

KENTUCKY-AMERICAN WATER COMPANY
PROPOSED 2002 CAPITAL INVESTMENT PLAN PROJECT 02-
KYDOT MAIN RELOCATIONS

ITEM	RESPONSIBLE ENTITY	TOTAL ESTIMATED COST
Design/Easement Acquisition	KAWC / Consultant	\$ 75,000
Construction & Materials	Contractor	\$ 1,637,500
Inspection	KAWC	\$ 92,500
	Sub-Total	\$ 1,805,000
O&C (3%)		\$ 54,150
Engineering Overhead (2%)		\$ 36,100
	Sub-Total	\$ 1,895,250
AFUDC		\$ 103,691
	Total	\$ 1,998,941

KENTUCKY-AMERICAN WATER COMPANY
PROPOSED 2002 CAPITAL INVESTMENT PLAN PROJECT 02-
KYDOT MAIN RELOCATIONS

DESCRIPTION OF ACTIVITY	ENTITY RESPONSIBLE	2002												TOTAL 2002
		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC	
Design/Easement Acquisition	KAWC / Consultant													\$ 75,000
Construction	Contractor													\$ 1,637,500
Company Labor	KAWC													\$ 92,500
SUB-TOTAL		\$302,500	\$ 45,200	\$ 139,700	\$ 138,600	\$ 279,900	\$ 325,250	\$180,400	\$112,600	\$ 83,150	\$ 82,400	\$ 81,800	\$33,500	\$ 1,805,000
O&C (3%)		\$ 9,075	\$ 1,356	\$ 4,191	\$ 4,158	\$ 8,397	\$ 9,758	\$ 5,412	\$ 3,378	\$ 2,495	\$ 2,472	\$ 2,454	\$ 1,005	\$ 54,150
Overhead (2%)		\$ 6,050	\$ 904	\$ 2,794	\$ 2,772	\$ 5,598	\$ 6,505	\$ 3,608	\$ 2,252	\$ 1,663	\$ 1,648	\$ 1,636	\$ 670	\$ 36,100
AFUDC		1,191	2,569	3,316	4,437	6,118	8,547	10,602	11,835	12,695	13,442	14,189	14,750	\$ 103,691
CASH FORECAST		\$ 318,816	\$ 50,029	\$150,001	\$ 149,967	\$ 300,013	\$350,059	\$ 200,022	\$ 130,065	\$ 100,002	\$ 99,962	\$ 100,079	\$49,925	\$ 1,998,941

KENTUCKY-AMERICAN WATER COMPANY
ECONOMIC ANALYSIS OF THE IMPACT OF CAPITAL
SPENDING PROPOSAL
KY DOT MAIN RELOCATIONS

Determination of Revenue Requirement

Authorized Rate of Return on Common Equity	11.00%
Federal Income Tax Rate	35.00%
Return on Common Equity before FIT	<u>16.92%</u>
State Income Tax Rate	8.25%
Required Rate of Return on CE for Project	<u>18.44%</u>
Common Equity Ratio for Project	<u>40.00%</u>
Weighted Cost of Common Equity before Tax	<u><u>7.38%</u></u>

Long Term Debt Ratio for Project	60.00%
Estimated Cost Rate for New Debt	<u>7.00%</u>
Weighted Cost of Debt	<u><u>4.20%</u></u>

Total Pre-Tax Cost of Capital	<u><u>11.58%</u></u>
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Total Estimated Cost of Project	\$ 2,000,000
Investment by Others	250,000
Net Investment Financed by Company	<u>\$ 1,750,000</u>
New Common Equity	\$ 700,000
New Long Term Debt	1,050,000

Total Revenue Requirement

	<u>Amount</u>	<u>Rate</u>
Required Pre-Tax Operating Income	\$ 202,650	11.58%
Depreciation Rate	20,650	1.18%
Property Tax Rate	12,315	0.7037%
Change in Operation & Maint. Expense	0	0.00%
Revenue from New Customers	0	0.00%
Total Net Revenue Requirement	<u>\$ 235,615</u>	<u>13.46%</u>
Revenue Tax Rate	343	0.14537%
Total Revenue Requirement	<u><u>\$ 235,958</u></u>	<u><u>13.48%</u></u>

Latest 12 Months Revenue - 06/30/2001	<u>\$ 40,071,359</u>
Required Price Increase	<u><u>0.59%</u></u>



Kentucky-American Water Company

1025 Laurel Oak Road • P.O. Box 1770 • Voorhees, New Jersey 08043 • (609) 346-8200

August 24, 2001

IP 02-03

Project No. 11206

KENTUCKY-AMERICAN WATER COMPANY PROPOSED INVESTMENT PLAN PROJECT 02-03 REPLACE TRAVELING SCREENS AT KENTUCKY RIVER STATION INTAKE

Reference: Strategic Business Plans for 1999 and 2000

SUBJECT:

Deteriorating operation of the two (2) traveling screens at the Kentucky River Station Intake on the Kentucky River.

