

Kentucky - American Water Company

2300 Richmond Road • Lexington, Kentucky 40502 • (606)269-2386 • Fax (606)268-6327

Date: October 12, 1999
BP 99-01
Project No. 10901

KENTUCKY-AMERICAN WATER COMPANY CANCEL 1999 CAPITAL INVESTMENT PROJECT 99-01 NORTH BROADWAY REPLACEMENT PROJECT

Reference: 1998 Strategic Business Plan, 1997 Strategic Business Plan,
1996 Strategic Business Plan, 1995 Strategic Business Plan

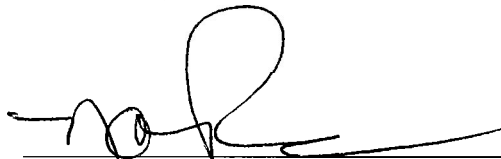
ESTIMATED COST

Approved Estimated Cost	\$1,300,000
Budgeted 1999 Expenditure	\$300,000
Budgeted 2000 Expenditure	\$1,000,000
Revised Total Cost	\$57,000
Budgeted 1999 Expenditure	\$57,000
Budgeted 2000 Expenditure	\$0

DISCUSSION

This Investment Project is being canceled for the following reasons:

- 1: Construction Bids for the proposed work were significantly higher than original estimates. The revised cost of the project increased the project from \$1,300,000 to \$1,800,000. During the final phase of design, daylighting determined that a variety of surfaces lie underneath the current asphalt roadway. Courses of paving brick, gravel, flat rock and cement, and railroad ties complicated planned excavations. Another cause for the higher than expected cost relates to construction demand. The State and developers have stepped up construction significantly, placing greater demands on construction companies. As a result, contractors were reluctant to respond to our bid letting. Only two contractors submitted bids.
- 2: The company is currently in the process of completing its Integrated Resource Plan (IRP) and is re-evaluating the status of all construction projects. After completing the IRP, all projects will be re-prioritized based on new cost benefit analysis



Nick O. Rowe
Vice-President – Operations

NOR/JST/dm



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502
 606-269-2386

October 27, 1999
 IP 00-01
 Project No. 11003

**KENTUCKY-AMERICAN WATER COMPANY
 PROPOSED 2000 INVESTMENT PROJECT 00-01
 IMPROVEMENTS TO FILTERS 5 & 6- KENTUCKY RIVER STATION**

Reference: Filter Inspection Report - Kentucky River Station - July 10, 1998.

SUBJECT OF STUDY:

Complete renovation of filters 5 & 6, which includes repairs to the filter underdrains, surface wash nozzles, wash water weirs and installation of new gravel, garnet, sand and anthracite.

RECOMMENDATION:

It is recommended that funds be authorized for improvements to filters 5 & 6 at the Kentucky River Station to improve filter run times and performance.

ESTIMATED COST:

Total Estimated Cost	\$ 212,000
Proposed 2000 Expenditure	\$ 212,000

ADEQUACY:

The proposed investment project funds are adequate to perform all Improvements to filters 5 & 6 in 2000.

INVESTMENT PROJECT REVIEW		
DEPARTMENT	BY	DATE
ENGINEERING	<i>John J. Young</i>	10-27-99
WATER QUALITY	<i>Richard Thomas</i>	10/28/99
INFO. SYSTEMS	_____	_____
OTHERS	_____	_____
RECOMMENDED FOR APPROVAL		
<i>Ray W. Munday</i>		11/18/99
PRESIDENT		

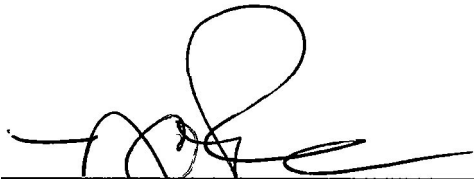
November 19, 1999
IF 00-01
Project No. 11003
Page 2

DISCUSSION

For the past several months **filters** 5 and 6 have been experiencing reduced filter run times and have been unable to operate at 100% of capacity. The two units have only been able to operate at 50 - 60% of their design capacity.

Roberts Services, Inc., a unit of the Roberts Filter Group, a nationally recognized manufacturer of filtration equipment and media was retained to determine the condition of the filters. Between June 29 and July 1, 1998, Roberts Services, Inc. was on site at the Kentucky River Station to determine the condition of the **filter** portion of **Aldrich** Units 1 through 8. The media beds and wheeler bottom underdrains of units 1 through 8 were inspected. Filters 9 and 10 were not inspected because they had been recently renovated and had not been experiencing any problems. A report entitled "Filter Inspection Report, Kentucky American Water Company, Kentucky River Station, Lexington, KY" dated July 10, 1998, was submitted upon completion of the work.

