


**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

IN THE MATTER OF:)
)
NOTICE OF ADJUSTMENT OF THE RATES OF) **CASE NO. 2004-00103**
KENTUCKY-AMERICAN WATER COMPANY)
EFFECTIVE ON AND AFTER MAY 30, 2004)

**NOTICE OF SUPPLEMENTAL
INFORMATION IN RESPONSE TO LFUCG1#79**

Kentucky-American Water Company hereby gives notice of the filing of the attached supplemental information in response to LFUCG1#79.

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BY:  _____
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ATTORNEYS FOR
KENTUCKY AMERICAN WATER

Operating Unit Managing Director Report



Report Status: Final +3
 Year & Month: 2004 –June
 Operating Unit: Kentucky
 Business Segment: Regulated Subsidiaries

1. FINANCIAL PERFORMANCE SUMMARY INPUT

Kentucky US GAAP	June-2004 Month to Date						
	Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Net Operating Assets	Net Debt	Capex
TYB	5,010	2,222	1,743	2,716	157,112	(84,750)	1,384
Enter Estimate of Actuals here	-	-	-	-	-	-	-
Actuals (will auto-populate when available)	4,535	1,713	1,158	2,705	155,840	(84,146)	1,273
Variance	(475)	(509)	(585)	(11)	(1,272)	604	(111)
Variance Explanations							
Revenue							
Residential Demand	(297)	(297)	(297)	(297)	(297)	(297)	-
Industrial Demand	(22)	(22)	(22)	(22)	(22)	(22)	-
Unbilled Revenue Issues	(52)	(52)	(52)	(52)	(52)	(52)	-
Wastewater	(22)	(22)	(22)	(22)	(22)	(22)	-
Other 1	(82)	(82)	(82)	(82)	(82)	(82)	-
Operating Result							
Production Costs (revenue related)		131	131	131	131	131	-
Management fees: central		(237)	(237)	(237)	(237)	(237)	-
Management fees: local							-
Main breaks							-
Insurance		16	16	16	16	16	-
Miscellaneous Operating Expense		(9)	(9)	(9)	(9)	(9)	-
Pension Costs		37	37	37	37	37	-
Security Costs		9	9	9	9	9	-
Labor Costs		34	34	34	34	34	-
Uncollectibles		(18)	(18)	(18)	(18)	(18)	-
Depreciation		(51)	(51)	(51)	(51)	(51)	-
Other Misc & Maint		54	54	54	54	54	-
Profit Before Tax							
AFUDC			(20)	(20)	(20)	(20)	-
Interes (rates)							-
Interest (increase/decrease borrowing)			14	14	14	14	-
Amortization							-
Other 4			(70)	(70)	(70)	(70)	-
Operating Cash Flow							
Working Capital ¹				1,087			-
Change in Provisions				(639)			-
Other 5				126	(576)	1,078	-
Net Op. Assets/Net Debt/CapEx							
CapEx: Weather Delays							-
CapEx: Efficiencies							-
CapEx: Project 1					(111)	111	(111)
CapEx: Project 2							-
Other 6							-
Other 7							-
Unexplained Variance - month to date							
	-	-	-	-	-	-	-