RECOMMENDATION:

It is recommended that the traveling screens be completely replaced.

ESTIMATED COST:

Total Estimated Cost	\$ 450,000
Proposed 2002 Expenditure	\$ 200,000
Proposed 2003 Expenditure	\$ 250,000

ADEQUACY:

The proposed investment project funds are adequate for replacement of both traveling screens.

INVESTMENT PROJECT REVIEW	
DEPARTMENT	BY
ENGINEERING	<i>[Signature]</i>
DATE	10-02-01
WATER QUALITY	N/A
INFO. SYSTEMS	
OTHERS	
RECOMMENDED FOR APPROVAL:	
<i>[Signature]</i>	10-24-01
PRESIDENT	

Kentucky-American Water Company
Replace Traveling Screens at KRS Intake
Proposed 2001 IP 02-**03**
Project No. 11206
August 24, 2001
Page 2


DISCUSSION


Two (2) traveling screens are located at the intake structure on the Kentucky River. These traveling screens are used to protect the raw water intake pumps from leaves, branches, fish, and other debris larger than 1/2". The traveling screens are located behind a coarse bar rack and can be isolated by the closure of sluice gates. A separate IP 01-06 was approved to replace the sluice gates used to isolate the traveling screens. Upon completion of IP 01-06, KAWC will be in a position to start the replacement of the traveling screens.

Portions of the traveling screens have been in service since their original installation in the late 1950's. In the late 1960's minor modifications were made as the drive mechanism for the two screens were vertically raised above the 100-year flood stage, and additional buckets were added to the screens, but no major changes were made to the original equipment. Since the late 1960's, continual maintenance has been required to keep the screens operational, with major overhauls and maintenance expense occurring in 1985, 1988, 1992, 1997 and 2000.

Effective operation of the screens also will improve the reliability of the intake pumps and maximize intake capacity. The existing screens have reached the end of their useful life with many structural components having severely corroded. Another major overhaul is not expected to increase the useful life. The screens should be replaced to ensure reliability, maintain intake capacity, and avoid extraordinary maintenance expenses.

The total project cost estimate is considered accurate to within 10 percent.


Richard C. Syndland, P.E.
Senior Operations-Engineer


Nick O. Rowe
Vice President – Operations

**KENTUCKYK-AMERICAN WATER COMPANY
PROPOSED INVESTMENT PLAN PROJECT 02-03
REPLACE TRAVELING SCREENS AT KENTUCKY RIVER STATION INTAKE**

Cost Estimate

	Total Estimated Cost
Engineering	\$13,000
Utility Plant Construction	
Account #306 – Intakes, Screens	260,000
Installation	<u>150,000</u>
	\$423,000
Omissions & Contingencies	<u>12,490</u>
	\$435,490
AFUDC	<u>12,090</u>
	\$447,580
SAY	\$450,000

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KENTUCKY-AMERICAN WATER COMPANY
ECONOMIC ANALYSIS OF THE IMPACT OF CAPITAL
SPENDING PROPOSAL
REPLACE TRAVELING SCREENS AT KENTUCKY RIVER STATION INTAKE

<u>Determination of Revenue Requirement</u>	
Authorized Rate of Return on Common Equity	11.00%
Federal Income Tax Rate	35.00%
Return on Common Equity before FIT	16.92%
State Income Tax Rate	8.25%
Required Rate of Return on CE for Project	18.44%
Common Equity Ratio for Project	40.00%
Weighted Cost of Common Equity before Tax	<u>7.38%</u>

Long Term Debt Ratio for Project	60.00%
Estimated Cost Rate for New Debt	8.00%
Weighted Cost of Debt	<u>4.80%</u>

Total Pre-Tax Cost of Capital 12.18%

Total Estimated Cost of Project	\$ 446,820
Investment by Others	0
Net Investment Financed by Company	<u>\$ 446,820</u>
New Common Equity	\$ 178,728
New Long Term Debt	268,092