In summary, the report by Roberts Services, Inc. recommended that Filters 5 & 6 be completely renovated. The project must be performed in the spring of 2000 to insure that the filters will be ready for the summer demands. The peak usage at the Kentucky River Station during the past couple of years has been 40 MGD or 100% of plant capacity. This project will provide funds to perform the filter improvement work discussed above and will increase the performance of filters 5 & 6 to their original design specifications.



Nick O. Rowe
Vice President - Operations

NOR/JAH/rcs

KENTUCKY-AMERICAN WATER COMPANY

PROPOSED 2000 CAPITAL INVESTMENT PLAN PROJECT 00-01

IMPROVEMENTS TO FILTERS 5 & 6 - KENTUCKY RIVER STATION

ITEM	RESPONSIBLE ENTITY	TOTAL ESTIMATED COST
Media Removal	Contractor	\$ 22,000
Material	Contractor	\$ 130,000
Labor	Contractor	\$ 44,000
Company Labor	KAWC	\$ 4,000
	Sub-Total	\$ 200,000
O&C (3%)		\$ 6,000
Engineering Overhead (2%)		\$ 4,000
	Sub-Total	\$ 210,000
AFUDC		\$ 1,575
	Total	\$ 211,575

**KENTUCKY-AMERICAN WATER COMPANY
ECONOMIC ANALYSIS OF THE IMPACT OF CAPITAL
SPENDING PROPOSAL
IMPROVEMENTS TO FILTERS 5 & 6 - KENTUCKY RIVER STATION**

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	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	7.38%
Long Term Debt Ratio for Project	60.00%
Estimated Cost Rate for New Debt	7.00%
Weighted Cost of Debt	4.20%
Total Pre-Tax Cost of Capital	11.58%

Total Estimated Cost of Project	\$ 211,575
Investment by Others	0
Net Investment Financed by Company	\$ 211,575
New Common Equity	\$ 84,630
New Long Term Debt	126,945

<u>Total Revenue Requirement</u>	<u>Amount</u>	<u>Rate</u>
Required Pre-Tax Operating Income	\$ 24,500	11.58%
Depreciation Rate	2,497	1.18%
Property Tax Rate	1,479	0.70%
Change in Operation & Maint. Expense	0	0.00%
Revenue from New Customers	0	0.00%
Total Net Revenue Requirement	\$ 28,476	13.46%
Revenue Tax Rate	41	0.02%
Total Revenue Requirement	\$ 28,517	13.48%

Latest 12 Months Revenue - 0513011999	\$ 38,184,069
Required Price Increase	0.07%

Approved BOD 12/15/99



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502

606-269-2386

10/29/1999
 IP 00-02
 Project No. ~~20004~~
 10908

**KENTUCKY-AMERICAN WATER COMPANY
 PROPOSED INVESTMENT PLAN PROJECT 00-02
 PARIS PIKE (U.S. 27) RELOCATION AND REPLACEMENT PROJECT**

SUBJECT OF STUDY:

Water main relocations impacted by Kentucky Transportation Cabinet (KTC) plans for widening Paris Pike (U.S. 27) from 1-75 near Lexington to the City of Paris.

RECOMMENDATION:

The KTC plans to widen Paris Pike from Lexington to Paris. The existing mains provide an important feed to the area. Therefore, it is recommended that engineering services be performed that will include design of main relocations and associated surveying tasks for development and review of easements along Paris Pike (U.S. 27).

ESTIMATED COST:

Total Estimated Cost	\$ 50,000
Proposed 2000 Expenditure	\$ 50,000

ADEQUACY:

The funds for this proposed budget project will be adequate to complete the engineering design, surveying and easement development services to properly relocate impacted mains.

<i>INVESTMENT PROJECT REVIEW</i>		
<u>DEPARTMENT</u>	<u>BY</u>	<u>DATE</u>
ENGINEERING	<i>John J. [Signature]</i>	<u>10-29-99</u>
WATER QUALITY	<i>[Signature]</i>	<u>10/31/99</u>
ACCOUNTING		
OTHER		
RECOMMENDED FOR APPROVAL:		
<i>[Signature]</i> President		<u>11/18/99</u>



10/29/1999
IP 00-02
Project No. 20004
Page Two


DISCUSSION

The Kentucky Transportation Cabinet (KTC) plans to widen and realign Paris Pike, which is a major arterial road, from a two-lane roadway to a four-lane profile. The population growth in this area of northern Fayette County and Southern Bourbon County, along with safety concerns, has pushed the KTC to upgrade the infrastructure in this area.