¹ Please explain in variance analysis narrative of MD report

**Kentucky
US GAAP**

June-2004 Year to Date						
	Net					
Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Operating Assets	Net Debt	Capex
20,975	5,864	3,612	10,162	157,112	(84,750)	11,311
-	-	-	-	-	-	-
21,053	4,970	1,998	8,766	155,840	(84,146)	5,843
78	(894)	(1,614)	(1,396)	(1,272)	604	(5,468)
Variance Explanations						
Revenue						
Residential Demand	650	650	650	650	650	-
Industrial Demand	(62)	(62)	(62)	(62)	(62)	-
Unbilled Revenue Issues	(843)	(843)	(843)	(843)	(843)	-
Wastewater	(127)	(127)	(127)	(127)	(127)	-
Other 1	460	460	460	460	460	-
Operating Result						
Production Costs (revenue related)	145	145	145	145	145	-
Management fees: central	(1,257)	(1,257)	(1,257)	(1,257)	(1,257)	-
Management fees: local	-	-	-	-	-	-
Main breaks	-	-	-	-	-	-
Insurance	(52)	(52)	(52)	(52)	(52)	-
Miscellaneous Operating Expense	(139)	(139)	(139)	(139)	(139)	-
Pension Costs	182	182	182	182	182	-
Security Costs	25	25	25	25	25	-
Labor Costs	135	135	135	135	135	-
Uncollectibles	(55)	(55)	(55)	(55)	(55)	-
Depreciation	(425)	(425)	(425)	(425)	(425)	-
Other Misc & Maint	469	469	469	469	469	-
Other 3	-	-	-	-	-	-
Profit Before Tax						
AFUDC	-	(108)	(108)	(108)	(108)	-
Interes (rates)	-	-	-	-	-	-
Interest (increase/decrease borrowing)	-	94	94	94	94	-
Amortization	-	-	-	-	-	-
Other 4	-	(706)	(706)	(706)	(706)	-
Operating Cash Flow						
Working Capital ¹	-	-	(437)	-	-	-
Change in Provisions	-	-	(488)	-	-	-
Other 5	-	-	1,143	5,810	(3,250)	-
Net Op. Assets/Net Debt/CapEx						
CapEx: Weather Delays	-	-	-	-	-	-
CapEx: Efficiencies	-	-	-	-	-	-
CapEx: Project 1	-	-	-	(5,468)	5,468	(5,468)
CapEx: Project 2	-	-	-	-	-	-
Other 6	-	-	-	-	-	-
Other 7	-	-	-	-	-	-
Unexplained Variance -year to date						
-	-	-	-	-	-	-

¹ Please explain in variance analysis narrative of MD report

Kentucky American Water
Executive Summary
June-04

Executive Summary:

Financial Performance (Briefly describe the following KPIs against Budget and latest Forecast):

Operating Result

vs Budget - Operating result for the month is \$509,000 under budget. Revenues are under budget \$475,000 for the month and over \$78,000 for YTD. The actual amounts on a year to date basis reflect seven more days than budgeted, a reduction of \$435,000 is scheduled in December 2004 to account for the shift in accounting schedule. The remaining variance is reflected in management fees. June YTD operating result is under plan \$894,000. Management fees will reverse in subsequent months and return the Company to plan levels.

Free Cash Flow I

vs Budget - Free cash flow is a unfavorable variance of \$11,000 for the month. The YTD variance to budget is an unfavorable \$1.4 million due to the timing of payments

Net Debt

June is under the plan by \$604,000 due to CAPEX delays and the timing of payments to creditors.

Operational Performance (Briefly describe the key operating issues over the period):

The major issue at KAWC continues to be the condemnation effort by the LFUCG. The Company has a right to object to the taking and object to the value set by the commissioners after receipt of summons from the LFUCG. The employees continue to provide extraordinary efforts in meeting the service needs of the customers.

**Kentucky American Water
Financial Indicators
June-04**

Financial Indicators (Briefly describe the following KPIs against Budget & latest Forecast):

Turnover

Month vs Budget - Revenue for the month was \$475,000 under budget. This is primarily due to residential revenues being down.

YTD vs Budget - Revenue for YTD is \$78,000 over budget. This is primarily due to the extra week of revenues in January adjusted for the shift in unbilled revenue.

OPEX (excl Depn)

Month vs Budget -OPEX has an unfavorable variance of \$34,000 for the month. This is primarily a result of management fees.

YTD vs Budget - OPEX is an unfavorable variance of \$972,000 for YTD. This is primarily the result of management fees and depreciation expense. The Company anticipates management fees and depreciation expense to be on target for the year.

Operating Result

Month vs Budget - OR for the month reflects an unfavorable variance of \$509,000. This is reflected in the previously mentioned revenue and OPEX variance explanations.

Month vs Budget - CAPEX is \$111,000 under budget because of delays in construction. The company expects to spend capex in Q2RF for the year.

YTD vs Budget - CAPEX is \$5.468 million under budget due to delays and reductions. The company still expects to spend capex at the level in Q2RF for the year.

Free Cash Flow I

Month vs Budget - Free cash flow is an unfavorable variance of \$11,000 for the month.

YTD vs Budget - The unfavorable \$1.4 million variance is due to the timing of payments.

Net Debt

Net Debt is under plan \$604,000 for the month primarily due to the timing of payments.

Net Operating Assets

YTD vs Budget - A reduction from plan of \$1.3 million results from lower capex offset by lower OR adjusted for timing.

