

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

IN THE MATTER OF:)
)
NOTICE OF ADJUSTMENT OF THE RATES OF) **CASE NO. 2004-00103**
KENTUCKY-AMERICAN WATER COMPANY)
EFFECTIVE ON AND AFTER MAY 30, 2004)

**KENTUCKY-AMERICAN WATER
COMPANY'S AMENDED PETITION FOR REHEARING**

Kentucky-American Water Company ("Kentucky American Water") hereby amends its March 18, 2005 Petition for Rehearing to the Public Service Commission. Kentucky American Water incorporates in full herein its March 18, 2005 Petition for Rehearing and, by this amendment and pursuant to KRS § 278.400, respectfully requests that the Commission reconsider its February 28, 2005 decision on the issue of Consolidated Tax Adjustment.

CONSOLIDATED TAX ADJUSTMENT

The Attorney General sought a reduction of federal tax expense based on a consolidated income tax adjustment. The Commission agreed with the Attorney General's position and reduced Kentucky American Water's federal income tax expense by \$192,903. (February 28, 2005 Order, p. 64). The Commission found that when Kentucky American Water sought Commission approval of Thames Water US Holdings, Inc. ("TWUS"), it "touted" the use of a consolidated tax return as one of the benefits of the proposed merger transaction because it would save administrative expense for Kentucky American Water and its sister companies. The Commission's finding on that point is correct. And, as promised, the use of a consolidated income tax return has achieved administrative efficiencies.

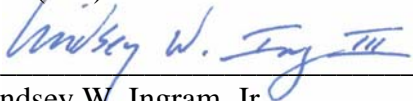
However, in its February 28, 2005 Order, the Commission also found that Kentucky American Water argued in the merger proceedings that the use of a consolidated income tax return would "permit some tax savings by allowing payment of taxes calculated on the net profits of all entities within the consolidated group." (February 28, 2005 Order, p. 65). This finding is not correct. Kentucky American Water did not make such an argument in the merger proceedings. Based on this inaccurate finding, the Commission reduced income tax expense by \$192,903 by using an allocation of tax losses neither generated by nor remotely connected to Kentucky American Water and thereby raising serious jurisdictional and confiscatory issues.

With all due respect, the "effective" tax rate for Kentucky American Water is the same as its actual tax rate — 35% (Kentucky American Water has never experienced a tax loss). Every year, Kentucky American Water must pay its taxes at the rate of 35%, regardless of how its sister companies perform. The benefit realized by use of the consolidated income tax return inures only to the benefit of the individual company that experiences an operating loss. For *that* company, use of the tax benefit resulting from the operating loss may be used in the year in which it occurred rather than having to wait to use it in subsequent years as a "carry-forward." That is the exact type of benefit created by use of a consolidated tax return. But, regardless of whether a sister company realizes that type of benefit, Kentucky American Water realizes no such benefit unless it has its own operating loss. Kentucky American Water must still write a check for 35% which is both its actual and "effective" tax rate. For this reason, Kentucky American Water asks the Commission to reconsider its decision on this issue.

WHEREFORE, Kentucky American Water prays that this be accepted as its Amended Petition for Rehearing and that the Commission's Order of February 28, 2005 be modified as requested above and in its March 18, 2005 Petition for Rehearing.

Respectfully submitted,

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CERTIFICATION


This is to certify that a true and accurate copy of the foregoing has been electronically transmitted to the Public Service Commission on March 21, 2005; that the Public Service Commission and other parties participating by electronic means have been notified of such electronic transmission; that, on March 22, 2005, the original and one (1) copy in paper medium will be hand-delivered to the Public Service Commission, 211 Sower Boulevard, Frankfort, Kentucky 40601; and that on March 21, 2005 one (1) copy in paper medium will be served upon the following via U.S. Mail:

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