Based on preliminary reviews by KAWC, there will be significant impacts on existing facilities currently located in the right-of-way. Easements will be required and negotiated during the first two quarters of 2000. Construction will begin in 2001, concurrent with roadway construction. KAWC proposes to incorporate relocation work into the State's roadway construction contract. In doing so, KAWC will defer major capital expenditures associated with the relocations until the State is fully committed to the project.

The proposed 2000 capital expenditures for engineering design and easement services that are presented in this memorandum exclude construction costs. Preliminary construction cost estimates for year 2001 capital expenditures are estimated to be \$1,000,000. This cost includes an inflation factor of 6% and a cost contingency factor of 20% to allow for uncertainty of final KTC pavement and roadway design.

The existing mains serving the Paris Pike area are also undersized and were installed between 1917 and 1958. The lack of adequate mains diverts flow from Briar Hill Road during peak periods. Therefore, design efforts will include an evaluation of the size of main needed.



Nick O. Rowe
Vice President – Operations

NOR/dm

KENTUCKY-AMERICAN WATER COMPANY
PROPOSED DESIGN INVESTMENT PLAN PROJECT 00-02
PARIS PIKE (US 27) RELOCATION PROJECT

ITEM	RESPONSIBLE ENTITY	TOTAL ESTIMATED COST
Preliminary & Final	Consultant	\$ 20,000
Easement Research & Development	Consultant	\$ 15,000
Administration	KAWC	\$ 10,000
	Sub-Total	\$ 45,000
O&C (5%)		\$ 2,250
Engineering Overhead (2%)		\$ 900
	Sub-Total	\$ 48,150
AFUDC		\$ 1,661
	Total	\$ 49,811

**KENTUCKY-AMERICAN WATER COMPANY
ECONOMIC ANALYSIS OF THE IMPACT OF CAPITAL
SPENDING PROPOSAL
PARIS PIKE (US 27) RELOCATION PROJECT**

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	40.00%
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	7.00%
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	\$ 49,811
Investment by Others	0
Net Investment Financed by Company	<u><u>\$ 49,811</u></u>
New Common Equity	\$ 19,925
New Long Term Debt	29,887

<u>Total Revenue Requirement</u>		<u>Amount</u>	<u>Rate</u>
Required Pre-Tax Operating Income		\$ 5,768	11.58%
Depreciation Rate	1.180%	588	1.18%
Property Tax Rate	0.6990%	348	0.70%
Change in Operation & Maint. Expense		0	0.00%
Revenue from New Customers		0	0.00%
Total Net Revenue Requirement		<u>\$ 6,704</u>	<u>13.46%</u>
Revenue Tax Rate	0.14537%	10	0.02%
Total Revenue Requirement		<u><u>\$ 6,714</u></u>	<u><u>13.48%</u></u>

Latest 12 Months Revenue - 05/30/1999	<u><u>\$ 38,184,069</u></u>
Required Price Increase	<u><u>0.02%</u></u>



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502
 606-269-2386

Date: October 12, 1999
 IP 00-03
 Project No. ~~20004~~
 11004

**KENTUCKY-AMERICAN WATER COMPANY
 PROPOSED INVESTMENT PROJECT 00-03
 HARRODSBURG ROAD (US 68) REPLACEMENT PROJECT**

SUBJECT OF STUDY:

Water main relocations impacted by Kentucky Transportation Cabinet plans for widening Harrodsburg Road (US 68) from Man-0-War Boulevard to the Jessamine County line.

RECOMMENDATION

Perform engineering services that will include design of main relocations and associated surveying tasks for development and review of easements along Harrodsburg Road (US 68) from Man-0-War Boulevard to the Jessamine County line.

ESTIMATED COST

Total Estimated Cost	\$100,000
Prior Expenditure	30,000
Proposed 2000 Expenditure	70,000
Proposed 2000 Reimbursement (by KTC)	(42,000)

ADEQUACY

The funds for this proposed budget project will be adequate to complete the engineering design, surveying, and easement development services to properly relocate impacted mains.

INVESTMENT PROJECT REVIEW		
DEPARTMENT	BY	DATE
ENGINEERING	<i>[Signature]</i>	10-28-99
WATER QUALITY	N/A RWK	
INFORMATION SYSTEMS		
RECOMMENDED FOR APPROVAL:		
	<i>[Signature]</i> President	11/18/99

KAWC
Proposed 2000 IP 00-03
Harrodsburg Replacement Project
October 12, 1999


DISCUSSION

The Kentucky Transportation Cabinet (KTC) plans to widen (from 2-lane roadway to a 4-lane profile) and re-align a segment of Harrodsburg Road, which is a major arterial road. The population growth in this area of southern Fayette County and northern Jessamine County has required the KTC to upgrade the infrastructure in this area.