Headcount

YTD vs Budget - The remaining vacancies are being actively pursued

Kentucky American Water
Markets/Customer Indicators
June-04

Markets/Customer Indicators

Markets

Growth from Non-regulated business - Value Contribution explanation and potential growth initiatives

YTD vs Budget - KAWC is now providing management services to the City of Jackson KY and the Bluegrass Depot.

YTD vs Forecast -

Growth from 'tuck-in' acquisitions - Operating Result explanation and potential growth opportunities

YTD vs Budget - The Company has included the acquisition of Owenton Water & Sewer in the third quarter. This acquisition contract has been executed and will provide the additional OR included in the plan and forecast.

YTD vs Forecast -

Customer Indicators

On April 30 the Company filed its rate request seeking increased rates of \$7.297 million or 16.82%. The Company prepared a very professional information and education document explaining its rate case, the rate case process, the benefits of private ownership, and provided commonly asked questions and answers about the Company and its rate filing. This package was distributed to all the media and all key stakeholders.

Kentucky American Water
Employee Indicators
June-04

Employee Indicators

Key Employee Indicators

The operating result/FTE for June was \$14,041 compared to a budget of \$16,706. Management fees and depreciation expense timing as explained earlier in the report are driving the lower result. The operating result/FTE YTD is \$40,738 versus a budget of \$44,090. See operating result explanation earlier in report.

Risks and Opportunities (See Detailed Summary):

Update on any significant changes to the Risks & Opportunities summary report listed in the prior monthly report. Report on insurance claims and costs compared to the prior period for the Month and YTD with explanations as necessary.

Risk Summary (see Detailed Summary):

Update on any significant changes to the Risk summary report listed in the prior monthly report. Nothing of significance to report. The Company did update its risk assessment plan and provided it to the corporate risk department. Any significant issues that impact the business. Including a section on any issue or event affecting reputation either good or bad and litigation issues as well.

Operating Unit Managing Director Report



Report Status: Final +3
 Year & Month: 2004 –July
 Operating Unit: Kentucky
 Business Segment: Regulated Subsidiaries

1. FINANCIAL PERFORMANCE SUMMARY INPUT

Kentucky US GAAP

TYB
 Enter Estimate of Actuals here
 Actuals (will auto-populate when available)
 Variance

Variance Explanations

Revenue

Residential Demand
 Industrial Demand
 Unbilled Revenue Issues
 Wastewater
 Other 1

Operating Result

Production Costs (revenue related)
 Management fees: central
 Management fees: local
 Main breaks
 Insurance
 Miscellaneous Operating Expense
 Pension Costs
 Security Costs
 Labor Costs
 Uncollectibles
 Depreciation
 Other Misc & Maint

Profit Before Tax

AFUDC
 Interest (rates)
 Interest (increase/decrease borrowing)
 Amortization
 Other 4

Operating Cash Flow

Working Capital ¹
 Change in Provisions
 Other 5

Net Op. Assets/Net Debt/CapEx

CapEx: Weather Delays
 CapEx: Efficiencies
 CapEx: Project 1
 CapEx: Project 2
 Other 6
 Other 7

Unexplained Variance - month to date

July-2004 Month to Date						
Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Net Operating Assets	Net Debt	Capex
3,853	1,291	928	2,234	156,726	(83,807)	1,409
-	-	-	-	-	-	-
3,116	384	(105)	1,746	155,558	(83,887)	1,485
(737)	(907)	(1,033)	(488)	(1,168)	(80)	76
(258)	(258)	(258)	(258)	(258)	(258)	-
(24)	(24)	(24)	(24)	(24)	(24)	-
(261)	(261)	(261)	(261)	(261)	(261)	-
(22)	(22)	(22)	(22)	(22)	(22)	-
(172)	(172)	(172)	(172)	(172)	(172)	-
	25	25	25	25	25	-
	(119)	(119)	(119)	(119)	(119)	-
						-
	(8)	(8)	(8)	(8)	(8)	-
	7	7	7	7	7	-
	27	27	27	27	27	-
	8	8	8	8	8	-
	(1)	(1)	(1)	(1)	(1)	-
	(48)	(48)	(48)	(48)	(48)	-
	(43)	(43)	(43)	(43)	(43)	-
	(18)	(18)	(18)	(18)	(18)	-
		(23)	(23)	(23)	(23)	-
		(11)	(11)	(11)	(11)	-
		(92)	(92)	(92)	(92)	-
			591			-
			(215)			-
			169	(211)	1,029	-
				-	-	-
				-	-	-
				76	(76)	76
				-	-	-
				-	-	-
				-	-	-
				-	-	-
				-	-	-
				-	-	-
				-	-	-