<u>Total Revenue Requirement</u>		<u>Amount</u>	<u>Rate</u>
Required Pre-Tax Operating Income	\$ 54,423	12.18%	
Depreciation Rate	14,030	3.14%	
Property Tax Rate	3,144	0.70%	
Change in Operation & Maint. Expense	(25,000)	-5.60%	
Revenue from New Customers	0	0.00%	
Total Net Revenue Requirement	\$ 46,597	10.42%	
Revenue Tax Rate	68	0.02%	
Total Revenue Requirement	<u>\$ 46,665</u>	<u>10.44%</u>	

Latest 12 Months Revenue - 06/30/2001 \$ 40,071,359

Required Price Increase 0.12%



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502 • (859) 269-2386 • Fax (859) 268-6327

March 11, 2002
IP 02-04
Project No. 10212

KENTUCKY-AMERICAN WATER COMPANY PROPOSED INVESTMENT PLAN PROJECT 02-04 WATER SUPPLY PROJECT DEVELOPMENT

Reference: Strategic Business Plans for 2002, Investment Project 92-12

SUBJECT:

Kentucky-American's current treatment capacity deficit and source of supply deficit.

RECOMMENDATION:

It is recommended that an investment project be established to facilitate water supply project plan development including the current Kentucky Public Service Commission proceeding and the Bluegrass Water Supply Consortium regional study efforts.

ESTIMATED COST:

Total Estimated Cost	\$ 600,000
Prior Expenditures	\$ 157,000
Proposed 2002 Expenditure	\$ 243,000
Proposed 2003 Expenditure	\$ 200,000

ADEQUACY:

The proposed investment project funds are estimated to be adequate for professional services toward obtaining regulatory and stakeholder concurrence of the project plan.

INVESTMENT PROJECT REVIEW		
DEPARTMENT	BY	DATE
ENGINEERING	<i>John V. Young</i>	3-30-02
WATER QUALITY	<i>Charles Moore</i>	4/1/02
INFO. SYSTEMS		
OTHERS		
RECOMMENDED FOR APPROVAL:		
<i>[Signature]</i>		4-4-02
PRESIDENT		

Kentucky-American Water Company
Water Supply Project Development
Proposed 2002 IP 02-~~04~~
Project No. 10212
March 11, 2002
Page 2

DISCUSSION

Kentucky-American has been working to resolve its long-term water supply deficit situation. This includes a source of supply deficit and a treatment capacity deficit. Upgrades have been made to maximize the treatment plant capabilities in the short term, and there have been efforts to optimize the use of the Kentucky River including valve installation on upstream dams for releases and permit modifications. Potential long-term solutions have created local controversy, which has delayed ultimate resolution of either problem individually.

In 1992, Kentucky-American proceeded with design and construction of a pipeline that would supply finished water that was to be purchased from the Louisville Water Company. Kentucky-American included design costs in its forward-looking rate case that year. In 1993, the Kentucky Public Service Commission established a separate proceeding to investigate the source of supply and treated water deficits. Kentucky-American agreed to halt work on the project until the conclusion of that case. Case No. 93-434 was finally resolved in August 1997 with an Order that the Kentucky River alternative solutions were insufficient and that Kentucky-American had the responsibility to solve the problem for its customers. Thus Kentucky-American initiated detailed design work on the pipeline. In 1999, with the pipeline design about 60% complete, the Lexington-Fayette Urban County Government Council established a technical forum to review the issue. The LFUCG Council, which represents over 80% of Kentucky-American's customers, passed a resolution in December 1999 that indicated a preference for a Kentucky River solution, provided a number of items could be concluded within specific timeframes. Accordingly, Kentucky-American terminated work on the design of the pipeline. The resolution also encouraged Kentucky-American to pursue a regional solution.

In 2000, Kentucky-American filed a rate case and among other issues sought relief of the \$6.2 million that had been expended on pursuing the pipeline solution up to that point. In May 2001, the PSC provided a final order in that case that granted Kentucky-American relief for the majority of expenditures to date. The nature of the various expenditures determined the different rate treatment of the expenditures.

