

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103**

**PUBLIC SERVICE COMMISSION DATA REQUEST NO. 1
ITEM 1. a.**

Witness Responsible:

M. Miller/S. Valentine/J. Salser/C. Bush/L. Bridwell

1. a. Provide a copy of the workpapers and calculations that Kentucky-American used to develop its forecasted test-period financial information.
- b. State all assumptions that Kentucky-American used to develop its forecasted test-period financial information.

Supplemental Response:

- a. Supplemental workpapers are attached. The electronic version of the supplemental workpapers have the following name: KAW_SR_PSCDR1#1a_WP1-5_RATE BASE_060204.pdf.

STRATEGIC CAPITAL EXPENDITURE PLAN

Units = \$

Program
State Kentucky
Revision Date Jan 8, 2004
Status Draft

Table with columns: District, CPS Code, Project Code, Brief Description of Proposed Expenditures, Stage (PIA, PIA/CCA, New), Business Plan 5-year Total, Prior, 2004 Period (1-12), Total 2004, Plan 2005-2008, Plan 2009, Project Total. Rows include project details for 'TOTAL RECURRING PROJECTS' and 'TOTAL INVESTMENT PROJECTS'.

Project 12020080/12300080: Developer/Governmental Contributions
Project Manager : Fred White
Project Status : PROJECT IMPLEMENTATION PROPOSAL

1.0 SUMMARY

1.1 Project Objectives

Installation of new mains, valves, hydrants and other utility plant funded entirely by non-company funds. This can include both developer and governmental agencies funding.

1.2 Recommended Solution

It is recommended that signed main extension agreements with developers, customers, or governmental agencies will be utilized prior to the installation of any mains in accordance with Kentucky American Water's Rules and Regulations as approved by the Kentucky Public Service Commission. Additional agreements that arise from time to time for fully reimbursed expenditures shall also be executed prior to initiation of any material construction.

1.3 Cost and Program

- \$4,000,000
- Annual Recurring Project.

1.4 Project Issues and Risks

There are no project issues or significant risk associated with this recurring annual expenditure.

1.5 Changes Since Previous Approval

No changes since the previous approval stage.

2.0 BACKGROUND

This is a routine program that is implemented annually. The Kentucky Public Service Commission limits by regulation the amount of investment made on new main extensions, and under Kentucky American Water's Rules and Regulations developers must pay for expenses related to all new main extensions to be refunded as new customers tap on. This has varied for \$2.5 million to \$4.5 million each year. Further, developers are required to pay for all relocations of facilities in state or local right-of-ways. Government agencies are required to pay for relocations of pipe that are solely in private easements. Kentucky American generally adds 2,500 new customers annually that come from developer main extensions.

With the purchase of Tri-Village Water District in Owen County in 2001, there have been a few main extension in the created Northern District. The funds requested will cover both the Central and Northern Districts.

3.0 PROJECT JUSTIFICATION AND PRIORITISATION

The primary purpose for this project is customer growth and improvement of utility plant, paid for with non-company funds.

Purpose Code	Description	%	Measure	Units	Target
GD DF01	Water – Developer Funded	95%			
NA RR02	Water – Required Relocations	5%			

There is not a critical date associated with this recurring project. The budget represents a continual process of installation throughout the year.

4.0 PROJECT OUTPUT AND BENEFITS

The additional customers attributed to developer paid extensions play a critical role in the company's annual growth rate. Approximately 2500 new customers associated with these extensions are added to the company's network annually. It is estimated that \$3,940,000 will be utilized on main extensions or non-company funded relocations in the Central District (Lexington area) and \$60,000 in the Northern District (Owen County).

5.0 SCOPE AND OPTIONS

Projects are typically designed by the company personnel or the company's consultant in cooperation with the developer's or governmental agency's consultant. All work is installed with the oversight of Kentucky American's engineering department after the outside party has delivered the required funds. The projects are usually routine in nature and simply involve the installation of pipelines 12" diameter and less along with associates valves, fittings and hydrants.

In all cases, the company is the sole source of water for the developer projects, and there is ample treatment capacity to serve the new customer base. Refusal to provide service to these developments is not an available option under Kentucky Public Service Commission Regulations.

6.0 FINANCIAL STATEMENT

The estimated expenditure attributed to projects funded by others is listed below:

Component \$ million	Total	Year 0	Year 1	Year 2	Year 3
Development Costs					
Design & Construction Cost			4.0		
Project Total			4.0		
Advances & Contributions			4.0		

The majority of projects do not have an appreciable impact on operating expense other than additional meter reading expenses once the new customers have been added to the system.

7.0 PROCUREMENT

The new assets are a collection of 200 to 350 separate projects. These projects are procured in-house with approval by the company engineering department. A main extension agreement is signed and a deposit is received from the developer based on the estimated cost of the project. Kentucky American then initiates construction, providing all inspection. Kentucky American has begun a pilot program to allow developer installed mains with Kentucky American taking ownership upon engineering certification that all specifications have been met and bacteriological testing has been successful.

8.0 PROGRAM

Project Implementation Approval (PIA)	02/04
Main Contract Let (if applicable)	N/A
Start on Site	on going
Substantial Completion	on going
Take Over	on going
Post Project Review	on going

9.0 ISSUES AND RISKS

No significant risk involved other than those routinely dealt with in all underground utility construction. The new developments pose less risk than in developed areas because there is no public traffic, very few other utilities installed, and no surface landscaping to damage.

10.0 RECOMMENDATION

It is recommended that the Capital Investment Management Committee grant approval for the continued participation in projects funded by third party contributions and advances. The anticipated value of this work in 2004 is estimated at \$4,000,000.

Linda C. Bridwell, PE
 February 10, 2004
 Version 1.0

AMERICAN WATER – Kentucky American Water
CAPITAL INVESTMENT MANAGEMENT COMMITTEE – February 2004

AW/CMF3.40
ISSUE 1.0

PROJECT REVIEW		
	Signature:	Date:
Asset Owner or nominated Asset Manager / Capital Program Manager		
Operations Manager		
Project Manager (Deliverer)		
Finance Representative		
RECOMMENDED FOR APPROVAL - PNI Only		
VP Technical Services		
Others (as nominated by VP Technical Services)		

APPENDICES

A1 Schedule/Forecast

Revision History:

Version	Date	Summary of Changes
1.0	11/10/03	Issue

Kentucky American Water
 Recurring Item # 2004
 80
 Fred White
 Developer/Government Contributions

Business Unit Central District	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
	Previous Year	145,000	45,000	195,000	245,000	345,000	445,000	495,000	395,000	495,000	345,000	395,000	395,000	3,665,000
	Developer Deposits - Mains	140,000	40,000	185,000	235,000	325,000	415,000	440,000	370,000	440,000	315,000	380,000	380,000	3,665,000
	Developer Deposits - Hydrants	500	500	1,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	20,000
	Developer Deposits - Fire Services	4,500	4,500	5,000	5,000	5,000	12,000	40,000	13,000	45,000	24,000	11,000	11,000	180,000
	Reimbursible Relocations	0	0	2,000	2,000	3,000	14,000	10,000	7,000	4,000	4,000	2,000	2,000	50,000
	Hydrant Replacement - reimbursible	0	0	2,000	1,000	10,000	2,000	3,000	3,000	4,000	4,000	4,000	4,000	25,000
	Business Unit Total	0	145,000	195,000	245,000	345,000	445,000	495,000	395,000	495,000	345,000	395,000	395,000	3,940,000

Business Unit Northern District	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
	Previous Year	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
	Developer Deposits - Mains	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000
	Developer Deposits - Hydrants	0	0	0	0	0	0	0	0	0	0	0	0	0
	Developer Deposits - Fire Services	0	0	0	0	0	0	0	0	0	0	0	0	0
	Reimbursible Relocations	0	0	0	0	0	0	0	0	0	0	0	0	0
	Hydrant Replacement - reimbursible	0	0	0	0	0	0	0	0	0	0	0	0	0
	Business Unit Total	0	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	60,000

Recurring Item Total	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
	Previous Year	145,000	45,000	190,000	240,000	330,000	420,000	445,000	375,000	445,000	320,000	385,000	385,000	3,725,000
	Developer Deposits - Mains	145,000	45,000	190,000	240,000	330,000	420,000	445,000	375,000	445,000	320,000	385,000	385,000	3,725,000
	Developer Deposits - Hydrants	500	500	1,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	20,000
	Developer Deposits - Fire Services	4,500	4,500	5,000	5,000	5,000	12,000	40,000	13,000	45,000	24,000	11,000	11,000	180,000
	Reimbursible Relocations	0	0	2,000	2,000	3,000	14,000	10,000	7,000	4,000	4,000	2,000	2,000	50,000
	Hydrant Replacement - reimbursible	0	0	2,000	1,000	10,000	2,000	3,000	3,000	4,000	4,000	4,000	4,000	25,000
	Recurring Item Total	0	150,000	200,000	250,000	350,000	450,000	500,000	400,000	500,000	350,000	400,000	400,000	4,000,000

Project 12020081/12300081: Recurring Item #81, Network – Replacement/Renewal
Project Manager : Fred White
Project Status : PROJECT IMPLEMENTATION PROPOSAL

1.0 SUMMARY

1.1 Project Objectives

The replacement, renewal or improvement of water mains, including valves and appurtenances, is necessary for the reliable and efficient operation of the network. Network components routinely fail creating the need for emergency replacement and specific network areas are identified for renewal due to their history of failure.

1.2 Recommended Solution

The expenditure of capital throughout 2004 to accomplish the replacement and renewal of water mains, valves and appurtenances throughout the Kentucky American distribution network is prudent and necessary to meet customer service objectives.

1.3 Cost and Program

- The amount of expenditure requested: \$525,000
- The project program - completion date: December 31, 2004

1.4 Project Issues and Risks

The failure to allocate capital for the necessary replacement and renewal of network components may result in service interruptions and customer dissatisfaction.

1.5 Changes Since Previous Approval

There is no change in this recurring project since the previous approval

2.0 BACKGROUND

Kentucky American Water serves more than 108,000 customers throughout two distribution system networks. Replacement, renewal and improvement of network components are a recurring requirement for efficient operation of these systems and continued reliable water service delivery. This includes capitalized emergency repairs as well as planned replacements, renewals and improvements. From time to time, this work is required as a component of urban renewal where Kentucky American facilities are in the right-of-way.

3.0 PROJECT JUSTIFICATION AND PRIORITISATION

The company maintains water mains of cast iron, ductile iron, plastic, copper, asbestos-cement, galvanized iron, etc. of sizes ranging from ¾" to 36" throughout its distribution networks. The age of these water mains, their installation environment, the prevalent climate and environmental conditions acting upon them and the nature of the materials themselves creates a useful life limitation in many situations. A routine, unanticipated number of failures does and will continue to occur. For these reasons failures must continue to be addressed through capitalized replacement of mains. It is also critical to perform planned replacements in areas with a history of repeated failures or where the potential for significant damage due to failure exists.

During the course of the year, it may become necessary to shift priorities and make expenditures for replacement or renewal in unforeseen locations. Priority and justification exists to make expenditures at proposed levels to address the continuing need for main replacement, renewal and improvement.

Currently, Kentucky American is working to develop a prioritization system on projects for replacement and improvement.

Purpose Code	Description	%	Measure	Units	Target
NA-PF01	Performance Failure	25			
NA-PP01	Water – Poor Physical Condition	25			
NA-RR01	Required Relocations	50			

4.0 PROJECT OUTPUT AND BENEFITS

Planned network replacements and renewals constitute prudent network asset management, and will minimize future service interruptions as well as provide continued customer service. It is anticipated that \$501,000 will be utilized in the Central District (Lexington area) and \$24,000 will be utilized in the Northern District (Owen County area).

5.0 SCOPE AND OPTIONS

The replacement, renewal and improvement of the networks will be initiated by in-house personnel and implemented with the utilization of company labor and by contractor forces. Emergency repairs, which typically result in a capitalized replacement, are routinely performed with company labor. Planned renewal of network mains is routinely contracted due to equipment and labor requirements.