¹ Please explain in variance analysis narrative of MD report

**Kentucky
US GAAP**

July-2004 Year to Date							
	Operating	Profit	Operating	Net			
Turnover	Result	Before Tax	Cash Flow	Operating	Assets	Net Debt	Capex
TYB	24,828	7,155	4,540	12,396	156,726	(83,807)	12,720
Enter Estimate of Actuals here	-	-	-	-	-	-	-
Actuals (will auto-populate when available)	24,169	5,354	1,893	10,512	155,558	(83,887)	7,328
Variance	(659)	(1,801)	(2,647)	(1,884)	(1,168)	(80)	(5,392)
Variance Explanations							
Revenue							
Residential Demand	392	392	392	392	392	392	-
Industrial Demand	(86)	(86)	(86)	(86)	(86)	(86)	-
Unbilled Revenue Issues	(1,104)	(1,104)	(1,104)	(1,104)	(1,104)	(1,104)	-
Wastewater	(149)	(149)	(149)	(149)	(149)	(149)	-
Other 1	288	288	288	288	288	288	-
Operating Result							
Production Costs (revenue related)		170	170	170	170	170	-
Management fees: central		(1,376)	(1,376)	(1,376)	(1,376)	(1,376)	-
Management fees: local							-
Main breaks							-
Insurance		(60)	(60)	(60)	(60)	(60)	-
Miscellaneous Operating Expense		(132)	(132)	(132)	(132)	(132)	-
Pension Costs		209	209	209	209	209	-
Security Costs		33	33	33	33	33	-
Labor Costs		134	134	134	134	134	-
Uncollectibles		(103)	(103)	(103)	(103)	(103)	-
Depreciation		(468)	(468)	(468)	(468)	(468)	-
Other Misc & Maint		451	451	451	451	451	-
Other 3		-	-	-	-	-	-
Profit Before Tax							
AFUDC			(131)	(131)	(131)	(131)	-
Interes (rates)							-
Interest (increase/decrease borrowing)			83	83	83	83	-
Amortization							-
Other 4			(798)	(798)	(798)	(798)	-
Operating Cash Flow							
Working Capital ¹				154			-
Change in Provisions				(703)			-
Other 5				1,312	6,871	(2,825)	-
Net Op. Assets/Net Debt/CapEx							
CapEx: Weather Delays					-	-	-
CapEx: Efficiencies							-
CapEx: Project 1					(5,392)	5,392	(5,392)
CapEx: Project 2					-	-	-
Other 6					-	-	-
Other 7					-	-	-
Unexplained Variance -year to date							
	-	-	-	-	-	-	-

¹ Please explain in variance analysis narrative of MD report

**Kentucky American Water
Executive Summary
July-04**

Executive Summary:

Financial Performance (Briefly describe the following KPIs against Budget and latest Forecast):

Operating Result

vs Budget - Operating result for the month is \$907,000 under budget. Revenues are under budget \$737,000 for the month and under \$659,000 for YTD. The actual amounts on a year to date basis reflect seven more days than budgeted, a reduction of \$435,000 is scheduled in December 2004 to account for the shift in accounting schedule. The remaining variance is reflected in management fees and uncollectibles. July YTD operating result is under plan \$1,801,000. Revenues are under budget \$659,000. The remaining variance is due to management fees.

Free Cash Flow I

vs Budget - Free cash flow is a unfavorable variance of \$488,000 for the month. The YTD variance to budget is an unfavorable \$1.9 million due to the timing of payments

Net Debt

July is over the plan by \$80,000 due to CAPEX delays.

Operational Performance (Briefly describe the key operating issues over the period):

The major issue at KAWC continues to be the condemnation effort by the LFUCG. The Company has a right to object to the taking and object to the value set by the commissioners after receipt of summons from the LFUCG. The employees continue to provide extraordinary efforts in meeting the service needs of the customers.

Kentucky American Water
Financial Indicators
July-04

Financial Indicators (Briefly describe the following KPIs against Budget & latest Forecast):

Turnover

Month vs Budget - Revenue for the month was \$737,000 under budget. This is primarily due to residential and unbilled revenues being under budget.

