

REGULATORY ASSET AUTHORIZATION

Kentucky-American Water Company

Business Services Projects Costs
(Expense to be deferred)

Description of expense to be deferred:

One-time projects costs with the transition to the Shared Services and the National Call Center. These costs are being deferred for future rate recovery because they are unusual, one-time costs that are expected to result in significant savings in operating costs. The Company has deferred \$1,360,000 as of December 31, 2001, and expects to defer an additional \$242,000 in 2002.

Plan to address recovery in rates:

See attached.

Submitted By:

M Hill
Vice President & Treasurer

1-31-02
Date

Reviewed By:

JH

4/4/02
Date

Updated Information:

REGULATORY ASSET AUTHORIZATION

Kentucky-American Water Company

Deferred Program Maintenance
(Expense to be deferred)

Description of expense to be deferred:

The Public Service Commission recognized a regulatory asset for tank painting and other large extraordinary maintenance projects. The balance on the books at December 31, 2001 is \$3,192,765. Each individual project is amortized over periods between 5 and 15 years as determined by the Public Service Commission for each project. The Public Service Commission recognized the unamortized portion of these deferred expenses as rate base.

Plan to address recovery in rates:

See above.

Submitted By:

M. Hill
Vice President & Treasurer

1-31-02
Date

Reviewed By:

[Signature]

4/4/02
Date

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Kentucky-American Water Company

Deferred Insurance Other
(Expense to be deferred)

Description of expense to be deferred:

At December 31, 2001, a balance of \$102,587 remained. Prior year claims experience and reserves exceeded the premiums paid for certain claim years. The Company deferred this expense and is amortizing and funding the required reserve over the remaining years in 5-year window for each claim year.

Plan to address recovery in rates:

Submitted By:

M Miller
Vice President & Treasurer

1-31-02
Date

Reviewed By:

OK

4/4/02
Date

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Deferred Engineering
(Expense to be deferred)

Description of expense to be deferred:

A balance of \$20,519 remains for this cost to study automation of various processes at the Kentucky River and Richmond Road treatment plants.

Plan to address recovery in rates:

A 3-year amortization was approved by the Public Service Commission in the 2000 rate case.

Submitted By:

M. Hill
Vice President & Treasurer

1-31-02
Date

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[Signature]

4/4/02
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Deferred Legal Costs
(Expense to be deferred)

Description of expense to be deferred:

There remains a balance of \$170,995 of these costs which were accumulated in defending and settling two (2) lawsuits regarding wrongful discharge and discrimination. The costs were extraordinary in nature.

Plan to address recovery in rates:

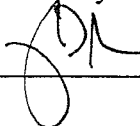
The Public Service Commission determined that the Company expense was incurred prudently and approved 5-year amortization of the expense.

Submitted By:


Vice President & Treasurer

1-31-02
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Reviewed By:



4/4/02
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Deferred Meter Reading
(Expense to be deferred)

Description of expense to be deferred:

There remains a balance of \$96,603 for this study to determine the feasibility and cost justification for moving to automated meter-reading systems. In addition, the study included the cost to transition from quarterly to monthly meter reading.

Plan to address recovery in rates:

The 2002 rate case approved a 5-year amortization of this cost. This amortization should have commenced in January 2001, but did not. We will submit the journal entry to catch up this amortization through the current period and initiate the amortization over the remaining period.

Submitted By:

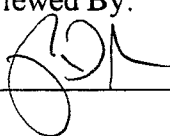


Vice President & Treasurer

1-31-02

Date

Reviewed By:



4/4/02

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Cost of Service Study
(Expense to be deferred)

Description of expense to be deferred:

A balance of \$42,229 remained on this cost to prepare the study filed as part of the 2000 rate case.

Plan to address recovery in rates:

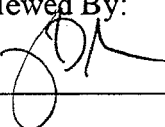
5-year amortization approved in 2000 rate case Order.

Submitted By:


Vice President & Treasurer

1-31-02
Date

Reviewed By:



4/4/02
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Bluegrass Water Project
(Expense to be deferred)

Description of expense to be deferred:

The Company was required to expend extraordinary and unusual amounts to design a pipeline to obtain a finished water supply from Louisville due to a source water deficiency in the Kentucky River. Public opposition and a plan to improve the dams on the Kentucky River to increase supply eliminated the need to construct the facilities designed with this expenditure.

Plan to address recovery in rates:

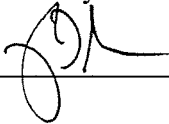
The Public Service Commission approved a 10-year amortization and recognized the prudence of this expense in attempting to meet this critical service issue.