No practical option but to make necessary repairs to failed network components exists. Negative consequences such as compromised water quality, loss of fire fighting capability and low or no pressure to customers would result if no action were taken. The failure to execute planned replacements in areas of known problems would also result in an undesirable level of service to customers and would allow operating and maintenance costs to escalate.

6.0 FINANCIAL STATEMENT

Expenditures proposed for this recurring item constitute necessary repairs of emergency failures, the planned renewal of existing small diameter mains, and the installation of improvement mains in identified areas of the system where flow/capacity deficiencies exist. A requirement to address these issues will perpetually exist given the nature of the network. Overall improvement, which has had a direct effect on the reduction in the number of water main breaks and the cost thereof, has occurred in recent years as a result of the replacement of small diameter mains.

Expenditures in this recurring item category should continue in order to maintain and improve the integrity of the network.

Component \$ million	Total	Year 0	Year 1	Year 2	Year 3
Development Costs					
Design & Construction Cost	0.525		\$0.525		
Project Total	0.525		\$0.525		
Advances & Contributions					

7.0 PROCUREMENT

As discussed in Section 5.0, network replacement, renewal and improvement is accomplished by both Contractor forces and Company personnel. The nature and extent of work required determines which group is utilized. Contractor forces are experienced, and qualified to perform necessary replacement and renewal projects. Company personnel are capable of responding quicker to minor network replacement and renewal requirements. Materials utilized for projects are provided through the system of competitive national contract selection.

8.0 PROGRAM

Project Implementation Approval (PIA)	02/04
Start on Site	on going
Substantial Completion	on going
Take Over	on going
Post Project Review	01/05

9.0 ISSUES AND RISKS

There are no issues or inherent risks associated with this project other than those associated with normal construction operations.

Company employees and contractors are required to conform to all federal, state and local safety regulations as well as those more specifically detailed by the Company. All necessary insurance coverage by contractors has been documented through receipt of a Certificate of Insurance.

10.0 RECOMMENDATION

It is recommended that the \$525,000 in capital expenditures be approved and authorized for Kentucky American Water during 2004. These expenditures will enable both emergency and planned network replacements, renewals and improvements to be made.

Linda C. Bridwell, PE
 February 10, 2004
 Version 1.0

AMERICAN WATER – Kentucky American Water
CAPITAL INVESTMENT MANAGEMENT COMMITTEE – February 2004

AW/CMF3.40
 ISSUE 1.0

PROJECT REVIEW		
	Signature:	Date:
Asset Owner or nominated Asset Manager / Capital Program Manager		
Operations Manager		
Project Manager (Deliverer)		
Finance Representative		
RECOMMENDED FOR APPROVAL - PNI Only		
VP Technical Services		
Others (as nominated by VP Technical Services)		

APPENDICES

A1 Schedule / Forecast

Revision History:

Version	Date	Summary of Changes
1.0	11/10/03	Issue

Kentucky American Water
 Recurring Item # 2004

81 Network - Replace/Renew

Project Manager: Fred White

Business Unit Central District	Period Item	12020081 Previous Year	1	2	3	4	5	6	7	8	9	10	11	12	Total
Capitalized Repair of Mains			2,000	2,000	2,000	2,000	5,000	5,000	5,000	5,000	5,000	3,000	2,000	2,000	40,000
Relocations at Company expense			48,000	26,000	21,000	31,000	38,000	43,000	43,000	43,000	43,000	40,000	41,000	46,000	461,000
Business Unit Total		0	48,000	28,000	23,000	33,000	43,000	48,000	48,000	48,000	48,000	43,000	43,000	48,000	501,000

Business Unit Northern District	Period Item	12300081 Previous Year	1	2	3	4	5	6	7	8	9	10	11	12	Total
Capitalized Repair of Mains			0	0	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	10,000
Relocations at Company expense			2,000	2,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	14,000
Business Unit Total		0	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000

Recurring Item Total	Period Item	#81 Previous Year	1	2	3	4	5	6	7	8	9	10	11	12	Total
Capitalized Repair of Mains			2,000	2,000	3,000	3,000	6,000	6,000	6,000	6,000	6,000	4,000	3,000	3,000	50,000
Relocations at Company expense			48,000	28,000	22,000	32,000	39,000	44,000	44,000	44,000	44,000	41,000	42,000	47,000	475,000
Recurring Item Total		0	50,000	30,000	25,000	35,000	45,000	50,000	50,000	50,000	50,000	45,000	45,000	50,000	525,000

Project 12020082/12300082: Recurring Item #82, Network - Extensions

Project Manager : Fred White
Project Status : PROJECT IMPLEMENTATION PROPOSAL

1.0 SUMMARY

1.1 Project Objectives

New water mains funded by the company, including valves and other appurtenances, associated with the extension of water service. These conditions would include:

- Upsizing a developer initiated extension to achieve network enhancement.
- Company initiated and funded new mains related to network enhancement within the guidance of Kentucky American's Rules and Regulations as approved by the Public Service Commission or by special agreement.

1.2 Recommended Solution

It is recommended that necessary extensions by the company be undertaken in compliance with tariff regulations, and extensions and upsizing of mains be provided under circumstances where it will be beneficial to the overall network planning objectives of the Kentucky American.

1.3 Cost and Program

- Capital Expenditure Requested - \$250,000
- Project Completion Date - December 31, 2004

1.4 Project Issues and Risks

The failure to allocate capital for the installation of water mains on developer initiated projects and for Company funded projects will diminish the opportunity for maximum network efficiency and increase long-term costs to the customer.

2.0 BACKGROUND

Kentucky American Water maintains extensive water networks in two general areas, serving over 108,000 customers through 1,600 miles of main. Normal business practices and prudent network planning and engineering have dictated the installation of new network facilities. Generally, all of the company funded network extensions as part of this recurring item are anticipated in the Central District (Lexington area).

3.0 PROJECT JUSTIFICATION AND PRIORITISATION

Contained within this recurring item is an allowance for the upsizing of mains funded by others in order to address known or anticipated growth, or to improve existing network conditions coincident with developer extensions. Performing upsizing of mains in conjunction with developer initiated projects provides an excellent opportunity for the Company to achieve desired network improvements in a very cost effective manor, often only at small incremental costs.

The funding for network extensions is necessary throughout 2004, as dictated by developer

needs and company planning.

Purpose Code	Description	%	Measure	Units	Target
GC-LC01	Local Capacity 0 – 3 years	75%			
GC-LC02	Local Capacity 3+ years	25%			

4.0 PROJECT OUTPUT AND BENEFITS

Network extensions result from compliance with tariff regulations and from Company decisions to provide service reliability and network enhancement. This recurring item may impact 50 to 75 projects per year.

5.0 SCOPE AND OPTIONS

The extension of networks will be accomplished through the utilization generally of contractor forces. Current company forces are utilized strictly for maintenance and minor facility upgrades.

As new customer initiated extensions are made in accordance with tariffs, there are no alternatives or options other than to perform this work. The failure to upsize mains utilizing company funds would prove shortsighted and could result in future service delivery problems and greater costs. A decision to not commit company funds for upsizing certain developer extensions should not be considered a viable option. It is recommended that the company proceed with the planned expenditures as they arise. The planned expenditure is based generally on what is thought to be historical levels, however, those expenditures have not been closely tracked and adjustments may be necessary as developments occur.

6.0 FINANCIAL STATEMENT

Component \$ million	Total	Year 0	Year 1	Year 2	Year 3
Development Costs					
Design & Construction Cost	\$0.25		\$0.25		
Project Total	\$0.25		\$0.25		
Advances & Contributions					

The extension of the network enables the company to generate additional revenues through the provision of service to new customers. Reinforcement and upsizing initiatives benefit the network and the ability of the company to provide service to future customers desiring water service at fringe areas of the system.

AMERICAN WATER – Kentucky American Water
CAPITAL INVESTMENT MANAGEMENT COMMITTEE – FEBRUARY 2004

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7.0 PROCUREMENT

Each network extension requirement is evaluated on its own merit based on engineering analysis and/or based upon tariff regulations. Materials utilized for projects are provided through the company's system of competitive national contract procurement.

8.0 PROGRAM

Project Implementation Approval (PIA)	02/04
Main Contract Let (if applicable)	N/A
Start on Site	N/A
Substantial Completion	On going
Take Over	On going
Post Project Review	12/04

9.0 ISSUES AND RISKS

There are no issues or inherent risks associated with this project other than those associated with normal construction operations.

Company employees and contractors are required to conform to all federal, state and local safety regulations as well as those more specifically detailed by the Company. All necessary insurance coverage by contractors has been documented through receipt of a Certificate of Insurance.

10.0 RECOMMENDATION

It is recommended that the \$250,000 in capital expenditures be authorized for Kentucky American during 2004. These expenditures will allow for efficient network enhancement with growth and development of the network.

Linda C. Bridwell, PE
 Date February 10, 2004
 Version 1.0

AMERICAN WATER – Kentucky American Water
CAPITAL INVESTMENT MANAGEMENT COMMITTEE – FEBRUARY 2004

AW/CMF3.40
 ISSUE 1.0

PROJECT REVIEW		
	Signature:	Date:
Asset Owner or nominated Asset Manager / Capital Program Manager		
Operations Manager		
Project Manager (Deliverer)		
Finance Representative		
RECOMMENDED FOR APPROVAL - PNI Only		
VP Technical Services		
Others (as nominated by VP Technical Services)		

APPENDICES

A1 Schedule/Forecast

Revision History:

Version	Date	Summary of Changes
1.0	11/10/03	Issue

Kentucky American Water
Recurring Item # 2004

82 Network - Extension

Project Manager:
Fred White

Business Unit Central District	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
	12300082 Previous Year													
	Network Installation @ Co. Expense	10,000	5,000	5,000	10,000	10,000	10,000	10,000	10,000	20,000	15,000	15,000	20,000	140,000
	Network Upsizing @ Co. Expense	0	0	0	0	10,000	10,000	10,000	20,000	20,000	15,000	15,000	10,000	110,000
	Business Unit Total	0	5,000	5,000	10,000	20,000	20,000	20,000	30,000	40,000	30,000	30,000	30,000	250,000

Business Unit Northern District	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
	12300082 Previous Year													
	Network Installation @ Co. Expense	0	0	0	0	0	0	0	0	0	0	0	0	0
	Network Upsizing @ Co. Expense	0	0	0	0	0	0	0	0	0	0	0	0	0
	Business Unit Total	0	0	0	0	0	0	0	0	0	0	0	0	0

Recurring Item Total	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
	#82 Previous Year													
	Network Installation @ Co. Expense	10,000	5,000	5,000	10,000	10,000	10,000	10,000	10,000	20,000	15,000	15,000	20,000	140,000
	Network Upsizing @ Co. Expense	0	0	0	0	10,000	10,000	10,000	20,000	20,000	15,000	15,000	10,000	110,000
	Recurring Item Total	0	5,000	5,000	10,000	20,000	20,000	20,000	30,000	40,000	30,000	30,000	30,000	250,000

Project 12020083/12300083: Recurring Item #83, Hydrants – Replacement/Renewal

Project Manager : Fred White

Project Status : PROJECT IMPLEMENTATION PROPOSAL

1.0 SUMMARY

1.1 Project Objectives

The replacement, renewal or improvement of leaking, failed or obsolete hydrants is necessary for the reliable and efficient operation of the network including providing appropriate fire protection for customers.

1.2 Recommended Solution

It is recommended that the expenditure of capital throughout 2004 to accomplish the replacement and renewal of hydrants be undertaken for the Central District (Lexington area) as needed.

1.3 Cost and Program

- The amount of expenditure requested: \$25,000
- The project program - completion date: December 31, 2004

1.4 Project Issues and Risks

The failure to allocate capital for the necessary replacement and renewal of network components may result in unaccounted for water, service interruptions, customer dissatisfaction, and inadequate fire protection.

