

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

IN THE MATTER OF:)
)
APPLICATION OF KENTUCKY-AMERICAN) CASE NO. _____
WATER COMPANY FOR APPROVAL OF)
ACCOUNTING ACCRUALS)

Comes Kentucky-American Water Company and states as follows:

1. That Kentucky-American Water Company ("Kentucky American Water") is a corporation organized and existing under the laws of the Commonwealth of Kentucky with its principal office and place of business in Lexington, Fayette County, Kentucky, and is engaged in the distribution and sale of water in the city of Lexington, Kentucky, and in other areas of Fayette County, Kentucky. In addition it renders direct service to customers in Woodford, Scott, Harrison, Clark, Jessamine and Bourbon Counties, along with service to two (2) water customers with mailing addresses in Jessamine County, Kentucky; the cities of Midway, North Middletown and Georgetown; the Bluegrass Army Depot; Harrison County Water Association, and a standby connection to the city of Versailles. Kentucky American Water also provides water services to a Northern District Area, a separate system in Owen, Gallatin and Grant Counties, from a purchased water connection with the city of Owenton.

2. That copies of the Articles of Incorporation of Kentucky American Water, together with all amendments thereto, have heretofore been filed with this Commission in connection with prior proceedings of the Kentucky American Water. Copies of the Articles of Incorporation of the Kentucky American Water, together with all amendments thereto to date thereof, were filed as Exhibit 4 in Case No. 95-554, Notice of Adjustment of Rates for

Customers of Kentucky-American Water Company On and After February 29, 1996. The Articles of Incorporation of the Kentucky American Water, together with all amendments thereto, are hereby incorporated herein by reference pursuant to 807 KAR 5:001(8)(3).

3. By Order dated November 27, 2000, in Case No. 2000-120, the Application of Kentucky-American Water Company to increase its rates, the Commission directed Kentucky American Water to “formally apply for Commission approval before accruing an expense. . . .” This requirement is inconsistent with former practice and the treatment afforded other utilities subject to the jurisdiction of the Public Service Commission. The requirement constitutes an unnecessary burden with attendant costs and should be changed.

4. On September 6, 2001, Kentucky American Water, by counsel, requested the Commission’s approval for the accrual of six expense accounts. A copy of that request is attached hereto, marked Exhibit A for purposes of identification, and incorporated fully herein.

5. On September 24, 2003, Kentucky American Water, by counsel, requested the Commission’s approval for the accrual of two expense accounts. A copy of that request is attached hereto, marked Exhibit B for purposes of identification, and incorporated fully herein.

6. By letter dated October 15, 2003, a copy of which is attached hereto and marked Exhibit C, the Executive Director of the Commission advised Kentucky American Water that the Commission’s staff had concluded it was not appropriate to grant the approval for the deferrals requested in Exhibit B attached hereto.

7. By letter dated November 18, 2003, attached hereto as Exhibit D and incorporated fully herein, Kentucky American Water asked the Commission’s staff to review the denial for the request of the deferral of security costs as contained in Exhibit B attached hereto.

8. By letter dated November 21, 2003, a copy of which is attached hereto as Exhibit E, the staff of the Commission requested information from Kentucky American Water in support of its request for the deferral of security costs. Kentucky American Water's response to the requests contained in Exhibit E are filed simultaneously with this application.

9. The approval for deferral of Kentucky American Water's expenses for acquisitions, preliminary service and design, tank painting, sludge removal, customer service consolidation, financial service consolidation and security costs as set forth in the attachments hereto are accounting requests and do not involve ratemaking or a request to change Kentucky American Water's rates as established by the Commission in Case No. 2000-120.

WHEREFORE, Kentucky American Water prays that the Commission approve its requests as detailed in the attachments hereto for accounting deferral of its expenses for acquisitions, preliminary service and design, tank painting, sludge removal, customer service consolidation, financial service consolidation and security costs and that the Commission's directive in Case No. 2000-120 be modified to allow Kentucky American Water hereafter to request accounting deferrals by letter and not formal application to the Commission.