Based on preliminary line and grade drawings provided by the KTC, impact to our existing facilities will be significant. Because portions of 16-inch and 12-inch main being relocated for this project lay within private easements, the KTC will contribute about 45% of the project cost.

Preliminary design work initiated in 1999 will be completed in 2000. Easements will be required and negotiated during the first quarters of 2000. Construction will begin in 2001, concurrent with roadway construction. Kentucky-American proposes to construct the proposed relocation work concurrent with the State's Roadway construction as a measure to avoid delays and reduce capital expenditures. In doing so, Kentucky-American also postpones utility relocation work until the State actually implements the project. The cash forecast is based on a Transportation Cabinet's construction letting date of October 21, 2000.

The proposed 2000 capital expenditures for engineering design and easement services that are presented in this memorandum exclude construction costs. Preliminary construction cost estimates for year 2001 capital expenditures are estimated to be \$1,650,000, of which \$740,000 (45%) will be reimbursed by the KTC. This cost includes an inflation factor of 6% and a cost contingency factor of 20% to allow for uncertainty of final KTC pavement and roadway design.



Nick O. Rowe
Vice-President

KENTUCKY-AMERICAN WATER COMPANY
PROPOSED DESIGN INVESTMENT PLAN PROJECT 00-03
HARRODSBURG ROAD (US 68) RELOCATION PROJECT

ITEM	RESPONSIBLE ENTITY	TOTAL ESTIMATED COST
Preliminary & Final	Consultant	\$ 30,000
Easement Research & Development	Consultant	\$ 30,000
	Sub-Total	\$ 60,000
O&C (5%)		\$ 3,000
Engineering Overhead (2%)		\$ 1,200
	Sub-Total	\$ 64,200
AFUDC		\$ 2,753
	Total	\$ 66,953

KENTUCKY-AMERICAN WATER COMPANY																
Proposed 2000 Capital Investment Plan Project 00- 03																
HARRODSBURG ROAD (US 68) RELOCATION PROJECT																
DESCRIPTION OF ACTIVITY	ENTITY RESPONSIBLE	2000												TOTAL 1999		
		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC			
Design	Consultant															\$ 30,000
Easements	Consultant															\$ 30,000
SUB-TOTAL			\$ 6,000	\$ 6,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 5,000	\$ 3,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 60,000
O&C (5%)			\$ 300	\$ 300	\$ 500	\$ 500	\$ 500	\$ 250	\$ 150	\$ 150	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,000
Overhead (2%)			\$ 120	\$ 120	\$ 200	\$ 200	\$ 200	\$ 100	\$ 60	\$ 60	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,200
AFUDC			\$ 23	\$ 23	\$ 82.50	\$ 157.50	\$ 232.50	\$ 307.50	\$ 363.75	\$ 393.75	\$ 405.00	\$ 405.00	\$ 405.00	\$ 360.00	\$ 360.00	\$ 2,753
CASH FORECAST			\$ 6,443	\$ 6,443	\$ 10,783	\$ 10,858	\$ 10,933	\$ 11,008	\$ 5,714	\$ 3,604	\$ 405	\$ 405	\$ 405	\$ 360	\$ 360	\$ 66,953

**KENTUCKY-AMERICAN WATER COMPANY
ECONOMIC ANALYSIS OF THE IMPACT OF CAPITAL
SPENDING PROPOSAL
HARRODSBURG ROAD (US 68) RELOCATION PROJECT**

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	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	7.38%

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

Total Pre-Tax Cost of Capital	11.58%
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Total Estimated Cost of Project	\$ 66,953
Investment by Others	0
Net Investment Financed by Company	\$ 66,953
New Common Equity	\$ 26,781
New Long Term Debt	40,172

<u>Total Revenue Requirement</u>		<u>Amount</u>	<u>Rate</u>
Required Pre-Tax Operating Income		\$ 7,753	11.58%
Depreciation Rate	1.180%	790	1.18%
Property Tax Rate	0.6990%	468	0.70%
Change in Operation & Maint. Expense		0	0.00%
Revenue from New Customers		0	0.00%
Total Net Revenue Requirement		\$ 9,011	13.46%
Revenue Tax Rate	0.14537%	13	0.02%
Total Revenue Requirement		\$ 9,024	13.48%

Latest 12 Months Revenue - 05/30/1999	\$ 38,184,069
Required Price Increase	0.02%



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502
606-269-2386

October 26, 1999
File No. 380-8362
Project ID 11005

KENTUCKY-AMERICAN WATER COMPANY PROPOSED DESIGN INVESTMENT PLAN PROJECT 00-04 RICHMOND ROAD (US 25) RELOCATION PROJECT

SUBJECT OF STUDY:

Water main relocations impacted by Kentucky Transportation Cabinet plans for widening the Richmond Road (US 25) corridor between New Circle Road and Eagle Creek Drive.