2.0 BACKGROUND

Kentucky American serves more than 108,000 customers with two distribution network systems. The Central District (Lexington area) has over 6,000 public hydrants and nearly 500 private hydrants maintained by Kentucky American. The Northern District (Owen County area) has fewer than 100 hydrants. Replacement, renewal and improvement of network components is a recurring requirement for efficient operation of these systems and continued reliable water service delivery. This recurring item addresses hydrants specifically.

3.0 PROJECT JUSTIFICATION AND PRIORITISATION

The company maintains numerous hydrant types of various ages. The hydrants are used for system wide flushing annually, and are flow tested for maintenance purposes annually. Kentucky American is obligated to provide fire protection to varying degrees throughout its system, and there is a customer expectation that fire protection is adequate. The age of these hydrants, their installation environment, the prevalent climate and environmental conditions acting upon them creates a useful life limitation in some situations. A routine, unanticipated number of failures will continue to occur. For these reasons failures must continue to be addressed through capitalized replacement of hydrants. It is also critical to perform planned hydrant replacement where relocations of mains at company expense are made.

Purpose Code	Description	%	Measure	Units	Target
NA-PF01	Performance Failure	50			
NA-RR01	Required Relocations	50			

4.0 PROJECT OUTPUT AND BENEFITS

Planned hydrant replacements and renewals constitute prudent asset management, and will minimize service interruptions, water quality problems, or failure to provide sufficient fire protection.

5.0 SCOPE AND OPTIONS

The replacement, renewal and improvement of the hydrants will be accomplished through the utilization of company labor and by contractor forces. Emergency repairs, which typically result in a capitalized replacement, are routinely performed with company labor. Planned renewals of hydrants are routinely contracted as part of network renewal projects.

No practical option but to make necessary repairs to failed network components exists. Negative consequences such as compromised water quality, loss of fire fighting capability and low or no pressure to customers would result if no action were taken. The failure to execute planned replacements in areas of known problems would also result in an undesirable level of service to customers and would allow operating and maintenance costs to escalate.

6.0 FINANCIAL STATEMENT

Expenditures proposed for recurring item #83 constitute necessary repairs of emergency failures, and the planned renewal of existing hydrants involved in company funded main relocations. A requirement to address these issues will perpetually exist. Expenditures in this recurring item category should continue in order to maintain and improve the integrity of the network.

Component	Total	Year 0	Year 1	Year 2	Year 3
\$ million					
Development Costs					
Design & Construction Cost	0.025		0.025		
Project Total	0.025		0.025		
Advances & Contributions					

7.0 PROCUREMENT

As discussed in Section 5.0, hydrant replacement, renewal and improvement is accomplished by both Contractor forces and Company personnel. The nature and extent of work required determines which group is utilized. All materials are procured through the system of competitive national contract selection.

8.0 PROGRAM

Project Implementation Approval (PIA)	02/04
Start on Site	on going
Substantial Completion	on going
Take Over	on going
Post Project Review	01/05

9.0 ISSUES AND RISKS

There are no issues or inherent risks associated with this project other than those associated with normal construction operations.

Company employees and contractors are required to conform to all federal, state and local safety regulations as well as those more specifically detailed by the Company. All necessary insurance coverage by contractors has been documented through receipt of a Certificate of Insurance.

10.0 RECOMMENDATION

It is recommended that the \$25,000 in capital expenditures be authorized for Kentucky American during 2004. These expenditures will enable both emergency and planned hydrant replacements, renewals and improvement to be made.

Linda C. Bridwell, PE
 February 10, 2004
 Version 1.0

PROJECT REVIEW		
	Signature:	Date:
Asset Owner or nominated Asset Manager / Capital Program Manager		
Operations Manager		
Project Manager (Deliverer)		
Finance Representative		
RECOMMENDED FOR APPROVAL - PNI Only		
VP Technical Services		
Others (as nominated by VP Technical Services)		

APPENDICES

A1 Schedule/Forecast

Revision History:

Version	Date	Summary of Changes
1.0	11/10/03	Issue

Kentucky American Water
 Recurring Item # 2004

83 Hydrants - Replacement

Project Manager: Fred White

Business Unit Central District	12020083	Previous Year	1	2	3	4	5	6	7	8	9	10	11	12	Total
Hydrants - Replacement			2,000	2,000	0	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	5,000	25,000
Business Unit Total	0	2,000	2,000	0	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	5,000	25,000

Business Unit Northern District	12300083	Previous Year	1	2	3	4	5	6	7	8	9	10	11	12	Total
Hydrants - Replacement			0	0	0	0	0	0	0	0	0	0	0	0	0
Business Unit Total	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0

Recurring Item Total	#83	Previous Year	1	2	3	4	5	6	7	8	9	10	11	12	Total
Hydrants - Replacement			2,000	2,000	0	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	5,000	25,000
Recurring Item Total	0	2,000	2,000	0	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	5,000	25,000

Project 12020084/12300084: Recurring Item #84, Hydrants - New

Project Manager : Fred White

Project Status : PROJECT IMPLEMENTATION PROPOSAL

1.0 SUMMARY

1.1 Project Objectives

New water hydrants associated with new water mains funded by the company, or as requested by local jurisdictions in accordance with Kentucky American Water's Rules and Regulations as approved by the Kentucky Public Service Commission.

1.2 Recommended Solution

It is recommended that necessary hydrants requested be installed in compliance with tariff regulations.

1.3 Cost and Program

- Capital Expenditure Requested - \$260,000
- Project Completion Date - December 31, 2004

1.4 Project Issues and Risks

The failure to allocate capital for the installation of hydrants associated with new water network extensions or as requested by local jurisdictions is in violation of Kentucky American Water's published tariff.

2.0 BACKGROUND

Kentucky American Water maintains an extensive water networks in two general areas, serving over 108,000 customers through 1,600 miles of main. The Central District (Lexington area) includes over 6,000 public hydrants and 500 private hydrants. The Northern District (Owen County area) serves generally a rural area and includes fewer than 100 hydrants. Kentucky American is required under its published tariff to provide public hydrants at no additional charge when requested by the local jurisdiction in conjunction with new development or in existing service areas.

3.0 PROJECT JUSTIFICATION AND PRIORITISATION

Contained within this recurring item is an allowance for the installation of new hydrants in conjunction with network extensions funded by others.

The funding for new hydrants is necessary throughout 2004, as dictated by developer needs and company planning, and requests by local jurisdictions.

Purpose Code	Description	%	Measure	Units	Target
GC-LC01	Local Capacity 0 – 3 years	100%			

4.0 PROJECT OUTPUT AND BENEFITS

Hydrant installations result from compliance with tariff regulations. This recurring item may impact 300 to 400 projects per year.

5.0 SCOPE AND OPTIONS

The installation of new hydrants will be accomplished through the utilization generally of contractor forces. Current company forces are utilized strictly for maintenance and minor facility upgrades.

A decision to not commit company funds for installation of new hydrants is not a viable option. It is recommended that the company proceed with the planned expenditures as they arise. The planned expenditure is based generally on what is thought to be historical levels, however, those expenditures have not been closely tracked and adjustments may be necessary as developments occur.

It is currently anticipated that all of the planned expenditures will be utilized in the Central District.

6.0 FINANCIAL STATEMENT

Component \$ million	Total	Year 0	Year 1	Year 2	Year 3
Development Costs					
Design & Construction Cost	\$0.26		\$0.26		
Project Total	\$0.26		\$0.26		
Advances & Contributions					

The installation of new hydrants enables the company to generate additional revenues new hydrant maintenance fees.

7.0 PROCUREMENT

Materials utilized for projects are provided through the company's system of competitive national contract procurement.

8.0 PROGRAM

Project Implementation Approval (PIA)	02/04
Main Contract Let (if applicable)	N/A
Start on Site	N/A

Substantial Completion	On going
Take Over	On going
Post Project Review	12/04

9.0 ISSUES AND RISKS

There are no issues or inherent risks associated with this project other than those associated with normal construction operations.

Company employees and contractors are required to conform to all federal, state and local safety regulations as well as those more specifically detailed by the Company. All necessary insurance coverage by contractors has been documented through receipt of a Certificate of Insurance.

10.0 RECOMMENDATION

It is recommended that the \$260,000 in capital expenditures be authorized for Kentucky American during 2004. These expenditures will allow for efficient installation of new hydrants for fire protection and water quality within the network.

Linda C. Bridwell, PE
 Date February 10, 2004
 Version 1.0

PROJECT REVIEW		
	Signature:	Date:
Asset Owner or nominated Asset Manager / Capital Program Manager		
Operations Manager		
Project Manager (Deliverer)		
Finance Representative		
RECOMMENDED FOR APPROVAL - PNI Only		
VP Technical Services		
Others (as nominated by VP Technical Services)		

AMERICAN WATER – Kentucky American Water
CAPITAL INVESTMENT MANAGEMENT COMMITTEE – FEBRUARY 2004

AW/CMF3.40
ISSUE 1.0

APPENDICES

A1 Schedule/Forecast

Revision History:

Version	Date	Summary of Changes
1.0	11/10/03	Issue

Kentucky American Water
 Recurring Item # 2004

84 Hydrants - New

Project Manager: Fred White

Business Unit	Period	1	2	3	4	5	6	7	8	9	10	11	12	Total
Central District	Previous Year													
	Hydrants - New	20,000	10,000	10,000	20,000	20,000	20,000	20,000	20,000	30,000	30,000	30,000	30,000	260,000
	Business Unit Total	0	10,000	10,000	20,000	20,000	20,000	20,000	20,000	30,000	30,000	30,000	30,000	260,000

Business Unit	Period	1	2	3	4	5	6	7	8	9	10	11	12	Total
Northern District	Previous Year													
	Hydrants - New	0	0	0	0	0	0	0	0	0	0	0	0	0
	Business Unit Total	0	0	0	0	0	0	0	0	0	0	0	0	0

Recurring Item Total	Period	1	2	3	4	5	6	7	8	9	10	11	12	Total
	Previous Year													
	Hydrants - New	20,000	10,000	10,000	20,000	20,000	20,000	20,000	20,000	30,000	30,000	30,000	30,000	260,000
	Recurring Item Total	0	10,000	10,000	20,000	20,000	20,000	20,000	20,000	30,000	30,000	30,000	30,000	260,000

Project 12020085/12300085: Recurring Item #85, Services – Replacement/Renewal
Project Manager : Elizabeth (Bambi) Floyd
Project Status : PROJECT IMPLEMENTATION PROPOSAL

1.0 SUMMARY

1.1 Project Objectives

The replacement, renewal or improvement of water services including corporation stops, is necessary for the reliable and efficient operation of the network. Components routinely fail creating the need for emergency replacement while specific services are identified for renewal due to company funded main relocations.

1.2 Recommended Solution

It is recommended that the expenditure of capital throughout 2004 to accomplish the replacement and renewal of services throughout the Kentucky American Central and Northern District distribution networks is prudent and necessary to meet customer service objectives.

1.3 Cost and Program

- The amount of expenditure requested: \$465,650
- The project program - completion date: December 31, 2004

1.4 Project Issues and Risks

The failure to allocate capital for the necessary replacement and renewal of water service components may result in service interruptions and customer dissatisfaction.

2.0 BACKGROUND

Kentucky American Water serves more than 108,000 customers throughout Central and Northern Districts. Replacement, renewal and improvement of water service components are a recurring requirement for efficient operation of the network system and continued reliable water service delivery. This includes capitalized emergency repairs as well as planned replacements, renewals and improvements. From time to time, this work is required as a component of urban renewal where Kentucky American facilities are in the right-of-way.

3.0 PROJECT JUSTIFICATION AND PRIORITISATION

The company maintains services of copper, plastic, galvanized iron, cast iron, and ductile iron of sizes ranging from ¾" to 8" throughout its distribution networks. The age of services, their installation environment, the prevalent climate and environmental conditions acting upon them and the nature of the materials themselves creates a useful life limitation in many situations. A routine, unanticipated number of failures does and will continue to occur. For these reasons failures must continue to be addressed through capitalized replacement of services. It is also critical to perform planned replacements in areas with a history of where company funded main replacements occur.