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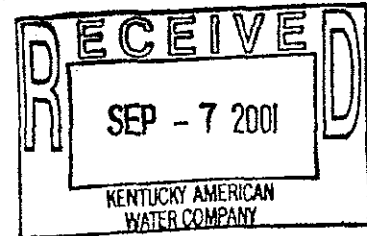
BY: _____
Lindsey Ingram, Jr.

ATTORNEYS FOR APPLICANT,
KENTUCKY-AMERICAN WATER COMPANY

S T O L L | K E E N O N | & | P A R K | L L P

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September 6, 2001

Mr. Tom Dorman
Public Service Commission
211 Sower Blvd.
Frankfort, Kentucky 40601

RE: Kentucky-American Water Company - Deferrals

Dear Tom:

By Order dated November 27, 2000, in Case No. 2000-120, the Commission ordered Kentucky-American to apply for the approval of the accruing of expenses as regulatory assets. The purpose of this letter is to request Commission approval of the establishment of regulatory assets to accrue the following expenses:

1. Acquisitions. Kentucky-American incurs costs in acquiring and attempting to acquire water utilities. Typically the costs would include engineering, financial, legal, appraising, accountants, and efforts to comply with contractual, regulatory and permitting requirements. To date Kentucky-American has incurred costs relative to five potential acquisitions as follows:

<u>Entity</u>	<u>Accruals</u>
Municipality A	\$54,954.44
Municipality B	\$12,255.01
Municipality C	\$15,664.79
Water Company A	\$45,341.92
Water Association A	\$ 3,751.75

If the Commission is interested in the specific identification of the entities, Kentucky-American will be glad to provide that information subject to confidential treatment by the Commission.

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2. Preliminary Service and Design. Kentucky-American incurs costs for water main extensions and installations such as engineering, legal, surveying, geotechnical, environmental, appraisal and land acquisition costs. At the present time Kentucky-American requests specific approval for the deferral of \$73,453.61 incurred to date for the North Broadway project and \$80,000 projected to be incurred for the Leestown Road project.

The North Broadway project involves the replacement of a 6-inch cast iron main extending from Short Street to Loudon Avenue which was installed in 1885. Initially Kentucky-American intended to install an 8-inch main but the project has been temporarily deferred pending a study of future water demands in the area and associated fire flow requirements. The Leestown Road extension is scheduled for construction in 2002 and involves the installation of a 16-inch main from Sandersville Road to the end of the urban services area. The size and length of this facility is currently under review pending the resolution of any regional source of supply issues.

3. Tank Painting. Consistent with the treatment afforded Kentucky-American in rate orders, Kentucky-American projects a cost of \$305,000 to paint the Tates Creek elevated storage tank.

4. Sludge Removal. Again, consistent with prior orders Kentucky-American seeks to defer \$200,000 as the project costs for the removal of sludge from the Kentucky River treatment plant.

5. Customer Service Consolidation. American Water Works has established a Call Center in Alton, Illinois, and Kentucky-American plans to utilize those facilities in the third quarter of 2002. Service to Kentucky-American's customers will be greatly improved. All customer contacts, billing inquiries, service issues, and field service emergencies can be handled by the Alton Call Center by telephone on a 24-hour per day, 7-day per week basis. At the present time telephone customer service is provided only during normal working hours. Kentucky-American anticipates transition costs of approximately \$525,000. The deferred expenses will be reduced by savings in operating costs in the future as they are realized. Any unamortized deferred expense can be considered in Kentucky-American's next rate case if savings have not eliminated the deferral at that time.

6. Financial Service Consolidation. American Water Works is in the process of establishing a shared Service Center in New Jersey to provide accounting, finance, human resources and rate assistance and analysis in the first quarter of 2002. Kentucky-American anticipates a transition cost of \$918,000. As with the Call Center, Kentucky-American anticipates the deferred expense will be reduced by savings in operating costs over time and any

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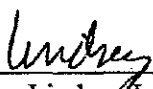
unamortized deferred expense will be considered in Kentucky-American's next rate case if the then accumulated savings have not eliminated the deferred costs at that time.

As usual, we will be glad to supply any additional information that the Commission or staff may require.

With best regards, I am

Very truly yours,

STOLL, KEENON & PARK, LLP

By 
Lindsey Ingram, Jr.

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