RECOMMENDATION:

It is recommended to perform engineering services that will include design of main relocations and associated surveying tasks for development/review of easements along Richmond Road (US 25) between New Circle Road and Eagle Creek Drive.

ESTIMATED COST:

Total Estimated Cost	\$ 94,000
Proposed 2000 Expenditure	\$ 94,000

ADEQUACY:

The proposed investment project funds are adequate for engineering design, survey, and easement development services to properly relocate mains impacted by roadway widening.

INVESTMENT PROJECT REVIEW		
DEPARTMENT	BY	DATE
ENGINEERING	<i>John S. Young</i>	10.26.99
WATER QUALITY	N/A	954
INFO. SYSTEMS		
OTHERS		
RECOMMENDED FOR APPROVAL:		
<i>Ray W. Young II</i>		11/18/99
PRESIDENT		

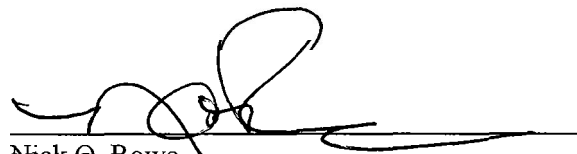


Kentucky-American Water Company
Richmond Road Main Relocation
Proposed 2000 IP-04
October 15, 1999

DISCUSSION

Over the past ten years the Lexington urban service area has been experiencing significant increases in residential, commercial, and industrial development along most of its major arterial roadways. One of these routes, Richmond Road (U.S. 25), has seen traffic volume capacities stressed by unprecedented commercial development densification along its primary and sub-primary corridors from New Circle Road (S.R. 4) to Eagle Creek Drive. Due to impacts of reduced traffic flow efficiencies as well as increased congestion along Richmond Road, the Kentucky Transportation Cabinet (KTC) has included its plans to widen this section in their planning document known as the *Six Year Highway Plan (FY 1999 - FY 2004)*. As a result of the proposed improvements that include removal of existing medians and modifications of roadway shoulders, utility infrastructure, which occupy existing state right-of-way, will require consideration for relocation in order to accommodate lane additions and enhancements. According to the recently completed KTC's *Right-of-way Plans for Utilities*, KAWC's thirty (30) inch reinforced concrete and twenty-four (24) inch ductile iron high service mains are among the major utilities that will be significantly impacted by the proposed improvements.

Due to the size and complexity of the potential relocation of water mains along Richmond Road, it is recommended to begin preliminary engineering design in early spring of 2000. This would entail negotiations with KTC engineers on how to modify roadway designs in order to minimize required subsequent KAWC capital expenditures for construction. In order to accommodate KTC scheduling to begin roadway improvements in the fourth quarter of 2001, it will be necessary to begin easement research and development in late spring of 2000 with final relocation design to occur during the last two quarters of 2000. Preliminary construction cost estimates for year 2001 capital expenditures are estimated to be \$1,250,000. This cost figure includes an inflation factor of 6% and a cost contingency factor of 20 % to allow for uncertainty of final KTC pavement and roadway design at the writing of this memorandum.



Nick O. Rowe
Vice President - Operations

NOR/KWK/kk

KENTUCKY-AMERICAN WATER COMPANY
PROPOSED DESIGN INVESTMENT PLAN PROJECT 00-04
RICHMOND ROAD (US 25) RELOCATION PROJECT

ITEM	RESPONSIBLE ENTITY	TOTAL ESTIMATED COST
Preliminary & Final	Consultant	\$ 80,000
Administration	KAWC	\$ 5,000
	Sub-Total	\$ 85,000
O&C (5%)		\$ 4,250
Engineering Overhead (2%)		\$ 1,700
	Sub-Total	\$ 90,950
AFUDC		\$ 3,079
	Total	\$ 94,029