During the course of the year, it may become necessary to shift priorities and make expenditures for replacement or renewal in unforeseen locations. Priority and justification exists to make expenditures at proposed levels to address the continuing need for main replacement, renewal and improvement.

Purpose Code	Description	%	Measure	Units	Target
NA-PF01	Performance Failure	75			
NA-RR01	Required Relocations	25			

4.0 PROJECT OUTPUT AND BENEFITS

Planned network replacements and renewals constitute prudent network asset management, will minimize future service interruptions, and provide continued customer service. These planned replacements also require service replacements for efficient network operations and costs. It is anticipated that \$453,650 will be utilized in the Central District (Lexington area) and \$12,000 will be utilized in the Northern District (Owen County area) for both emergency replacements and planned service replacements.

5.0 SCOPE AND OPTIONS

The replacement, renewal and improvement of the services will be initiated by in-house personnel and implemented with the utilization of company labor and by contractor forces. Emergency repairs, which typically result in a capitalized replacement, are routinely performed with company labor.

No practical option but to make necessary repairs to failed service components exists. Negative consequences such as compromised water quality, compromised network pressure, and customer dissatisfaction would result if no action were taken. The failure to execute planned replacements in areas of network replacements or known problems would also result in an undesirable level of service to customers and would allow operating and maintenance costs to escalate.

6.0 FINANCIAL STATEMENT

Expenditures proposed for this recurring item constitute necessary repairs of emergency failures, and the planned renewal of existing services where flow/capacity deficiencies exist. A requirement to address these issues will perpetually exist given the nature of the network. Overall improvement, which has had a direct effect on the reduction unaccounted for water losses and the cost thereof, has occurred in recent years as a result of the replacement of services that are leaking rather than simply repairing the service. Expenditures in this recurring item category should continue in order to maintain and improve the integrity of the entire network.

AMERICAN WATER – Kentucky American Water
CAPITAL INVESTMENT MANAGEMENT COMMITTEE – February 2004

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Component \$ million	Total	Year 0	Year 1	Year 2	Year 3
Development Costs					
Design & Construction Cost	0.466		\$0.466		
Project Total	0.466		\$0.466		
Advances & Contributions					

7.0 PROCUREMENT

As discussed in Section 5.0, service replacement, renewal and improvement is accomplished by both Contractor forces and Company personnel. The nature and extent of work required determines which group is utilized. Contractor forces are experienced, and qualified to perform necessary replacement and renewal projects. A non-exclusive contract for the replacement of services is bid annually to qualified contractors. Company personnel are capable of responding quicker to immediate and minor replacement and renewal requirements. Materials utilized for projects are provided through the system of competitive national contract selection.

8.0 PROGRAM

Project Implementation Approval (PIA)	02/04
Start on Site	on going
Substantial Completion	on going
Take Over	on going
Post Project Review	01/05

9.0 ISSUES AND RISKS

There are no issues or inherent risks associated with this project other than those associated with normal construction operations.

Company employees and contractors are required to conform to all federal, state and local safety regulations as well as those more specifically detailed by the Company. All necessary insurance coverage by contractors has been documented through receipt of a Certificate of Insurance.

10.0 RECOMMENDATION

It is recommended that the \$465,650 in capital expenditures be approved and authorized for Kentucky American Water Central and Northern Districts during 2004. These expenditures will enable both emergency and planned service replacements, renewals and improvements to be made.

Linda C. Bridwell, PE
 February 10, 2004
 Version 1.0

PROJECT REVIEW		
	Signature:	Date:
Asset Owner or nominated Asset Manager / Capital Program Manager		
Operations Manager		
Project Manager (Deliverer)		
Finance Representative		
RECOMMENDED FOR APPROVAL - PNI Only		
VP Technical Services		
Others (as nominated by VP Technical Services)		

APPENDICES

A1 Schedule/Forecast

Revision History:

Version	Date	Summary of Changes
1.0	11/10/03	Issue

Kentucky American Water
 Recurring Item # 2004

Services - Replacement

85

Project Manager: Bambi Floyd
 Business Unit 12020085

Business Unit Central District	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
	Previous Year													
	Renew 3/4 " Services (110 @ \$1,000 ea)	5,000	5,000	5,000	10,000	10,000	15,000	10,000	10,000	10,000	10,000	10,000	10,000	110,000
	Renew 1" Services (235 @ \$1,300 ea)	13,000	42,000	39,385	34,385	25,385	20,385	15,385	15,385	15,385	25,385	25,385	31,035	302,500
	Renew 2" Services (10 @ \$2,615 ea)	0	0	2,615	2,615	2,615	2,615	2,615	2,615	2,615	2,615	2,615	2,615	26,150
	Renew Domestic Services larger than 2"	1,000	2,000	2,000	2,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	15,000
	Business Unit Total	0	49,000	49,000	49,000	39,000	39,000	29,000	29,000	29,000	39,000	39,000	44,650	453,650

Business Unit Northern District	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
	Previous Year													
	Renew 3/4 " Services (5 @ \$700 ea)	1,000	1,000	0	0	0	0	0	0	0	500	500	500	3,500
	Renew 1" Services (10 @ \$1,000 ea)	0	0	1,000	1,000	1,000	1,000	1,000	1,000	1,000	500	500	500	8,500
	Renew 2" Services	0	0	0	0	0	0	0	0	0	0	0	0	0
	Renew Domestic Services larger than 2"	0	0	0	0	0	0	0	0	0	0	0	0	0
	Business Unit Total	0	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000

Recurring Item Total	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
	Previous Year													
	Renew 3/4 " Services	6,000	6,000	5,000	10,000	10,000	15,000	10,000	10,000	10,000	10,500	10,500	10,500	113,500
	Renew 1" Services	13,000	42,000	40,385	35,385	26,385	21,385	16,385	16,385	16,385	25,885	25,885	31,535	311,000
	Renew 2" Services	0	0	2,615	2,615	2,615	2,615	2,615	2,615	2,615	2,615	2,615	2,615	26,150
	Renew Domestic Services larger than 2"	1,000	2,000	2,000	2,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	15,000
	Recurring Item Total	0	20,000	50,000	50,000	40,000	40,000	30,000	30,000	30,000	40,000	40,000	45,650	465,650

Project 12020086/12300086: Recurring Item #86, Services - New

Project Manager : Elizabeth (Bambi) Floyd
Project Status : PROJECT IMPLEMENTATION PROPOSAL

1.0 SUMMARY

1.1 Project Objectives

New water services are funded by the company as required by its published tariff as approved by the Public Service Commission.

1.2 Recommended Solution

It is recommended that new service installations by the company be undertaken in compliance with tariff regulations.

1.3 Cost and Program

- Capital Expenditure Requested - \$1,134,350
- Project Completion Date - December 31, 2004

1.4 Project Issues and Risks

The failure to allocate capital for the installation of water services will eliminate the potential for new growth.

2.0 BACKGROUND

Kentucky American Water serves over 108,000 customers in its Central and Northern Districts. The company annually installs 2,500 new services, generating additional revenues. This growth has been steady for over a decade and is expected to continue for at least the next 15 years.

3.0 PROJECT JUSTIFICATION AND PRIORITISATION

Funds for the installation of all new services and appurtenances are contained within this recurring item.

The funding for new services is necessary throughout 2004, as dictated by developer needs.

Purpose Code	Description	%	Measure	Units	Target
GC-LC01	Local Capacity 0 – 3 years	100%			

4.0 PROJECT OUTPUT AND BENEFITS

New service installations result from compliance Kentucky Public Service Commission regulations and with tariff regulations. Installations are performed under blanket projects throughout the year.

5.0 SCOPE AND OPTIONS

The extension of new services will be accomplished through the utilization of contractor forces coordinated by company personnel. Current company forces are utilized strictly for maintenance and minor facility upgrades.

As new customers apply for service, there are no alternatives or options other than to perform this work as long as network system and process plant capacity exists. The failure to install new services is not a viable option. It is recommended that the company proceed with the planned expenditures as they arise. The planned expenditure are based on historical levels, and adjustments may be necessary as developments occur.

6.0 FINANCIAL STATEMENT

Component \$ million	Total	Year 0	Year 1	Year 2	Year 3
Development Costs					
Design & Construction Cost	\$1.134		\$1.134		
Project Total	\$1.134		\$1.134		
Advances & Contributions					

The installation of new services provides growth and immediate additional revenues.

7.0 PROCUREMENT

New services are initiated by request from customers. They are installed by contractor forces, selected on a non-exclusive, competitively bid blanket contract. When cost effective, new services are installed as part of new main extension work by contractor forces. Materials utilized for projects are provided through the company’s system of competitive national contract procurement.

8.0 PROGRAM

Project Implementation Approval (PIA)	02/04
Main Contract Let (if applicable)	N/A
Start on Site	N/A
Substantial Completion	On going
Take Over	On going
Post Project Review	12/04

9.0 ISSUES AND RISKS

There are no issues or inherent risks associated with this project other than those associated with normal construction operations.

AMERICAN WATER – Kentucky American Water
CAPITAL INVESTMENT MANAGEMENT COMMITTEE – FEBRUARY 2004

AW/CMF3.40
 ISSUE 1.0

Company employees and contractors are required to conform to all federal, state and local safety regulations as well as those more specifically detailed by the Company. All necessary insurance coverage by contractors has been documented through receipt of a Certificate of Insurance.

10.0 RECOMMENDATION

It is recommended that the \$1,134,350 in capital expenditures be authorized for Kentucky American for this recurring item during 2004.

Linda C. Bridwell, PE
 Date February 10, 2004
 Version 1.0

PROJECT REVIEW		
	Signature:	Date:
Asset Owner or nominated Asset Manager / Capital Program Manager		
Operations Manager		
Project Manager (Deliverer)		
Finance Representative		
RECOMMENDED FOR APPROVAL - PNI Only		
VP Technical Services		
Others (as nominated by VP Technical Services)		

APPENDICES

A1 Schedule/Forecast

Revision History:

Version	Date	Summary of Changes
1.0	11/10/03	Issue

Kentucky American Water
 Recurring Item # 2004

Services - New

86

Project Manager: Bambi Floyd

Business Unit Central District	Previous Year	1	2	3	4	5	6	7	8	9	10	11	12	Total
12020086														
Install 3/4 " Services (100 @ \$620 ea)		6,000	3,000	3,000	5,000	6,000	6,000	6,000	6,000	6,000	5,000	5,000	5,000	62,000
Install 1" Services (1500 @ \$600 ea)		77,900	46,475	46,475	53,950	77,950	102,950	102,950	102,950	102,950	78,950	64,475	44,475	902,450
Install 2" Services (20 @ \$5,525 ea)		11,050	5,525	5,525	11,050	11,050	11,050	11,050	11,050	11,050	11,050	5,525	5,525	110,500
Install Domestic Services larger than 2"		2,050	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	1,350	23,400
Business Unit Total	0	97,000	57,000	57,000	72,000	97,000	122,000	122,000	122,000	122,000	97,000	77,000	56,350	1,098,350

Business Unit Northern District	Previous Year	1	2	3	4	5	6	7	8	9	10	11	12	Total
12300086														
Install 3/4 " Services (20 @ \$500 ea)		0	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	950	500	10,450
Install 1" Services (50 @ \$511 ea)		0	2,000	2,000	2,000	2,000	2,000	3,000	3,000	3,000	2,000	2,000	2,550	25,550
Install 2" Services		0	0	0	0	0	0	0	0	0	0	0	0	0
Install Domestic Services larger than 2"		0	0	0	0	0	0	0	0	0	0	0	0	0
Business Unit Total	0	0	3,000	3,000	3,000	3,000	3,000	4,000	4,000	4,000	3,000	2,950	3,050	36,000

Recurring Item Total	Previous Year	1	2	3	4	5	6	7	8	9	10	11	12	Total
# 86														
Install 3/4 " Services		6,000	4,000	4,000	6,000	7,000	7,000	7,000	7,000	7,000	6,000	5,950	5,500	72,450
Install 1" Services		77,900	48,475	48,475	55,950	79,950	104,950	105,950	105,950	105,950	80,950	66,475	47,025	928,000
Install 2" Services		11,050	5,525	5,525	11,050	11,050	11,050	11,050	11,050	11,050	11,050	5,525	5,525	110,500
Install Domestic Services larger than 2"		2,050	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	1,350	23,400
Recurring Item Total	0	97,000	60,000	60,000	75,000	100,000	125,000	126,000	126,000	126,000	100,000	79,950	59,400	1,134,350

Project 120200087/123000087 : Recurring Item #87, Meter - Replacements
Project Manager : Elizabeth (Bambi) Floyd
Project Status : PROJECT IMPLEMENTATION PROPOSAL

1.0 SUMMARY

Replace approximately 2,300 meters and 3,350 settings in Central and Northern Districts of Kentucky American Water.