YTD vs Budget - Revenue for YTD is \$659,000 under budget. This is primarily due to the extra week of revenues in January adjusted for the shift in unbilled revenue.

OPEX (excl Depn)

Month vs Budget -OPEX has an unfavorable variance of \$170,000 for the month. This is primarily a result of management fees and uncollectibles.

YTD vs Budget - OPEX is an unfavorable variance of \$1,142,000 for YTD. This is primarily the result of management fees and depreciation expense.

Operating Result

Month vs Budget - OR for the month reflects an unfavorable variance of \$907,000. This is reflected in the previously mentioned revenue and OPEX variance explanations.

YTD vs Budget - OR for YTD reflects an unfavorable variance of \$1,801,000. This is reflected in the previously mentioned revenue and OPEX variance explanations.

CAPX

Month vs Budget - CAPEX is \$76,000 over budget due to the timing of construction. The company expects to spend capex in Q2RF for the year.

YTD vs Budget - CAPEX is \$5.392 million under budget due to delays and reductions. The company still expects to spend capex at the level in Q2RF for the year.

Free Cash Flow I

Month vs Budget - Free cash flow is an unfavorable variance of \$488,000 for the month

YTD vs Budget - The unfavorable \$1.8 million variance is due to the timing of payments.

Net Debt

Net Debt is over plan \$80,000 for the month.

Net Operating Assets

YTD vs Budget - A reduction from plan of \$1.2 million results from lower capex offset by lower OR adjusted for timing.

Headcount

YTD vs Budget - The remaining vacancies are being actively pursued.

Kentucky American Water
Markets/Customer Indicators
July-04

Markets/Customer Indicators

Markets

Growth from Non-regulated business - Value Contribution explanation and potential growth initiatives

YTD vs Budget - KAWC is now providing management services to the City of Jackson KY and the Bluegrass Depot.

YTD vs Forecast -

Growth from 'tuck-in' acquisitions - Operating Result explanation and potential growth opportunities

YTD vs Budget - The Company will seek Kentucky PSC approval of the lease back transaction and now expects to close on the Owenton water and wastewater systems by November 1, 2004, pending completion of property title transfers, a pipeline relocation project and final regulatory review.

YTD vs Forecast -

Customer Indicators

The Company and Davis Lundy continued to meet with key stakeholders about the rate case, setting forth the drivers and other key messaging contained in the detailed media and stakeholder package. There had been little media activity in this regard since the initial flurry immediately following the filing on April 30. Recent developments regarding LG&E, KY Utilities and KAW meeting and corresponding with PSC commissioners and staff have generated significant media coverage.

Kentucky American Water
Employee Indicators
July-04

Employee Indicators

Key Employee Indicators

The operating result/FTE for July was \$3,174 compared to a budget of \$9,707. See operating result explanation earlier in report. The operating result/FTE YTD is \$44,248 versus a budget of \$53,797. See operating result explanation earlier in report.

Risks and Opportunities (See Detailed Summary):

Update on any significant changes to the Risks & Opportunities summary report listed in the prior monthly report. Report on insurance claims and costs compared to the prior period for the Month and YTD with explanations as necessary.

Risk Summary (See Detailed Summary):

Update on any significant changes to the Risk summary report listed in the prior monthly report. Nothing of significance to report. The Company did update its risk assessment plan and provided it to the corporate risk department. Any significant issues that impact the business. Including a section on any issue or event affecting reputation either good or bad and litigation issues as well.

Operating Unit Managing Director Report



Report Status: Final +3
 Year & Month: 2004 –August
 Operating Unit: Kentucky
 Business Segment: Regulated Subsidiaries

