecasted Percent of Saving From Changes in Design/Build Practices			3.00%	3.00%	3.00%	3.00%	3.00%	
Forecasted Rate Base Savings			\$14,406	\$96,475	\$39,537	\$70,083	\$0	
Cumulative Savings			\$14,406	\$110,882	\$150,419	\$220,502	\$220,502	
Rate of Return			8.25%	7.75%	7.75%	7.75%	7.75%	
Reduction in Utility Operating Income			\$1,189	\$8,593	\$11,657	\$17,089	\$17,089	
Revenue Requirement Reduction (At 1.4. times0			\$1,664	\$12,031	\$16,320	\$23,924	\$23,924	\$77,864

**COSTS/SAVINGS FROM IMPROVED DEBT RATING**

Interest and Issuance Cost Savings (Table 1.3)	\$247,659	\$286,159	\$286,159	\$286,159	\$212,850	\$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>\$212,850</u>	<u>\$1,531,836</u>
NET COST/SAVINGS							
Total Savings - Best Practices Implementation	\$260,080	\$580,345	\$621,307	\$725,924	\$545,457		\$3,161,402

**TABLE 1.1 OF 2008 REPORT KENTUCKY-AMERICAN WATER COMPANY  
OPERATING EXPENSE SAVINGS FROM RWE PROCUREMENT INITIATIVE**

	2003	2004	2005	2006	2007	2008 TOTAL	
Accounts Payable Audit Advertising		1,000			13,817	2,356	17,173
Bill inserts & CCR Chemicals		9,000		25,960	2,449	54	37,463
Field Op's Equipment Facility		30,000		38,338	6,196	3,931	78,465
Plumbing Supplies/ Plumbing Supplies		72,000	121,000	151,220	2,505	131	346,856
Courier Services		2,000	2,000			17	4,017
Fleet		1,000		984	1,275	24,449	27,708
Instrumentation 7 process Control						1,310	1,310
Information Technology (IT)		7,000	2,000	319	18,549	50	27,918
Laboratory supplies		12,000	20,000	9,859	35	5,111	47,005
Maintenance, Repair & Operations (MRO)	200	13,000	17,000	8,031	29,323	5,571	73,125
Equipment		3,000		874	2,236		6,110
Office Supplies	2,400	7,000	6,000	7,688	20,396	9,097	52,581
P-Card Rebate	7,000	3,000					10,000
Professional Services		7,000	6,000	272	353	15,905	29,530
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	113	72,367
Temporary Labor		31,000	40,000	14,894	36,525	19,398	141,817
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	1,562	28,304
Chemicals				91,003	29,688		120,691
<b>TOTAL</b>	<b>\$10,400</b>	<b>\$279,000</b>	<b>\$302,000</b>	<b>\$370,176</b>	<b>\$225,591</b>	<b>\$89,055</b>	<b>\$1,276,222</b>

**TABLE 1.2 OF 2008 REPORT KENTUCKY-AMERICAN WATER COMPANY  
CAPITAL EXPENSE SAVINGS FROM RWE PROCUREMENT INITIATIVE**

	2003	2004	2005	2006	2007	2008	TOTAL
Construction Equipment		34,000	7,000		17,574	82,070	140,644
Copper Tubing		28,000	1,000	2,001			31,001
Fleet		4,000	57,000	3,351	93,260	24,589	182,200
Instrumentation & Process Control	200	11,000		1,320	11,554	810	24,884
Office Equipment						1,348	1,348
Information Technology (IT)	17,300	24,000	4,000	3,969	11,604	3,158	64,031
Lab Supplies		3,000		1,611	16,114	652	21,377
Meters			1,000	50,616	62,913	5,024	119,553
Package Pump Stations & Well Rehab		2,000			10,263		12,263
Hydrants				60,029			60,029
Distribution System Materials				60,728	5	58,682	119,415
Contract Services				112,704	51,573	20,801	185,078
<b>TOTAL</b>	<b>\$17,500</b>	<b>\$106,000</b>	<b>\$70,000</b>	<b>\$296,329</b>	<b>\$274,860</b>	<b>\$197,134</b>	<b>\$961,823</b>

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

<b>Debt Security</b>	<b>Date Issued</b>	<b>Interest Rate</b>	<b>Amount Issued</b>	<b>Term of the Loan</b>	<b>Basis Point Savings</b>	<b>Annual Interest Savings</b>	<b>Avoided Issuance Costs</b>	<b>Avoided Annual Issuance Costs</b>	<b>Net Annual Savings</b>
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