1.1 Project Objectives

Kentucky American Water currently serves 108,000 customers in the Central (Lexington area) and Northern (Owen County area) Districts of distribution networks. Approximately 1,000 meters will need to be replaced during 2004 for failure, or for age or usage requirements. Approximately 3,350 meter settings will need to be replaced due to relocations of service lines or for leak repairs. These estimates are based on historical averages.

1.2 Recommended Solution

It is recommended that the meters and settings be replaced as needed.

1.3 Cost and Program

- \$800,800
- Completion date -December 31st, 2004

1.4 Project Issues and Risks

The Kentucky Public Service Commission currently requires meter replacements due to age and tested usage. Kentucky American is currently in a process to extend the age of meters through a selective testing process approved by the Public Service Commission.

Kentucky American Water is utilizing the opportunity to install AMR in cost effective areas where meter reading costs are extremely high per meter, such as remote, rural areas or in dense apartment housing. Additionally, Kentucky American continues to replace gallon meters in the Owen County area.

Meter settings are required to be moved if they conflict with new construction on State and local relocation projects. Failure to move the settings is not a viable option.

2.0 BACKGROUND

State regulations require that all meters be tested at the following intervals and be replaced if they fall outside required accuracy guidelines:

5/8" – 3 /4"	10 Years
1"	10 Years
1 1/2" – 2"	4 Years
3"	2 Years
4" and above	Yearly

Kentucky American is currently working to extend this effort to 20 year testing intervals on 5/8" – 3/4" meters.

3.0 PROJECT JUSTIFICATION AND PRIORITISATION

Investment Strategies - Regulatory and Compliance Goals
 Network Assets

Sub Strategy – Other Regulations

Purpose Code	Description	%	Measure	Units	Target
NA-PF01	Water – Performance Failure	75			
NA-RR01	Water – Required Relocations	25			

3.2 Completion date - December 31st, 2004

4.0 PROJECT OUTPUT AND BENEFITS

New meters will replace older meters, which will improve accurate customer usage billing and revenues. Installation of AMR where feasible will further reduce labor costs and increase accuracy of billing.

Replaced meter settings will help reduce unaccounted for water losses and avoid conflicts with road relocations.

5.0 SCOPE AND OPTIONS

Meters will be purchased in block increments throughout the year and installed as needed. Services will be replaced as needed throughout the year.

6.0 FINANCIAL STATEMENT

Component	Total	Year 0	Year 1	Year 2	Year 3
\$ million					
Development Costs					
Design & Construction Cost	0.801		0.801		
Project Total	0.801		0.801		
Advances & Contributions					

7.0 PROCUREMENT

Meters and setters are purchased through national contracts. Installation is performed generally on a non-exclusive blanket contract by outside forces. This contract is bid annually. Emergency

installations are done by company forces for maintenance.

8.0 PROGRAM

Project Implementation Approval (PIA) 01/04
 Start 02/04
 Substantial Completion 12/04
 Post Project Review 12/04

9.0 ISSUES AND RISKS

Risks associated with changing meters are minimal but can include damage to service or property associated with poor condition of facilities.

10.0 RECOMMENDATION

It is recommended that \$800,800 be authorized for the purchase and installation of replacement meters and service settings. It is estimated that \$794,800 will be needed for the Central District and that \$6,000 will be needed for the Northern District.

Linda Bridwell, PE
 February 16, 2004
 Version 1.0

PROJECT REVIEW		
	Signature:	Date:
Asset Owner or nominated Asset Manager / Capital Program Manager		
Operations Manager		
Project Manager (Deliverer)		
Finance Representative		
RECOMMENDED FOR APPROVAL - PNI Only		
VP Technical Services		
Others (as nominated by VP Technical Services)		

APPENDICES

A1 Schedule/Forecast

Version	Date	Summary of Changes
1.0	01/22/04	Issue

87 Meters & Meter Settings - Replacement

Project Manager: Bambl Floyd

Business Unit	Period	Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
Central District	Previous Year		25,000	0	0	25,000	0	0	25,000	0	0	25,000	0	15,000	115,000
		Replace 5/8"x3/4" Meters (100 @ \$115 ea)	0	0	0	0	0	0	0	0	0	0	0	0	0
		Replace 1" Meters	0	0	15,000	0	0	15,000	0	0	15,000	0	15,000	0	60,000
		Replace 2" Meters	0	0	0	0	0	5,000	0	5,000	0	0	0	5,000	15,000
		Renew 3/4" Meter Settings	25,000	20,000	30,000	25,000	35,000	35,000	25,000	35,000	35,000	25,000	35,000	35,000	360,000
		Renew 1" Meter Settings			5,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	95,000
		Renew 2" Meter Settings					10,000	10,000	10,000	10,000	10,000	5,000	5,000	5,000	65,000
		Renew meter settings larger than 2"	0	0	0	0	20,000	10,000	10,000	20,000	10,000	5,000	5,000	4,800	84,800
		Business Unit Total	0	20,000	50,000	60,000	80,000	80,000	80,000	80,000	80,000	70,000	70,000	74,800	794,800

Business Unit	Period	Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
Northern District	Previous Year		1,150					1,150							2,300
		Replace 5/8"x3/4" Meters (20 @ \$115 ea)													0
		Replace 1" Meters													0
		Replace 2" Meters													0
		Renew 3/4" Meter Settings	500	500	500	250	250	250	250	250	250	250	250	200	3,700
		Renew 1" Meter Settings													0
		Renew 2" Meter Settings													0
		Renew meter settings larger than 2"													0
		Business Unit Total	0	1,650	500	250	250	1,400	250	250	250	250	250	200	6,000

Business Unit	Period	Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
Recurring Item Total	Previous Year		26,150	20,500	50,500	60,250	80,250	81,400	80,250	80,250	80,250	70,250	70,250	75,000	800,800
		Replace 5/8"x3/4" Meters (20 @ \$115 ea)	0	0	0	0	0	0	0	0	0	0	0	0	117,300
		Replace 1" Meters	0	0	15,000	0	15,000	0	0	0	15,000	0	15,000	0	60,000
		Replace 2" Meters	0	0	0	0	5,000	0	0	5,000	0	0	0	5,000	15,000
		Renew 3/4" Meter Settings	25,500	20,500	30,500	25,250	35,250	35,250	25,250	35,250	35,250	25,250	35,250	35,200	363,700
		Renew 1" Meter Settings	0	0	5,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	95,000
		Renew 2" Meter Settings	0	0	0	0	10,000	10,000	10,000	10,000	10,000	5,000	5,000	5,000	65,000
		Renew meter settings larger than 2"	0	0	0	0	20,000	10,000	20,000	10,000	10,000	5,000	5,000	4,800	84,800
		Recurring Item Total	0	20,500	50,500	60,250	80,250	81,400	80,250	80,250	80,250	70,250	70,250	75,000	800,800

Project 12020088: Recurring Item #88, Meters and Settings - New

Project Manager : Elizabeth (Bambi) Floyd

Project Status : PROJECT IMPLEMENTATION PROPOSAL

1.0 SUMMARY

1.1 Project Objectives

The installation of new meters and meter settings are funded by the company as required by its published tariff as approved by the Public Service Commission.

1.2 Recommended Solution

It is recommended that new meters and meter setting installations by the company be undertaken in compliance with tariff regulations.

1.3 Cost and Program

- Capital Expenditure Requested - \$707,350
- Project Completion Date - December 31, 2004

1.4 Project Issues and Risks

The failure to allocate capital for the installation of water meters and settings will eliminate the potential for new growth and is not a viable alternative.

2.0 BACKGROUND

Kentucky American Water serves over 108,000 customers in its Central and Northern Districts. The company annually installs 2,500 new services, generating additional revenues. This growth has been steady for over a decade and is expected to continue for at least the next 15 years. The meter settings and meters for these new services must be installed at the time the service is requested.

3.0 PROJECT JUSTIFICATION AND PRIORITISATION

Funds for the installation of all new services and appurtenances are contained within this recurring item.

The funding for new services is necessary throughout 2004, as dictated by new customer application needs.

Purpose Code	Description	%	Measure	Units	Target
GC-LC01	Local Capacity 0 – 3 years	100%			

4.0 PROJECT OUTPUT AND BENEFITS

New meter installations result from compliance Kentucky Public Service Commission regulations and with tariff regulations. Installations are performed under blanket projects throughout the year.

5.0 SCOPE AND OPTIONS

The installation of new meters and meter settings will be accomplished generally through the utilization of contractor forces coordinated by company personnel. Current company forces are utilized strictly for maintenance and minor facility upgrades.

As new customers apply for service, there are no alternatives or options other than to perform this work as long as network system and process plant capacity exists. The failure to install new services is not a viable option. It is recommended that the company proceed with the planned expenditures as they arise. The planned expenditures are based on historical levels, and adjustments may be necessary as developments occur.

6.0 FINANCIAL STATEMENT

Component \$ million	Total	Year 0	Year 1	Year 2	Year 3
Development Costs					
Design & Construction Cost	\$0.707		\$0.707		
Project Total	\$0.707		\$0.707		
Advances & Contributions					

The installation of new services provides growth and immediate additional revenues.

7.0 PROCUREMENT

New meters are set as initiated by request from customers. They are generally installed by contractor forces, selected on a non-exclusive, competitively bid blanket contract. When cost effective, new services are installed as part of new main extension work by contractor forces and the meter settings and meters are installed by contractor or company forces at a later date. Materials utilized for projects are provided through the company's system of competitive national contract procurement.

8.0 PROGRAM

Project Implementation Approval (PIA)	02/04
Main Contract Let (if applicable)	N/A
Start on Site	N/A
Substantial Completion	On going
Take Over	On going

Post Project Review 12/04

9.0 ISSUES AND RISKS

There are no issues or inherent risks associated with this project other than those associated with normal construction operations.

Company employees and contractors are required to conform to all federal, state and local safety regulations as well as those more specifically detailed by the Company. All necessary insurance coverage by contractors has been documented through receipt of a Certificate of Insurance.

10.0 RECOMMENDATION

It is recommended that the \$707,350 in capital expenditures be authorized for Kentucky American for this recurring item during 2004. \$695,350 is estimated in capital expenditures for the Central District (Lexington area) while \$12,000 is estimated in capital expenditures for the Northern District (Owen County area).