KENTUCKY-AMERICAN WATER COMPANY

Proposed 2000 Capital Investment Plan Project 00-04

RICHMOND ROAD (US 25) RELOCATION PROJECT

DESCRIPTION OF ACTIVITY	ENTITY RESPONSIBLE	2000												TOTAL 1999			
		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC				
Design	Consultant																\$ 80,000
Administration	KAWC																\$ 5,000
SUB-TOTAL				\$ 4,500	\$ 6,500	\$ 10,600	\$ 20,700	\$ 20,800	\$ 7,900	\$ 3,500	\$ 5,500	\$ 5,000	\$ 85,000				
O&C (5%)				\$ 225	\$ 325	\$ 530	\$ 1,035	\$ 1,040	\$ 395	\$ 175	\$ 275	\$ 250	\$ 4,250				
Overhead (2%)				\$ 90	\$ 130	\$ 212	\$ 414	\$ 416	\$ 158	\$ 70	\$ 110	\$ 100	\$ 1,700				
AFUDC				\$ 17	\$ 58.13	\$ 122.25	\$ 239.63	\$ 395.25	\$ 502.88	\$ 545.63	\$ 579.38	\$ 618.75	\$ 3,079				
CASH FORECAST				\$ 4,832	\$ 7,013	\$ 11,464	\$ 22,389	\$ 22,651	\$ 8,956	\$ 4,291	\$ 6,464	\$ 5,969	\$ 94,029				

**KENTUCKY-AMERICAN WATER COMPANY
 ECONOMIC ANALYSIS OF THE IMPACT OF CAPITAL
 SPENDING PROPOSAL
RICHMOND ROAD (US 25) RELOCATION PROJECT**

<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			<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			40.00%
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			7.00%
Weighted Cost of Debt			<u><u>4.20%</u></u>
Total Pre-Tax Cost of Capital			<u><u>11.58%</u></u>
Total Estimated Cost of Project			\$ 94,029
Investment by Others			0
Net Investment Financed by Company			<u><u>\$ 94,029</u></u>
New Common Equity	\$	37,612	
New Long Term Debt		56,417	
<u>Total Revenue Requirement</u>			
		<u>Amount</u>	<u>Rate</u>
Required Pre-Tax Operating Income		\$ 10,889	11.58%
Depreciation Rate	1.180%	1,110	1.18%
Property Tax Rate	0.6990%	657	0.70%
Change in Operation & Maint. Expense		0	0.00%
Revenue from New Customers		0	0.00%
Total Net Revenue Requirement		<u>\$ 12,656</u>	<u>13.46%</u>
Revenue Tax Rate	0.14537%	18	0.02%
Total Revenue Requirement		<u><u>\$ 12,674</u></u>	<u><u>13.48%</u></u>
Latest 12 Months Revenue - 05/30/1999		<u><u>\$ 38,184,069</u></u>	
Required Price Increase			<u><u>0.03%</u></u>



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502 • (606)269-2386 • Fax (606)268-6327

August 28, 2000

Proposed IP 00-05

Project No. 11006

**KENTUCKY-AMERICAN WATER COMPANY
PROPOSED INVESTMENT PLAN PROJECT 00-05
12-INCH DUCTILE IRON MAIN EXTENSION FOR BULK WATER SALES TO
HARRISON COUNTY WATER ASSOCIATION**

SUBJECT

The request to sell 100,000 gallons per day to the Harrison County Water Association

RECOMMENDATION

Extend a 12-inch ductile iron main in southern Harrison County to serve the Harrison County Water Association.

ESTIMATED COST

Total Estimated Cost	\$ 120,000
Proposed 2000 Expenditure	\$ 120,000

ADEQUACY

The proposed investment project finds are adequate for design, easement acquisition, and construction.

INVESTMENT PROJECT REVIEW		
DEPARTMENT	BY	DATE
ENGINEERING	<i>John V. Young</i>	9.11.00
WATER QUALITY	N/A <i>RJH</i>	
INFO. SYSTEMS		
OTHERS		
RECOMMENDED FOR APPROVAL:		
<i>[Signature]</i>		9/14/00
PRESIDENT		

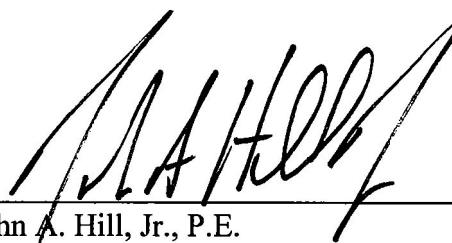
Kentucky-American Water Company
Proposed IP 00-05
Main Extension for Harrison County Water Association
August 28, 2000
Page 2

DISCUSSION

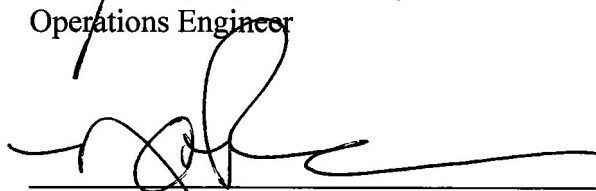
Kentucky-American Water Company has recently negotiated an agreement with the Harrison County Water Association (HCWA). The purpose of this agreement is to sell approximately 100,000 gallons of water per day to serve a portion of the HCWA system. HCWA currently receives all of its water from the City of Cynthiana, which uses the Licking River as its source of supply. The source has been unreliable during recent drought years, and the system has been required to restrict usage even more than other area systems. Further, the City of Cynthiana has recently raised its rates.