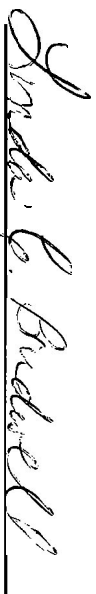
In February 2001, the PSC requested a status update from Kentucky-American on the 1997 Order in Case No. 93-434. Kentucky-American filed a 20-page response, that detailed the situation, status of work since 1997, and issues that had to be resolved in order for a solution to be implemented, either on the Kentucky River or from another source. Kentucky-American indicated that it could not unilaterally implement a project to increase the supply of the Kentucky River, although the LFUCG had indicated a preference for a river solution and Kentucky-American acquiesced to that preference in its decision to stop work on the pipeline. The PSC established Case No 2001-117 to investigate the feasibility and advisability of the Kentucky-American proposed solution to its source of supply deficit.

Kentucky-American Water Company
Water Supply Project Development
Proposed 2002 IP 02-~~04~~
Project No. 10212
March 11, 2002
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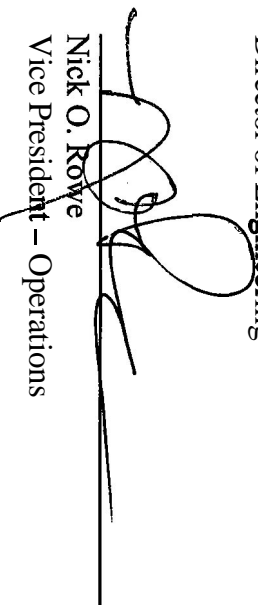
Additionally, Kentucky-American has been working with a group of other water utilities that have established themselves as the Bluegrass Water Supply Consortium. This group has received a grant from Congress and matched by the Kentucky Infrastructure Authority, to complete a regional water supply study. This study should provide an objective, detailed recommendation for a regional water supply including regional interconnections, source of supply, and treatment capacity.

The continued involvement in both of these efforts is critical to implementing a water supply solution in the near future. The continued effort to develop the project with stakeholders and parties responsible for implementation is part of the PSC proceeding and the work with the Consortium. The estimated expenditures are specifically for Company labor involved in the issue and professional service including legal services involved in the PSC investigation. These estimates are based on previous Commission proceedings. It is anticipated that the water supply project plan will be fully developed as a result of the Commission proceeding in conjunction with the Consortium efforts.

While the nature of these expenditures alone would normally not constitute an investment project, Kentucky-American believes that it is appropriate given the nature of this ongoing issue.



Linda C. Bridwell, PE
Director of Engineering



Nick O. Rowe
Vice President – Operations

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KENTUCKY-AMERICAN WATER COMPANY
PROPOSED INVESTMENT PLAN PROJECT 02-04
WATER SUPPLY PROJECT DEVELOPMENT

ITEM	RESPONSIBLE ENTITY	TOTAL ESTIMATED COST
Priors		\$ 157,000
Project Development	KAWC	\$ 128,170
Legal Services	Consultant	\$ 262,000
Professional Services	Consultant	\$ 31,500
	Sub-Total	\$ 578,670
O&C (+/- 3%)		\$ 12,660
Engineering Overhead (+/- 2%)		\$ 8,670
	Sub-Total	\$ 600,000
AFUDC		\$
	Total	\$ 600,000

Estimate \$ 600,000

**KENTUCKY-AMERICAN WATER COMPANY
ECONOMIC ANALYSIS OF THE IMPACT OF CAPITAL
SPENDING PROPOSAL
WATER SUPPLY PROJECT DEVELOPMENT**

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Weighted Cost of Common Equity before Tax	7.38%
Long Term Debt Ratio for Project	60.00%
Estimated Cost Rate for New Debt	8.00%
Weighted Cost of Debt	4.80%
Total Pre-Tax Cost of Capital	12.18%

Total Estimated Cost of Project	\$ 600,000
Investment by Others	0
Net Investment Financed by Company	\$ 600,000
New Common Equity	\$ 240,000
New Long Term Debt	360,000

<u>Total Revenue Requirement</u>	<u>Amount</u>	<u>Rate</u>
Required Pre-Tax Operating Income	\$ 73,080	12.18%
Depreciation Rate 1.304%	7,824	1.30%
Property Tax Rate 0.7037%	4,222	0.70%
Change in Operation & Maint. Expense	0	0.00%
Revenue from New Customers	0	0.00%
Total Net Revenue Requirement	\$ 85,126	14.18%
Revenue Tax Rate 0.14537%	124	0.02%
Total Revenue Requirement	\$ 85,250	14.20%

Latest 12 Months Revenue - 12/31/2001	\$ 41,477,827
Required Price Increase	0.21%