Linda C. Bridwell, PE
 Date February 17, 2004
 Version 1.0

PROJECT REVIEW		
	Signature:	Date:
Asset Owner or nominated Asset Manager / Capital Program Manager		
Operations Manager		
Project Manager (Deliverer)		
Finance Representative		
RECOMMENDED FOR APPROVAL - PNI Only		
VP Technical Services		
Others (as nominated by VP Technical Services)		

AMERICAN WATER – Kentucky American Water
CAPITAL INVESTMENT MANAGEMENT COMMITTEE – FEBRUARY 2004

AW/CMF3.40
ISSUE 1.0

APPENDICES

A1 Schedule/Forecast

Revision History:

Version	Date	Summary of Changes
1.0	11/10/03	Issue

Kentucky Water 88 Meters & Meter Settings - New
Recurring 10/2004

Project Manager: Bambi Floyd
Business Unit: 12020088
Central District

Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
Purchase 5/8"x3/4" Meters (2500 @ \$115 ea)	50,000	0	0	55,000	0	20,000	35,000	0	20,000	40,000	25,000	42,500	287,500
Purchase 1" Meters (50 @ \$150 ea)	0	0	15,000	0	0	15,000	0	15,000	15,000	0	15,000	0	75,000
Purchase 2" Meters (150 @ \$250 ea)	0	0	0	0	15,000	0	0	15,000	0	0	7,500	7,500	45,000
Purchase 4" Meters	450	450	0	0	0	450	0	0	450	0	0	0	1,350
Purchase 6" Meters	0	0	0	0	0	0	0	3,000	0	0	0	0	3,000
Install 3/4" Meter Settings	10,000	19,550	2,500	5,000	25,000	10,000	5,000	20,000	15,000	15,000	13,500	2,000	142,550
Install 1" Meter Settings	0	0	2,500	0	5,000	4,550	5,000	5,000	5,000	10,000	4,000	1,000	42,050
Install 2" Meter Settings	0	0	0	0	5,000	5,000	5,000	7,000	9,550	5,000	5,000	0	41,550
Install meter settings larger than 2"	0	0	0	0	10,000	5,000	10,000	10,000	10,000	5,000	5,000	2,350	57,350
Business Unit Total	0	20,000	20,000	60,000	60,000	60,000	60,000	75,000	75,000	75,000	75,000	55,350	695,350

Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
Purchase 5/8"x3/4" Meters	1,500	1,500	1,500	0	0	0	0	0	1,500	0	0	1,500	6,000
Purchase 1" Meters	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase 2" Meters	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase 4" Meters	0	0	0	0	0	0	0	0	0	0	0	0	0
Purchase 6" Meters	0	0	0	0	0	0	0	0	0	0	0	0	0
Install 3/4" Meter Settings	500	500	500	500	500	500	500	500	500	500	500	500	6,000
Install 1" Meter Settings	0	0	0	0	0	0	0	0	0	0	0	0	0
Install 2" Meter Settings	0	0	0	0	0	0	0	0	0	0	0	0	0
Install meter settings larger than 2"	0	0	0	0	0	0	0	0	0	0	0	0	0
Business Unit Total	0	500	2,000	500	500	2,000	500	500	2,000	500	500	2,000	12,000

Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
Purchase 5/8"x3/4" Meters (2500 @ \$115 ea)	50,000	0	1,500	55,000	0	21,500	35,000	0	21,500	40,000	25,000	44,000	293,500
Purchase 1" Meters (50 @ \$150 ea)	0	0	15,000	0	0	15,000	0	15,000	15,000	0	15,000	0	75,000
Purchase 2" Meters (150 @ \$250 ea)	0	0	0	0	15,000	0	0	15,000	0	0	7,500	7,500	45,000
Purchase 4" Meters	0	450	0	0	0	450	0	0	450	0	0	0	1,350
Purchase 6" Meters	0	0	0	0	0	0	0	3,000	0	0	0	0	3,000
Install 3/4" Meter Settings	10,500	20,050	3,000	5,500	25,500	10,500	5,500	20,500	15,500	15,500	14,000	2,500	148,550
Install 1" Meter Settings	0	0	2,500	0	5,000	4,550	5,000	5,000	5,000	10,000	4,000	1,000	42,050
Install 2" Meter Settings	0	0	0	0	5,000	5,000	5,000	7,000	9,550	5,000	5,000	0	41,550
Install meter settings larger than 2"	0	0	0	0	10,000	5,000	10,000	10,000	10,000	5,000	5,000	2,350	57,350
Recurring Item Total	0	20,500	22,000	60,500	60,500	62,000	60,500	75,500	77,000	75,500	75,500	57,350	707,350

Project 12020089/12300089: Recurring Item #89, ITS Equipment & Systems

Project Manager : Linda Bridwell

Project Status : PROJECT IMPLEMENTATION PROPOSAL

1.0 SUMMARY

Purchase IT equipment in accordance as necessary and in accordance with American Water ITS equipment life cycle policy.

1.1 Project Objectives

To purchase personal computers, network equipment, printers, and servers as necessary and to adhere to American Water ITS equipment life cycle policy. American Water standard operation procedure is that all servers and personal computers are to be replaced every three years.

1.2 Recommended Solution

It is recommended that IT equipment be purchased as necessary throughout 2004 and efforts be made to maintain compliance of American Water ITS policy. Priority will be given to the replacement of outdated, unreliable equipment thus reducing the risk of lost productivity, lost data (specifically with regard to maintaining water quality compliance) and security breaches.

1.3 Cost and Program

- \$75,000
- 12/31/2004

1.4 Project Issues and Risks

Risks associated with this project include interruption of automated processes while new equipment is installed, and potential security breaches during the installation process. Risks for not proceeding, however, include the loss of productivity on outdated equipment, lost data on unreliable equipment, and the loss of water quality compliance when specific data is lost or automated monitoring is lost. The risks of not proceeding far outweigh risk associated with the project.

2.0 BACKGROUND

Kentucky American Water's information technology replacements and purchases have been reduced in priority in recent years. These reductions have led to a compounded need for equipment replacement. Some equipment has recently been upgraded associated with the new SCADA project at both treatment plants, and the conversion to the ORCOM customer service software. However, individual computers, as well as server equipment is needed in 2004.

3.0 PROJECT JUSTIFICATION AND PRIORITIZATION

3.1 The investment driver under which the project is to be undertaken utilizing Purpose Codes is as follows:

Purpose Code	Description	%	Measure	Units	Target
IS - PC01	Water - PCs & Peripherals	50			
IS – OS01	Water Operating Systems	50			

Current productivity is diminished by intolerable processor speeds and limited data storage space. Many personal computers in the office use outdated software but are too limited on capacity to be upgraded. This allows vulnerability to security breaches.

Server equipment is also slow and in some cases uses outdated technology. Network printers are currently in good shape but should be replaced in the near future.

4.0 PROJECT OUTPUT AND BENEFITS

4.1 Project output and benefits include, but are not limited to:

- Greater reliability.
- Greater efficiency in personal computer, server, and network processing.
- Maintaining supported operating systems.
- Additional file storage.
- The space for installation of new software and upgrades.
- Security compliance.
- Reduced risk of lost data.
- Less maintenance and repair expenses.
- Compliance with American Water IT equipment standards.
- Up-to-date IT equipment.

5.0 SCOPE AND OPTIONS

The scope of this project is to purchase, configure, and install IT equipment necessary in order to reduce the risks of lost productivity and security breaches.

The only option to this project is to not replace or upgrade equipment, which depending on the equipment will at the least reduce productivity and at worst allow for security breaches or failure of water deliver. Current system network operations rely increasingly on information technology, from customer service response, field operations, monitoring of water quality and pressure, and maintaining accurate data. Clearly, equipment must be replaced at a minimum to prevent operational failures. The recommendation is to proceed with this IT equipment purchasing project as soon as possible due to the reasons outlined in the previous sections.

6.0 FINANCIAL STATEMENT

Component \$ million	Total	Year 0	Year 1	Year 2	Year 3
Design & Construction Cost			0.075		
Project Total			0.075		

7.0 PROCUREMENT

The personal computers will be purchased under a national contract with Dell. Other equipment will be purchased through national vendors as available.

8.0 PROGRAM

Project Implementation Approval (PIA)	02/04
Substantial Completion	12/04
Post Project Review	12/04

9.0 ISSUES AND RISKS

Recent reductions in replacement of equipment have left Kentucky American vulnerable to operational failures and security breaches. Equipment will be upgraded and replaced as needed.

10.0 RECOMMENDATION

It is recommended that \$75,000 be authorized in 2004 for ongoing IT equipment replacements and upgrades. It is projected that all of these capital expenditures will be made in the Central District.

Linda Bridwell
 02/17/2004
 Version 1.0

PROJECT REVIEW		
	Signature:	Date:
Asset Owner or nominated Asset Manager / Capital Program Manager		
Operations Manager		
Project Manager (Deliverer)		
Finance Representative		
RECOMMENDED FOR APPROVAL - PNI Only		
VP Technical Services		
Others (as nominated by VP Technical Services)		

APPENDICES

A1 Schedule/Forecast

Revision History:

Version	Date	Summary of Changes

Kentucky American Water
 Recurring Item # 2004

89 ITS Equipment & Systems

Project Manager: Linda Bridwell

Business Unit Central District	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
	Previous Year	10,000	0	2,100	5,000	5,000	5,000	5,000	5,000	2,500	2,500	1,500	5,000	2,100
	Install network Switches			2,900							2,500	2,500	5,000	21,900
	Replace/Upgrade 10 PCs				5,000	5,000	5,000	5,000	5,000	2,500	2,500	6,000	10,000	40,000
	Replace IT Equipment -printers/network									2,500	2,500			6,000
	Replace Engineering/drafting printer										2,500			5,000
	Field IT Equipment purchase/upgrade			5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	10,000	15,000	75,000
	Business Unit Total	0	10,000	0	5,000	5,000	5,000	5,000	5,000	5,000	5,000	10,000	15,000	75,000

Business Unit Northern District	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
	Previous Year													
	IT Equipment - Purchase	0	0	0	0	0	0	0	0	0	0	0	0	0
	Business Unit Total	0	0	0	0	0	0	0	0	0	0	0	0	0

Recurring Item Total	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
#89	Previous Year	10,000	0	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	10,000	15,000	75,000
	Recurring Item Total	0	10,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	10,000	15,000	75,000

Project 12020090/12300090 : Recurring Item #90, Office & Operations Centers
Project Manager : Linda Bridwell
Project Status : PROJECT IMPLEMENTATION PROPOSAL

1.0 SUMMARY

1.1 Project Objectives

Replacement and upgrade of building systems, equipment, or furnishings for offices and operations centers as needed.

1.2 Recommended Solution

- It is recommended that \$50,000 be authorized to replace and upgrade building systems, equipment or furnishings for offices and operations centers as needed to maintain security, provide safe, efficient, and attractive workplaces, and to enhance productivity.

1.3 Cost and Program

- \$50,000
- Throughout 2004 as needed.

1.4 Project Issues and Risks

Anytime work is being done in an office environment, there is a risk for the safety of employees in the office as well as a risk for security. However, the risks for failure to upgrade systems and equipment as needed far outweigh the risks involved with the project.

2.0 BACKGROUND

Kentucky American Water has two office buildings – one in the Central District (Lexington area) and one in the Northern District (Owen County area). These offices and operations centers have an extensive array of building systems and office equipment. From time to time, this equipment fails and replacements are needed to maintain operations.

Additionally, some equipment becomes obsolete and while still functioning, enhanced productivity can be achieved through replacement.

In 2004, it is proposed that \$50,000 be authorized for building systems and equipment upgrades in the Central District. It is estimated that most of these expenditures will be utilized to replace security system equipment at the office building that failed in late 2003. Although mostly repaired and functioning, the contractor has indicated that the system is obsolete and no longer supported by the manufacturer. Additional failures are likely to occur with increasing frequency.

The balance of the expenditures will be used to construct a guard house at the Central District office at the main gate, and to replace minor office equipment that may fail during the year.

3.0 PROJECT JUSTIFICATION AND PRIORITISATION

Maintenance of office systems is critical to security and productivity, as well as safety for the employees. Proposed expenditures are for equipment that has already become unreliable and is critical to maintaining security of the entire Lexington facility.

AMERICAN WATER – Kentucky American Water
CAPITAL INVESTMENT MANAGEMENT COMMITTEE – February 2004

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Purpose Code	Description	%	Measure	Units	Target
OA-OF01	Water – Offices, Supplies, Furniture, etc.	75			
RL-XS01	Water - Security	25			

4.0 PROJECT OUTPUT AND BENEFITS

Replacement and upgrades of obsolete equipment constitute prudent asset management and will enhance productivity, safety, and efficiency.

5.0 SCOPE AND OPTIONS

The replacement, renewal and improvement of the offices and operations systems will be accomplished through the contractor forces. Planned upgrades are routinely contracted as part of ongoing security efforts and facility improvements.