Harrison County Water Association has asked Kentucky-American Water Company to extend its facilities an additional 3,500 feet into southern Harrison County. This extension will be made from a recently relocated 12" ductile iron main along U.S. 62. The pressure and flow are adequate due to the proximity of the Muddy Ford elevated storage tank. Kentucky-American will also construct the meter vault.

HCWA estimates that by isolating a portion of their system to receive water from KAWC, the required demand will be approximately 100,000 gallons per day. Anticipated sales will provide revenue at current rates to support the necessary investment. The construction will take place in 2000. The estimated total project cost is with an accuracy of plus/minus ten percent.



John A. Hill, Jr., P.E.
Operations Engineer



Nick O. Rowe
Vice President - Operations

KENTUCKY-AMERICAN WATER COMPANY
PROPOSED DESIGN INVESTMENT PLAN PROJECT 00-05
HARRISON COUNTY MAIN EXTENSION

ITEM	RESPONSIBLE ENTITY	TOTAL ESTIMATED COST
Administration	KAWC	\$ 5,000
Materials	KAWC	\$ 35,000
Inspection	KAWC	\$ 10,000
Construction	Contractor	\$ 60,000
	Sub-Total	\$ 110,000
O&C (5%)		\$ 5,500
Engineering Overhead (2%)		\$ 2,200
	Sub-Total	\$ 117,700
AFUDC		\$ 881
	Total	\$ 118,581
	Estimate	\$ 120,000

KENTUCKY-AMERICAN WATER COMPANY
PROPOSED DESIGN INVESTMENT PLAN PROJECT 00-05
HARRISON COUNTY MAIN EXTENSION

DESCRIPTION OF ACTIVITY	ENTITY RESPONSIBLE	2000												TOTAL 2000						
		JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC							
Administration	KAWC																\$ 2,500	\$ 2,500	\$ 5,000	
Materials	KAWC																	\$ 25,000	\$ 10,000	\$ 35,000
Inspection	KAWC																	\$ 5,000	\$ 5,000	\$ 10,000
Construction	Contractor																	\$ 30,000	\$ 30,000	\$ 60,000
SUB-TOTAL																		\$ 62,500	\$ 47,500	\$ 110,000
O&C (5%)																		\$ 3,125	\$ 2,375	\$ 5,500
Overhead (2%)																		\$ 1,250	\$ 950	\$ 2,200
AFUDC																		234	647	881
CASH FORECAST																		\$ 67,109	\$ 51,472	\$ 118,581

KENTUCKY-AMERICAN WATER COMPANY
ECONOMIC ANALYSIS OF THE IMPACT OF CAPITAL
SPENDING PROPOSAL
HARRISON COUNTY MAIN EXTENSION