1. FINANCIAL PERFORMANCE SUMMARY I

Kentucky US GAAP	August-2004 Month to Date						
	Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Net Operating Assets	Net Debt	Capex
TYB	3,779	1,222	855	2,163	156,946	(83,782)	1,674
Enter Estimate of Actuals here	-	-	-	-	-	-	-
Actuals (will auto-populate when available)	3,702	1,044	529	2,031	153,884	(81,858)	1,031
Variance	(77)	(178)	(326)	(132)	(3,062)	1,924	(643)
Variance Explanations							
Revenue							
Residential Demand	(146)	(146)	(146)	(146)	(146)	(146)	-
Industrial Demand	(28)	(28)	(28)	(28)	(28)	(28)	-
Unbilled Revenue Issues	289	289	289	289	289	289	-
Wastewater	(22)	(22)	(22)	(22)	(22)	(22)	-
Other 1	(170)	(170)	(170)	(170)	(170)	(170)	-
Operating Result							
Production Costs (revenue related)		(40)	(40)	(40)	(40)	(40)	-
Management fees: central		(145)	(145)	(145)	(145)	(145)	-
Management fees: local							-
Main breaks							-
Insurance		70	70	70	70	70	-
Miscellaneous Operating Expense							-
Pension Costs		28	28	28	28	28	-
Security Costs		9	9	9	9	9	-
Labor Costs		58	58	58	58	58	-
Uncollectibles		12	12	12	12	12	-
Depreciation		(60)	(60)	(60)	(60)	(60)	-
Other Misc & Maint		(33)	(33)	(33)	(33)	(33)	-
Profit Before Tax							
AFUDC			(30)	(30)	(30)	(30)	-
Interes (rates)							-
Interest (increase/decrease borrowing)			(31)	(31)	(31)	(31)	-
Amortization							-
Other 4			(87)	(87)	(87)	(87)	-
Operating Cash Flow							
Working Capital ¹				317			-
Change in Provisions				(449)			-
Other 5				326	(2,093)	1,607	-
Net Op. Assets/Net Debt/Cap Ex							
CapEx: Weather Delays					-	-	-
CapEx: Efficiencies					-	-	-
CapEx: Project 1					(643)	643	(643)
CapEx: Project 2					-	-	-
Other 6					-	-	-
Other 7					-	-	-
Unexplained Variance - month to date							
	-	-	-	-	-	-	-

¹ Please explain in variance analysis narrative of MD report

Kentucky American Water
Executive Summary
August-04

Executive Summary:

Financial Performance (Briefly describe the following KPIs against Budget and latest Forecast):

Operating Result

vs Budget - Operating result for the month is \$178,000 under budget. Revenues are under budget \$77,000 for the month. The actual amounts on a year to date basis reflect seven more days than budgeted, a reduction of \$435,000 is scheduled in December 2004 to account for the shift in accounting schedule. The remaining variance is reflected in management fees. July YTD operating result is under plan \$1,979,000. Revenues are under budget \$736,000. The remaining variance is primarily due to management fees, resulting from increased transition costs for IT, corporate restructuring and a timing issue in the budget preparation.

Free Cash Flow I

vs Budget - Free cash flow is a unfavorable variance of \$132,000 for the month. The YTD variance to budget is an unfavorable \$2.0 million due to the timing of payments

Net Debt

August is under the plan by \$1.9 million due to CAPEX delays and timing of payments.

Operational Performance (Briefly describe the key operating issues over the period):

The major issue at KAWC continues to be the condemnation effort by the LFUCG. The Company continues to defend its rights in this legal action. The employees continue to provide extraordinary efforts in meeting the service needs of the customers.

Kentucky American Water
Financial Indicators
August-04

Financial Indicators (Briefly describe the following KPIs against Budget & latest Forecast):

Turnover

Month vs Budget - Revenue for the month was \$77,000 under budget. This is primarily due to residential and other revenues being under budget offset by unbilled, resulting from abnormal weather conditions.

YTD vs Budget - Revenue for YTD is \$736,000 under budget. This is primarily due to abnormal weather conditions.

OPEX (excl Depn)

Month vs Budget -OPEX has an unfavorable variance of \$101,000 for the month. This is primarily a result of management fees related to transition costs and budget timing.

YTD vs Budget - OPEX is an unfavorable variance of \$1,243,000 for YTD. This is primarily the result of management fees (related to transition costs and timing) and depreciation expense, offset by miscellaneous and maintenance expense savings.

Operating Result

Month vs Budget - OR for the month reflects an unfavorable variance of \$178,000. This is reflected in the previously mentioned revenue and OPEX variance explanations.

YTD vs Budget - OR for YTD reflects an unfavorable variance of \$1,979,000. This is reflected in the previously mentioned revenue and OPEX variance explanations.

CAPX

Month vs Budget - CAPEX is \$643,000 over budget due to the timing of construction. The company expects to spend capex included in the Q2RF for the year.

