

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)


NOTICE

Comes Kentucky-American Water Company, by counsel, and for its Report to the Commission required by Ordering Paragraph 13 of the Commission's Order dated February 28, 2005, and states that a meeting was held on May 16, 2005, with some of the parties where the issues raised in the proceeding about the Emergency Pricing Tariff were addressed.

Attached hereto, marked Exhibit A, are minutes of that meeting.

Kentucky-American Water Company will proceed to revise its Emergency Pricing Tariff in conformity with the consensus reached at the meeting and will circulate it among the parties for further comment.

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ATTORNEYS FOR
KENTUCKY AMERICAN WATER

CERTIFICATION

This is to certify that a true and accurate copy of the foregoing has been electronically transmitted to the Public Service Commission on May 27, 2005; that the Public Service Commission and other parties participating by electronic means have been notified of such electronic transmission; that, on May 27, 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 May 27, 2005, one (1) copy in paper medium will be served upon the following via U.S. Mail:

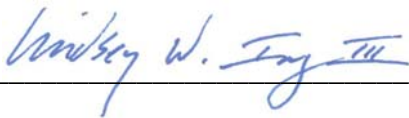
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KENTUCKY AMERICAN WATER

**STATUS REPORT AND SUMMARY OF MEETING REQUIRED BY
KENTUCKY PUBLIC SERVICE COMMISSION CASE NUMBER 2004-00103**

EMERGENCY PRICING TARIFF

Attendees at Meeting on May 16, 2005:

Lexington-Fayette Urban County Government: Kevin Horn
Office of the Attorney General: David Spenard
Kentucky Public Service Commission: Mark Frost, George Wakim and Sam Reid
Bluegrass FLOW: Foster Ockerman
Kentucky American Water: Mike Miller, Bryan Siler, Tom Williams and Herb Miller

INTRODUCTION

H. Miller:

Welcome and summarized the need to respond to the PSC's Order in Case 2004-00103 regarding the concerns raised by the parties about Kentucky American Water's proposed Emergency Pricing tariff (EPT).

APPEALS PROCESS

M. Miller:

Addressed the issue of the issue of an appeals process for customers who can demonstrate a need to be exempt from, or may require adjustments in, the application of the EPT. He proposed a 3-member panel made up of representatives from KAW, the AG and the LFUCG. They could review appeals via e-mail as well as personal appeals. KAW's records on that particular customer would be available to assist the panel.

F. Ockerman:

Suggested a pre-approval "triage" process to begin earlier in the process in order to reduce the volume of the initial crunch on the panel. This could be both an internal process and an early appeals process with an appointed panel. The panel should have the availability of medical resources to assist in a determination of a medical need.

S. Reid:

Suggested the possibility of an "in-house" waiver process for cases that would not rise to the complex decisions to be addressed by the panel.

D. Spenard:

Do we know the total costs yet?

M. Miller:

Not fully. In addition to the programming costs, additional meter readers will have to be hired and trained; treatment costs will likely increase due to turbidity and other causes, customer communication would increase and the like.

D. Spenard:

Suggests reviewing the KRA study for the effect of price on demand. He also asked where the customer goes after the panel's decision?

M. Miller:

File a PSC complaint. Then to court, if necessary. All agreed.

D. Spenard:

Thinks the decision on whether to deviate from the EPT should be with KAW just like all other service decisions. Was concerned that non-KAW participation in the panel could complicate the administrative and judicial review processes.

F. Ockerman:

What are the hard cases the panel will be called on to decide?

M. Miller:

Probably commercial establishments and industries using recent technology to reduce water consumption or those with recent adjustments on production and employee practices. Also, those who believe the base line is not applicable.

K. Horn:

Back to membership on the panel: The LFUCG may want to be a member (voting or non-voting) but would have to check with his client. Easy access and quick responses were two important issues to the LFUCG.

General Discussion:

A mix of ideas was discussed on panel membership. Ideas ranged from a KAW-only panel to a panel with a variety of representative interests. A discussion also ensued on the processes of the appeal and timely and appropriate notices to customers.

M. Miller/ M. Frost/ F. Ockerman:

Agreed the all notices should specify customer rights, including appeal rights, PSC complaint rights, what supporting documents are needed for a PSC complaint, etc.

F. Ockerman:

Asked if PSC hearing officers could expedite complaints on EPT matters?

M. Frost:

With an unknown volume of cases, predicting support staff availability is a challenge.

GENERAL CONSENSUS:

KAW would establish an early internal review process to exempt or adjust the impact of the EPT on certain customers. Outside resources (such as medical) would be employed for assistance. A small appeals panel would be established consisting of (probably two) KAW representatives and at least one community representative..

OVER/UNDER RECOVERY POTENTIAL

M. Miller:

To address the concerns raised by the Attorney General in the rate case, KAW proposes to track all EPT costs and revenues through a sub-ledger account, to be followed by a “true-up” over a 12-month period for the over (customer refund) or under (customer surcharge) collection of revenues.

D. Spenard:

Acknowledged the potential for both over and under recovery. He said a deferred debit treatment would still not help cash flow. Asked if KAW would be seeking revenue stability.

M. Miller:

Still concerned with the risk of under collection of revenues. Perhaps compare revenues to a normalized year. Revenue stability in an extreme drought year is very important and differs from the normal weather risks involved in revenue projection.

D. Spenard:

If a surcharge is defined in advance (similar to a fuel adjustment clause or a purchased water surcharge), then the concept may be acceptable. Please submit the proposal and his office will review.

K. Horn:

Concerned that violators of the restrictions should not receive any part of any refunds. Not that KAW should keep it, but that the offenders should not benefit from it.

F. Ockerman:

Agreed that offenders should not benefit. Likes the idea that excess over costs and normalized revenue should go to Water for Life (up to a certain amount; \$50,000?).

K. Horn:

Agreeable that KAW should recover all KAW costs. Does not want offenders to share in refunds.

GENERAL CONSENSUS:

KAW will prepare a draft of a surcharge/refund mechanism that will exclude violators of the restrictions from receiving refunds.