No practical option but to make necessary repairs to failed components exists. Negative consequences such as vulnerability to security breaches and safety concerns. The failure to execute planned replacements would also result potential unreliability of security and safety systems.

6.0 FINANCIAL STATEMENT

Expenditures proposed constitute ongoing repairs. A requirement to address these issues will perpetually exist. The cost of this recurring project is shown below.

Component	Total	Year 0	Year 1	Year 2	Year 3
\$ million					
Development Costs	0				
Design & Construction Cost	0				
Project Total	0.05		0.05		
Advances & Contributions	0				

7.0 PROCUREMENT

Procurement of contractors will be made on competitive bidding. Equipment will be purchased under national procurement contracts when possible.

AMERICAN WATER – Kentucky American Water
CAPITAL INVESTMENT MANAGEMENT COMMITTEE – February 2004

AW/CMF3.40
 ISSUE 1.0

8.0 PROGRAM

Project Implementation Approval (PIA)	02/04
Start on-site	ongoing
Substantial Completion	ongoing
Take Over	ongoing
Post Project Review	12/04

9.0 ISSUES AND RISKS

There are no significant issues or inherent risks associated with this project other than those associated with normal construction operations.

Company employees and contractors are required to conform to all federal, state and local safety regulations as well as those more specifically detailed by the Company. All necessary insurance coverage by contractors has been documented through receipt of a Certificate of Insurance.

10.0 RECOMMENDATION

10.1 It is recommended that the proposed \$50,000 in capital expenditures be authorized for Kentucky American during 2004.

Linda Bridwell, PE
 February 19, 2004
 Version 1.0

PROJECT REVIEW		
	Signature:	Date:
Asset Owner or nominated Asset Manager / Capital Program Manager		
Operations Manager		
Project Manager (Deliverer)		
Finance Representative		
RECOMMENDED FOR APPROVAL - PNI Only		
VP Technical Services		
Others (as nominated by VP Technical Services)		

AMERICAN WATER – Kentucky American Water
CAPITAL INVESTMENT MANAGEMENT COMMITTEE – February 2004

AW/CMF3.40
ISSUE 1.0

APPENDICES

A1 Schedule/Forecast

Revision History:

Version	Date	Summary of Changes

Kentucky American Water
 Recurring Item # 2004

90
 Offices & Operations Centers

Project Manager: Linda Bridwell

Business Unit Central District	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
	Previous Year													
	Replace Card Reader Equipment		20,000								5,000	5,000		30,000
	Install New Guard Building @ RRS		20,000											20,000
	Business Unit Total	0	40,000	0	0	0	0	0	0	0	5,000	5,000	0	50,000

Business Unit Northern District	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
	Previous Year													
	IT Equipment - Purchase	0	0	0	0	0	0	0	0	0	0	0	0	0
	Business Unit Total	0	0	0	0	0	0	0	0	0	0	0	0	0

Recurring Item Total	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
# 90	Previous Year													
	Recurring Item Total	0	40,000	0	0	0	0	0	0	0	5,000	5,000	0	50,000

Project 12020091/12300091 : Recurring Item #91, Vehicles
Project Manager : Linda Bridwell
Project Status : PROJECT IMPLEMENTATION PROPOSAL

1.0 SUMMARY

1.1 Project Objectives

The replacement of vehicles in the fleet that have reached the end of their economic useful life is necessary for the reliable and efficient operation of the network. Many are experiencing maintenance reliability issues which reduces productivity and customer response time.

1.2 Recommended Solution

It is recommended that the expenditure of \$125,000 of capital throughout 2004 be approved to accomplish the replacement of vehicles in the Kentucky American Central District. The most critical vehicles will be replaced based on high mileage, age, and mechanical reliability or excessive maintenance.

1.3 Cost and Program

- \$125,000
- The purchases will be made in summer 2004

1.4 Project Issues and Risks

The failure to allocate capital necessary for the replacement of vehicles reduces productivity and could ultimately lead to customer dissatisfaction. Further, vehicles with low mechanical reliability become a safety concern for the workforce operators.

2.0 BACKGROUND

Kentucky American has 92 vehicles currently in its fleet. Twelve of those vehicles have over 100,000 and it is anticipated that another fifteen will exceed 100,000 miles by the end of 2004. Many vehicles are now in excess of 10 years old and are beginning to require extensive maintenance. Having dependable vehicles available is critical to responding to customers and achieving operational excellence. Unreliable vehicles needing frequent maintenance severely hamper productivity, increasing costs far beyond maintenance expenses for the vehicle. Repeated need of maintenance on the vehicles also becomes a demoralizing factor and a safety concern.

3.0 PROJECT JUSTIFICATION AND PRIORITISATION

3.1 The need for this recurring capital expenditure is recognized within the company's Asset Investment Strategies, as demonstrated by a specific Purpose Code for this investment driver.

Purpose Code	Description	%	Measure	Units	Target
OA-VE01	Water - Vehicles	100			

4.0 PROJECT OUTPUT AND BENEFITS

Planned replacements constitute prudent asset management and will enhance productivity and continued customer service. Field productivity is lost while vehicles are being delivered and picked up for service. Meters aren't being read when vehicles are being serviced. It is estimated that four vehicles can be purchased in 2004 for the recommended capital expenditures, with increasing purchases in 2005.

Additionally, vehicles are a visible factor of our business that provides a promotes a professional image to the community.

5.0 SCOPE AND OPTIONS

The replacement of vehicles will be accomplished through the utilization of company labor to coordinate purchases.

No practical option but to make regular replacements exists. While vehicle purchases can be deferred for a few years, the size of the fleet requires that a regular number of vehicles be replaced routinely. Recent deferrals of vehicle purchases have left the fleet with high age and mileage, and consequently high maintenance costs. The continued loss of productivity is also a negative impact on employee moral. Kentucky American needs to get back into the cycle of routinely replacing the high priority vehicles.

6.0 FINANCIAL STATEMENT

The cost of this recurring project is shown below.

Component	Total	Year 0	Year 1	Year 2	Year 3
\$ million					
Development Costs	0				
Design & Construction Cost	0				
Project Total	0.125		0.125		
Advances & Contributions	0				

There will be a savings in vehicle maintenance costs, however, this number has not been projected.

7.0 PROCUREMENT

The vehicles will be purchased by in-house personnel utilizing the American/ARI vehicle procurement process.

AMERICAN WATER – Kentucky American Water
CAPITAL INVESTMENT MANAGEMENT COMMITTEE – February 2004

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8.0 PROGRAM

Project Implementation Approval (PIA)	02/04
Initiate Vehicle Orders	ongoing
Take Over	ongoing
Post Project Review	12/04

9.0 ISSUES AND RISKS

There are no issues or inherent risks associated with this project other than those associated with normal purchases.

Company employees and contractors are required to conform to all federal, state and local safety regulations as well as those more specifically detailed by the Company. All necessary insurance coverage by contractors has been documented through receipt of a Certificate of Insurance.

10.0 RECOMMENDATION

10.1 It is recommended that \$125,000 in capital expenditures be approved and authorized for Kentucky American Water Central District in 2004. These expenditures will enable planned vehicle replacements.

Linda C. Bridwell, PE
 February 19, 2004
 Version 1.0

PROJECT REVIEW		
	Signature:	Date:
Asset Owner or nominated Asset Manager / Capital Program Manager		
Operations Manager		
Project Manager (Deliverer)		
Finance Representative		
RECOMMENDED FOR APPROVAL - PNI Only		
VP Technical Services		
Others (as nominated by VP Technical Services)		

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A1 Schedule/Forecast

Revision History:

Version	Date	Summary of Changes

Project 12020092/12300092 : Recurring Item #92, Tools & Equipment

Project Manager : Linda Bridwell

Project Status : PROJECT IMPLEMENTATION PROPOSAL

1.0 SUMMARY

1.1 Project Objectives

The replacement of existing tools and equipment due to failure or obsolescence, and the procurement of new tools and equipment to address requirements for continued performance of company functions.

1.2 Recommended Solution

It is recommended that \$76,400 in expenditures of capital throughout 2004 to facilitate the procurement of tools and equipment throughout Kentucky American be approved. These expenditures are prudent and necessary to facilitate maintenance and network repairs. Requested levels are based on general historical needs and may be reprioritized during the year based on emergency equipment failures.

1.3 Cost and Program

- The amount of expenditure requested - \$76,400
- The project program - completion date - December 31, 2004

1.4 Project Issues and Risks

The failure to allocate capital for the necessary replacement of existing tools and equipment and for the procurement of new tools and equipment will result in decreased productivity of personnel, increased costs and diminished customer satisfaction.

2.0 BACKGROUND

Kentucky American Water serves more than 108,000 customers throughout its Central (Lexington area) and Northern (Owen County area) districts. The Replacement of tools and equipment is vital to the productivity of operations personnel in achieving operational performance. This leads to reliable water service delivery, good water quality, and customer satisfaction. Further, lack of replacement of tools can lead to demoralization of personnel who feel they aren't provided adequate resources to do their job, or can lead to serious injury of field personnel in extreme cases. Kentucky American Water performs various construction, maintenance, operations, meter reading, shop, garage, and laboratory functions throughout its areas of operation.

3.0 PROJECT JUSTIFICATION AND PRIORITISATION

The procurement of new and replacement tools and equipment is necessary for the continued efficient performance of operational requirements throughout Kentucky American:

Purpose Code	Description	%	Measure	Units	Target
OA-OE01	Water-Other Operating Equipment	100%			

The majority of the tool and equipment items to be purchased are utilized in the performance of network operation, maintenance and construction functions throughout the State. There is a great variety of tools and equipment presently in use for these functions, which must be routinely replaced due to failure or obsolescence. New tools and equipment, representing new, improved or enhanced technology, also must be procured to maintain and increase the efficiency of operations. The procurement of these items should be given a high priority as failure to do so would result in decreased efficiency of operations. Currently, only high priority items are considered for replacement.

The speed and efficiency in which company personnel perform maintenance, operation and construction tasks within their areas of operation is one of several ways we are able to demonstrate an advantage over other water service providers which promotes the Company's key strategic goals and vision.

4.0 PROJECT OUTPUT AND BENEFITS

The procurement of tools and equipment to replace existing items and the procurement of new tools and equipment will enable operations to continue to perform required tasks safely and efficiently. The use of proper tools and equipment expedites performance of all work functions and facilitates efficient service to customers.

5.0 SCOPE AND OPTIONS

The procurement of tools and equipment items will be made at the most competitive cost available and in conjunction with any system wide procurement initiative available. Procurement will be initiated by in-house personnel. The failure to maintain an adequate, well distributed stock of tools and equipment should not be considered an option, as an undesirable level of service to customers would result from decreased efficiency throughout company operations.

6.0 FINANCIAL STATEMENT

Detailed breakdowns of costs are included as an appendix.

Component \$ million	Total	Year 0	Year 1	Year 2	Year 3
Development Costs					
Design & Construction Cost	0.076		0.076		
Project Total	0.076		0.076		
Advances & Contributions					

Possible financial implications to the company could result from the failure to provide the capital for procurement of replacement and new tools and equipment. Increased labor costs would be incurred to both O&M and construction if proper tools and equipment are not provided for company employees performing operational tasks.

The useful life of many tool and equipment items, due to their rugged field application and conditions of use, is relatively short. The known replacement cycle for these items has been observed for many years in the company's areas of operation across the State.

7.0 PROCUREMENT

The procurement of the necessary replacement and new tools and equipment will be made by competitive pricing from available suppliers and manufacturers. Wherever possible, the utilization of established procurement initiative sources will be utilized.

8.0 PROGRAM

Project Implementation Approval (PIA)	02/04
Procurement	on going
Substantial Completion	N/A
Take Over	N/A
Post Project Review	01/05

9.0 ISSUES AND RISKS

There are no issues or inherent risks associated with this project. The project consists of the procurement of tools and equipment. Company training and manufacturer design should result in the safe and efficient use of the tools and equipment to be procured.

10.0 RECOMMENDATION

It is recommended that the \$76,400 in capital expenditures detailed on the attached sheet be approved and authorized for Kentucky during 2004. These expenditures will facilitate the continued efficient performance of operations, maintenance and construction tasks throughout the company's service areas in the State.