YTD vs Budget - CAPEX is \$6.035 million under budget due to delays and reductions. The company still expects to spend capex at the level in Q2RF for the year.

Free Cash Flow I

Month vs Budget - Free cash flow is an unfavorable variance of \$132,000 for the month.

YTD vs Budget - The unfavorable \$2.0 million variance is due to the timing of payments.

Net Debt

Net Debt is under plan \$1.9 million for the month due to CAPX delays and timing of payments..

Net Operating Assets

YTD vs Budget - A reduction from plan of \$3.0 million results from delayed capex offset by lower OR adjusted for timing.

Headcount

YTD vs Budget - The remaining vacancies are being actively pursued.

Kentucky American Water
Markets/Customer Indicators
August-04

Markets/Customer Indicators

Markets

Growth from Non-regulated business - Value Contribution explanation and potential growth initiatives

YTD vs. Budget - KAWC is now providing management services to the City of Jackson KY and the Bluegrass Depot.

YTD vs. Forecast -

Growth from 'tuck-in' acquisitions - Operating Result explanation and potential growth opportunities

YTD vs. Budget - The Company is preparing the information for filing at the PSC regarding the Owenton transaction.

YTD vs. Forecast -

Customer Indicators

Customer service levels continue to meet targets.

Kentucky American Water
Employee Indicators
August-04

Employee Indicators

Key Employee Indicators

The operating result/FTE for August was \$9,078 compared to a budget of \$9,188. See operating result explanation earlier in report. The operating result/FTE YTD is \$55,635 versus a budget of \$62,985. See operating result explanation earlier in report.

Operating Unit Managing Director Report



Report Status: Final +3
 Year & Month: 2004 –September
 Operating Unit: Kentucky
 Business Segment: Regulated Subsidiaries

1. FINANCIAL PERFORMANCE SUMMARY INPUT

**Kentucky
US GAAP**

	September-2004 Month to Date						
	Turnover	Operating Result	Profit Before Tax	Operating Cash Flow	Net Operating Assets	Net Debt	Capex
	5,012	2,246	1,765	2,047	158,020	(84,719)	1,466
Enter Estimate of Actuals here	-	-	-	-	-	-	-
Actuals (will auto-populate when available)	3,902	1,129	642	1,095	154,556	(82,666)	1,583
Variance	(1,110)	(1,117)	(1,123)	(952)	(3,464)	2,053	117
Variance Explanations							
Revenue							
Residential Demand	(653)	(653)	(653)	(653)	(653)	(653)	-
Industrial Demand	(30)	(30)	(30)	(30)	(30)	(30)	-
Unbilled Revenue Issues	(70)	(70)	(70)	(70)	(70)	(70)	-
Wastewater	(22)	(22)	(22)	(22)	(22)	(22)	-
Other 1	(335)	(335)	(335)	(335)	(335)	(335)	-
Operating Result							
Production Costs (revenue related)		56	56	56	56	56	-
Management fees: central		(119)	(119)	(119)	(119)	(119)	-
Management fees: local							-
Main breaks							-
Insurance		14	14	14	14	14	-
Miscellaneous Operating Expense		(21)	(21)	(21)	(21)	(21)	-
Pension Costs		32	32	32	32	32	-
Security Costs		9	9	9	9	9	-
Labor Costs		100	100	100	100	100	-
Uncollectibles		(41)	(41)	(41)	(41)	(41)	-
Depreciation		(4)	(4)	(4)	(4)	(4)	-
Other Misc & Maint		(33)	(33)	(33)	(33)	(33)	-
Profit Before Tax							
AFUDC			(29)	(29)	(29)	(29)	-
Interes (rates)							-
Interest (increase/decrease borrowing)			81	81	81	81	-
Amortization							-
Other 4			(58)	(58)	(58)	(58)	-
Operating Cash Flow							
Working Capital ¹				160			-
Change in Provisions				2			-
Other 5				9	(2,458)	3,293	-
Net Op. Assets/Net Debt/CapEx							
CapEx: Weather Delays					-	-	-
CapEx: Efficiencies					117	(117)	117
CapEx: Project 1					-	-	-
CapEx: Project 2					-	-	-
Other 6					-	-	-
Other 7					-	-	-
Unexplained Variance- month to date							
	-	-	-	-	-	-	-