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>

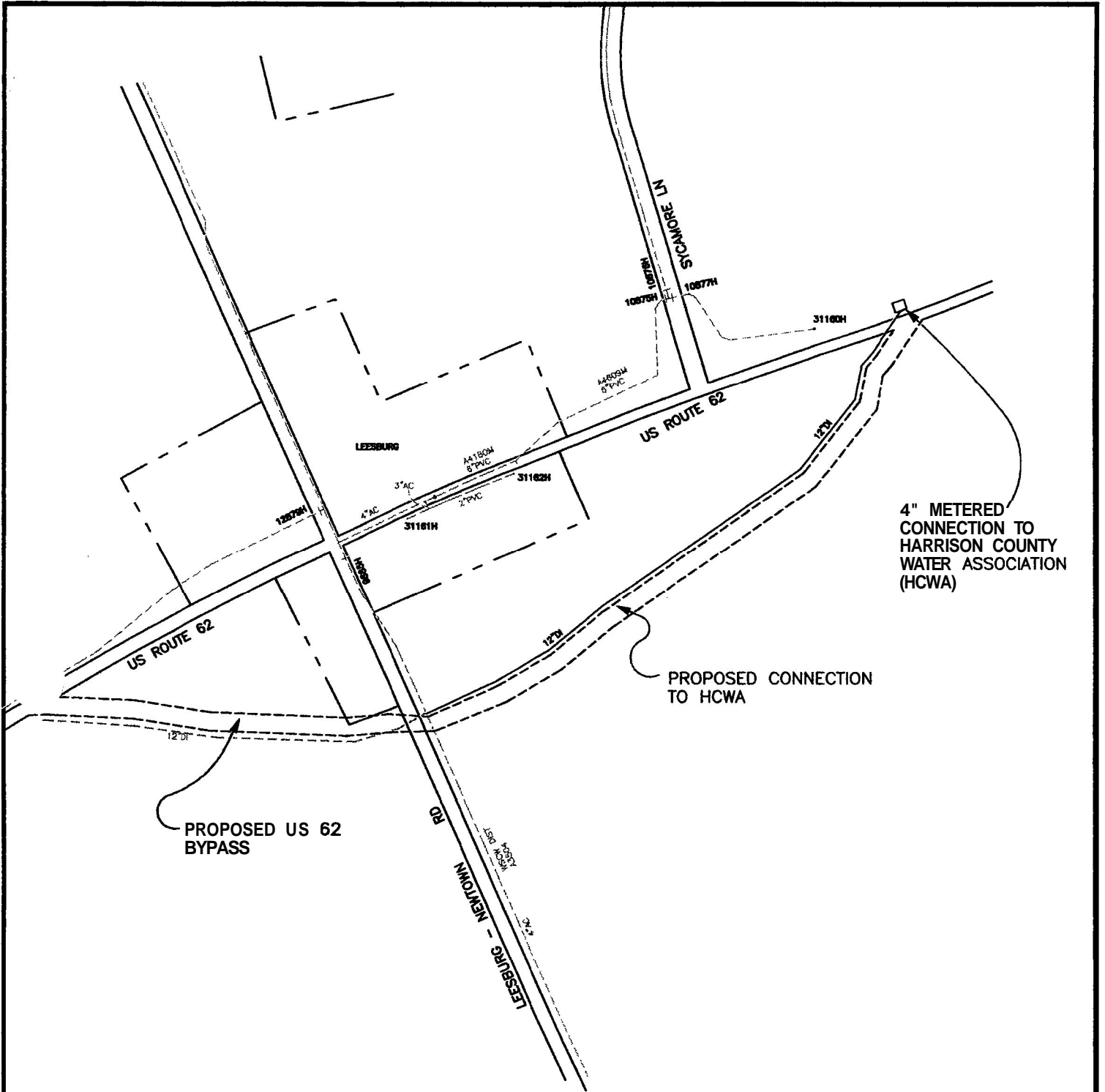
Long Term Debt Ratio for Project	60.00%
Estimated Cost Rate for New Debt	8.00%
Weighted Cost of Debt	<u><u>4.80%</u></u>

Total Pre-Tax Cost of Capital	<u><u>12.18%</u></u>
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Total Estimated Cost of Project	\$ 120,000
Investment by Others	0
Net Investment Financed by Company	<u><u>\$ 120,000</u></u>
New Common Equity	\$ 48,000
New Long Term Debt	72,000

<u>Total Revenue Requirement</u>		<u>Amount</u>	<u>Rate</u>
Required Pre-Tax Operating Income		\$ 14,616	12.18%
Depreciation Rate	1.180%	1,416	1.18%
Property Tax Rate	0.7037%	844	0.70%
Change in Operation & Maint. Expense		0	0.00%
Revenue from New Customers		(65,000)	<u>-54.17%</u>
Total Net Revenue Requirement		<u>\$ (48,124)</u>	<u>-40.11%</u>
Revenue Tax Rate	0.14537%	(70)	<u>-0.06%</u>
Total Revenue Requirement		<u><u>\$ (48,194)</u></u>	<u><u>-40.17%</u></u>


Latest 12 Months Revenue - 06/30/2000	<u><u>\$ 39,128,658</u></u>
Required Price Increase	<u><u>-0.12%</u></u>



4" METERED CONNECTION TO HARRISON COUNTY WATER ASSOCIATION (HCWA)

PROPOSED CONNECTION TO HCWA

PROPOSED US 62 BYPASS

 Kentucky-American Water Company		
CAPITAL INVESTMENT PLAN ITEM No. IP 00-05		
DRAWN BY TOBEY ADAMS	SCALE 1" = 400'	MATERIAL: 3,500' of 12" DI PIPE
GRID	DATE 09/05/00	
APPROVED JAH	DRAWING No. IP 00-05	