Linda C. Bridwell, PE
 February 19, 2004
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PROJECT REVIEW		
	Signature:	Date:
Asset Owner or nominated Asset Manager / Capital Program Manager		
Operations Manager		
Project Manager (Deliverer)		
Finance Representative		
RECOMMENDED FOR APPROVAL - PNI Only		
VP Technical Services		
Others (as nominated by VP Technical Services)		

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Revision History:

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1.0	11/10/03	Issue

Kentucky American Water
 Recurring Item # 2004

Tools & Equipment

92

Project Manager: Linda Bridwell

Business Unit Central District	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
12020092	Previous Year													
	Distribution		2000											
	Replace Hydraulic Pump Unit 124	2,500	0											2,500
	Purchase/replace two Trash Pumps	2,500												2,500
	Purchase/replace three electric pumps		500											500
	Purchase/replace cutoff saw		2,600											2,600
	Purchase/replace 6 pocket readers													2,600
	Purchase/replace 8 gas monitors													5,000
	Purchase 6 Desk Radios for CRS					3,000								3,000
	Purchase Leak Detection Equipment					2,000								2,000
	Purchase Line Stop Equipment								5,000					5,000
	Water Quality													
	Replace Field pH Meter - RRS		1,300											1,300
	Replace Four ISE meters/RRS		8,000											8,000
	Replace Spectrophotometer RRS		7,500											7,500
	Replace Lab Turbidimeter - RRS		3,100											3,100
	Replace benchtop turbidimeter							3,600						3,600
	Replace DR4000										3,400			3,400
	Business Unit Total	0	23,000	0	0	0	5,000	5,000	5,000	1,400	1,600	6,400	6,400	69,400

Business Unit Northern District	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
12300092	Previous Year													
	Replace Network Equipment	0	0	0	0	0	0	0	0	0	0	0	5,000	5,000
	Business Unit Total	0	0	0	0	0	0	0	0	0	0	0	5,000	5,000

Recurring Item Total	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
# 92	Previous Year													
		0	23,000	0	0	0	5,000	5,000	5,000	5,000	1,600	6,400	6,400	74,400
	Recurring Item Total	0	23,000	0	0	0	5,000	5,000	5,000	5,000	5,000	10,000	11,400	74,400

Project 12020093/12300093: Recurring Item #93, Process Plant - Replacements
Project Manager : Linda Bridwell
Project Status : PROJECT IMPLEMENTATION PROPOSAL

1.0 SUMMARY

1.1 Project Objectives

Replacement of various equipment items associated with treatment facilities, booster stations, pressure reducing stations, storage tanks and telemetry control systems that fail throughout the year and are not economical to repair. Funds are also allocated to replace equipment identified by predictive maintenance methods as subject to imminent failure, which could cause major damage.

1.2 Recommended Solution

It is recommended that funds be allocated to replace failed equipment, and equipment that has been identified for imminent failure.

1.3 Cost and Program

- Expenditure requested - \$179,250
- Completion date – 12/31/04.

1.4 Project Issues and Risks

The failure to allocate capital for the necessary replacement and renewal of process components may result in service interruptions and customer dissatisfaction.

2.0 BACKGROUND

Kentucky American Water serves more than 108,000 customers throughout two network service areas. Replacement, renewal and improvement of process equipment is an ongoing requirement for efficient operation and continued reliable water service delivery. There are two treatment plants in the Central District, where all of the currently proposed expenditures will be utilized.

3.0 PROJECT JUSTIFICATION AND PRIORITISATION

The company maintains process equipment in order to provide continued service delivery. The age of this equipment, their installation environment, and environmental conditions acting upon them creates a useful life limitation in many situations. A routine and unanticipated number of failures will continue to occur. For these reasons, failures must continue to be addressed through capitalized replacement of equipment. It is also critical to perform planned replacements in areas with a history of repeated failures or where the potential for significant damage due to failure exists.

Priority and justification exists to make the expenditures shown on the attached schedule. However, during the course of the year, it may become necessary to shift priorities and make expenditures for replacement or renewal in unforeseen locations.

The asset investment strategies and investment drivers which describes the need for this project are as follows:

Purpose Code	Description	%	Measure	Units	Target
ST-P001	Poor Condition/ Obsolescence	50%			
ST-AF01	Actual or imminent failure possible	50%			

4.0 PROJECT OUTPUT AND BENEFITS

The replacement of the physical assets will allow continuous reliable water service to customers.

5.0 SCOPE AND OPTIONS

The replacement of assets is considered a sole option project in that without this project, water service will be interrupted to our customers. The failure to execute planned replacements in areas of known problems will result in an undesirable level of service to customers, and will cause operating and maintenance costs to escalate. Expenditures in this recurring item category should continue in order to maintain and improve the integrity of the company's facilities.

6.0 FINANCIAL STATEMENT

Expenditures proposed for this recurring budget item constitute necessary repairs of emergency failures and planned renewal of existing process plant equipment. The overall project cost is shown below, and the attached schedule provides a detailed listing of anticipated expenditures.

Component \$ million	Total	Year 0	Year 1	Year 2	Year 3
Development Costs					
Design & Construction Cost	0.179		0.179		
Project Total	0.179		0.179		
Advances & Contributions					

7.0 PROCUREMENT

Process equipment replacement, renewal and improvement is accomplished by both contractor forces and company personnel. The nature and extent of work required determines which group is utilized. Company personnel are generally utilized for emergency or minor work. Contractors are selected through a competitive bid process for planned replacements. Equipment will be procured in a competitive selection process using national procurement initiatives when possible.

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8.0 PROGRAM

Project Implementation Approval (PIA)	02/04
Start on Site	on going
Substantial Completion	on going
Take Over	on going
Post Project Review	01/05

9.0 ISSUES AND RISKS

There are no issues or inherent risks associated with this project other than those associated with normal construction operations.

Company employees and contractors are required to conform to all federal, state and local safety regulations as well as those more specifically detailed by the Company. All necessary insurance coverage by contractors is documented through receipt of a Certificate of Insurance.

10.0 RECOMMENDATION

It is recommended that \$179,250 be authorized to replace process plant equipment. Equipment replacement is prioritized based on critical nature, emergency failures, and obsolescence. This project will be complete 12/31/04.

Linda Bridwell, PE
 February 20, 2004
 Version 1.0

PROJECT REVIEW		
	Signature:	Date:
Asset Owner or nominated Asset Manager / Capital Program Manager		
Operations Manager		
Project Manager (Deliverer)		
Finance Representative		
RECOMMENDED FOR APPROVAL - PNI Only		
VP Technical Services		
Others (as nominated by VP Technical Services)		

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Revision History:

Version	Date	Summary of Changes
1.0	11/10/03	Issue

Kentucky American Water
 Recurring Item # 2004

93 Process Plant - Replacement

Project Manager: Linda Bridwell

Business Unit Central District	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
	Previous Year													
	Maintenance/Production													
	Upgrade Intake Pump Ball Valves	15,000												40,000
	Replace Sludge Pit Pumps	40,000												65,000
	Replace Washwater Holding Pumps RRS	5,000												69,750
	Replace Hydrotreater Eff. Valves	35,000		20,000	10,000									
	Water Quality													
	Replace Online Flouride Analyzer - RRS	80,000	60,000											4,500
	Replace Online Flouride Analyzer													
	Business Unit Total	0	60,000	20,000	10,000	0	0	0	0	0	0	0	9,250	179,250

Business Unit Northern District	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
	Previous Year													
	Business Unit Total	0	0	0	0	0	0	0	0	0	0	0	0	0

Recurring Item Total	Period Item	1	2	3	4	5	6	7	8	9	10	11	12	Total
# 93	Previous Year													
	Recurring Item Total	0	60,000	20,000	10,000	0	0	0	0	0	0	0	9,250	179,250

Project 12020094/12300094 : Recurring Item #94, Process Plant - Additions
Project Manager : Linda Bridwell
Project Status : PROJECT IMPLEMENTATION PROPOSAL

1.0 SUMMARY

1.1 Project Objectives

Purchase and installation of new equipment items associated with treatment facilities, booster stations, pressure reducing stations, storage tanks and telemetry control systems.

1.2 Recommended Solution

It is recommended that funds be allocated to purchase new equipment to improve treatment processes or improved operations.

1.3 Cost and Program

- Expenditure requested - \$20,000
- Completion date – 12/31/04.

1.4 Project Issues and Risks

The failure to allocate capital for new process components may result in reduced productivity or service interruptions. New equipment is prioritized to enhance water quality compliance and improve customer service.

2.0 BACKGROUND

Kentucky American Water serves more than 108,000 customers throughout two network service areas. Purchase of new process and monitoring equipment is an ongoing requirement for efficient operation and continued reliable water service delivery. There are two treatment plants in the Central District, where all of the currently proposed expenditures will be utilized.

3.0 PROJECT JUSTIFICATION AND PRIORITISATION

The company maintains process equipment in order to provide continued service delivery. New equipment is purchased to enhance productivity and water quality compliance, as well as increase security at the facilities. .

Priority and justification exists to make the expenditures shown on the attached schedule. However, during the course of the year, it may become necessary to shift priorities and make expenditures for replacement or renewal in unforeseen locations.

The asset investment strategies and investment drivers which describes the need for this project are as follows:

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Purpose Code	Description	%	Measure	Units	Target
RC-CG01	Water – Company Goals; Partnership, Secondary Standards	100%			

4.0 PROJECT OUTPUT AND BENEFITS

The installation of new process or monitoring equipment will enhance water quality compliance and enhance productivity. It is essential to continuous reliable water service delivery to customers.

5.0 SCOPE AND OPTIONS

The installation of new process components and monitoring equipment is core to maintaining the appropriate level of water quality and part of prudent asset management. Failure to install new components inhibits achieving operational excellence. Expenditures in this recurring item category should continue in order to improve the integrity of the company’s product and facilities.

6.0 FINANCIAL STATEMENT

Expenditures proposed for this recurring budget item constitute necessary equipment at a minimum to address changing water quality regulations and demands. The overall project cost is shown below, and the attached schedule provides a detailed listing of anticipated expenditures.

Component	Total	Year 0	Year 1	Year 2	Year 3
\$ million					
Development Costs					
Design & Construction Cost	0.020		0.020		
Project Total	0.020		0.020		
Advances & Contributions					

7.0 PROCUREMENT

Process equipment purchase and installation is accomplished by both contractor forces and by company personnel. Contractor forces are solicited based on competitive bids for larger projects, while company personnel handle minor equipment changes. Equipment will be procured through national procurement initiatives where possible and cost effective.

8.0 PROGRAM

Project Implementation Approval (PIA)	02/04
Start on Site	on going
Substantial Completion	on going
Take Over	on going
Post Project Review	01/05

9.0 ISSUES AND RISKS

There are no issues or inherent risks associated with this project other than those associated with normal construction operations.

Company employees and contractors are required to conform to all federal, state and local safety regulations as well as those more specifically detailed by the Company. All necessary insurance coverage by contractors is documented through receipt of a Certificate of Insurance.

10.0 RECOMMENDATION

It is recommended that \$20,000 be approved for this project to provide reliable service to customers. This project will be complete 12/31/04.

Linda Bridwell, PE
 February 20, 2004
 Version 1.0

PROJECT REVIEW		
	Signature:	Date:
Asset Owner or nominated Asset Manager / Capital Program Manager		
Operations Manager		
Project Manager (Deliverer)		
Finance Representative		
RECOMMENDED FOR APPROVAL - PNI Only		
VP Technical Services		
Others (as nominated by VP Technical Services)		

AMERICAN WATER – Kentucky American Water
CAPITAL INVESTMENT MANAGEMENT COMMITTEE – February 2004

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AMERICAN WATER – Kentucky American Water
CAPITAL INVESTMENT MANAGEMENT COMMITTEE – February 2004

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ISSUE 1.0

Revision History:

Version	Date	Summary of Changes
1.0	11/10/03	Issue