Submitted By:


Vice President & Treasurer

1-31-02
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Reviewed By:



4/4/02
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Community Education
(Expense to be deferred)

Description of expense to be deferred:

At December 31, 2001, the Company had a balance of \$430,051 for Community Education expended during the severe drought of 1998 and 1999. These costs were extraordinary due to the need to educate customers about the source of supply deficit and the conservation efforts needed to protect the source of supply during this major drought period.

Plan to address recovery in rates:

The Commission recognized the need for this effort and that the actions of the Company were appropriate given the circumstances. A 5-year amortization was approved in the 2000 rate case.

Submitted By:


Vice President & Treasurer

1-31-02
Date

Reviewed By:



4/4/02
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GIS Assessment Study
(Expense to be deferred)

Description of expense to be deferred:

At December 31, 2001, a deferred balance of \$45,911 remained for the cost to study the implementation and use of a global positioning system.

Plan to address recovery in rates:

The Public Service Commission recognized a 3-year amortization of this cost in its Order for the 2000 rate case.

Submitted By:

M. Hill
Vice President & Treasurer

1-31-02
Date

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OK

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Meter Deviation
(Expense to be deferred)

Description of expense to be deferred:

There remains a balance of \$10,815 of the cost to study the accuracy and performance of meters, their useful life, and proper replacement period

Plan to address recovery in rates:


The Public Service Commission approved a 3-year amortization in the 2000 rate case.

Submitted By:


Vice President & Treasurer

1-31-02
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Reviewed By:



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Y2K Costs
(Expense to be deferred)

Description of expense to be deferred:

One time, extraordinary costs associated with developing and implementing a plan to assure Y2K readiness. Balance at December 31, 2001 was \$94,224.

Plan to address recovery in rates:

The Public Service Commission in its rehearing Order approved a 5-year amortization of this cost.

Submitted By:

M. Miller
Vice President & Treasurer

1-31-02
Date

Reviewed By:

[Signature]

4/4/02
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1998 Demand Study
(Expense to be deferred)

Description of expense to be deferred:

This cost deferred at December 31, 2001 of \$45,862 was for the preparation of the demand study supporting the cost of service study filed in the 2000 rate case.

Plan to address recovery in rates:

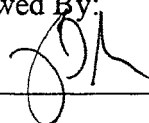
The Public Service Commission approved a 5-year amortization in its 2000 rate case Order.

Submitted By:


Vice President & Treasurer

1-31-02
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KRS Residuals
(Expense to be deferred)

Description of expense to be deferred:

The Company undertook the design of improvements to KRS residuals facilities based on an Order of the DEP. After further discussion of the issue with DEP, an alternate solution was agreed upon whereby eliminating the costly construction of this project.

Plan to address recovery in rates:

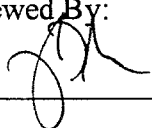
The Public Service Commission approved a 5-year amortization of this cost in the 2000 rate case.

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Vice President & Treasurer

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KRS II
(Expense to be deferred)

Description of expense to be deferred:

There remains at December 31, 2001 a balance of \$397,342 for the preliminary design of a second Kentucky River Treatment facility. As part of the water supply case, it was determined this plant may be needed, but not for 8-10 years if the Kentucky River Dam upgrades were undertaken.

Plan to address recovery in rates:

The Commission approved in the 2000 rate case a 5-year amortization of these costs and recognized the Company had acted appropriately to study and prepare a plan to address the critical source of supply deficit.

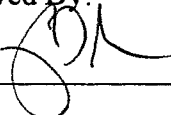
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Vice President & Treasurer

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KRS Disinfection by Product Study
(Expense to be deferred)

Description of expense to be deferred:

A balance of \$73,045 remains at December 31, 2001 for this study which explored alternative treatment processes to reduce disinfection by products.

Plan to address recovery in rates:

The Public Service Commission approved a 5-year amortization in the 2000 rate case.

Submitted By:

Mill
Vice President & Treasurer

1-31-02
Date

Reviewed By:

OK

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Security Costs
(Expense to be deferred)

Description of expense to be deferred:

The Company has deferred its ongoing Operations & Maintenance costs associated with increased security costs put into effect after the extraordinary events of September 11, 2001 for future rate recovery. The current deferral amount is \$297,596.

Plan to address recovery in rates:

The Company has filed a request with the Public Service Commission for an emergency surcharge to recover this cost or in the absence of that surcharge for permission to defer these costs as a regulatory asset. The Company believes the rate recovery of these costs to be probable.

Submitted By:

M. Hill
Vice President & Treasurer

1-31-02
Date

Reviewed By:

[Signature]

4/4/02
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