Unexplained Variance- month to date

**Kentucky
US GAAP**

September-2004 Year to Date							
	Operating	Profit	Operating	Net			
Turnover	Result	Before Tax	Cash Flow	Operating	Net Debt	Capex	
				Assets			
TYB	33,619	10,623	7,160	16,606	158,020	(84,719)	15,860
Enter Estimate of Actuals here							
Actuals (will auto-populate when available)	31,773	7,527	3,064	13,638	154,556	(82,666)	9,942
Variance	(1,846)	(3,096)	(4,096)	(2,968)	(3,464)	2,053	(5,918)
Variance Explanations							
Revenue							
Residential Demand	(407)	(407)	(407)	(407)	(407)	(407)	-
Industrial Demand	(144)	(144)	(144)	(144)	(144)	(144)	-
Unbilled Revenue Issues	(885)	(885)	(885)	(885)	(885)	(885)	-
Wastewater	(193)	(193)	(193)	(193)	(193)	(193)	-
Other 1	(217)	(217)	(217)	(217)	(217)	(217)	-
Operating Result							
Production Costs (revenue related)		186	186	186	186	186	-
Management fees: central		(1,640)	(1,640)	(1,640)	(1,640)	(1,640)	-
Management fees: local							-
Main breaks							-
Insurance		24	24	24	24	24	-
Miscellaneous Operating Expense		(153)	(153)	(153)	(153)	(153)	-
Pension Costs		269	269	269	269	269	-
Security Costs		51	51	51	51	51	-
Labor Costs		292	292	292	292	292	-
Uncollectibles		(132)	(132)	(132)	(132)	(132)	-
Depreciation		(532)	(532)	(532)	(532)	(532)	-
Other Misc & Maint		385	385	385	385	385	-
Other 3		-	-	-	-	-	-
Profit Before Tax							
AFUDC			(190)	(190)	(190)	(190)	-
Interes (rates)							-
Interest (increase/decrease borrowing)			133	133	133	133	-
Amortization							-
Other 4			(943)	(943)	(943)	(943)	-
Operating Cash Flow							
Working Capital ¹				631			-
Change in Provisions				(1,150)			-
Other 5				1,647	6,550	231	-
Net Op. Assets/Net Debt/CapEx							
CapEx: Weather Delays					-	-	-
CapEx: Efficiencies							-
CapEx: Project 1					(5,918)	5,918	(5,918)
CapEx: Project 2					-	-	-
Other 6					-	-	-
Other 7					-	-	-
Unexplained Variance -year to date							
	-	-	-	-	-	-	-

¹ Please explain in variance analysis narrative of MD report

**Kentucky American Water
Executive Summary
September-04**

Executive Summary:

Financial Performance (Briefly describe the following KPIs against Budget and latest Forecast):

Operating Result

vs Budget - Operating result for the month is \$1.1 million under budget. Revenues are under budget \$1.1 million for the month. The actual amounts on a year to date basis reflect seven more days than budgeted, a reduction of \$435,000 is scheduled in December 2004 to account for the shift in accounting schedule. September YTD operating result is under plan \$3.1 million. Revenues are under budget \$1.8 million. The remaining variance is primarily due to management fees, resulting from increased transition costs for IT, corporate restructuring and a timing issue in the budget preparation.

Free Cash Flow I

vs Budget - Free cash flow is a unfavorable variance of \$952,000 for the month. The YTD variance to budget is an unfavorable \$2.9 million due to the timing of payments

Net Debt

September is under the plan by \$2.0 million due to timing of payments.

Operational Performance (Briefly describe the key operating issues over the period):

The major issue at KAWC continues to be the condemnation effort by the LFUCG. The Company continues to defend its rights in this legal action. The employees continue to provide extraordinary efforts in meeting the service needs of the customers.

Kentucky American Water
Financial Indicators
September-04

Financial Indicators (Briefly describe the following KPIs against Budget & latest Forecast):

Turnover

Month vs Budget - Revenue for the month was \$1.1 million under budget. This is primarily due to residential and other revenues being under budget resulting from abnormal weather conditions and continued declines in usage per

YTD vs Budget - Revenue for YTD is \$1.8 million under budget. This is due to abnormal weather conditions and the lower usage per customer described above..

OPEX (excl Depn)

Month vs Budget -OPEX has an unfavorable variance of \$7,000 for the month.

YTD vs Budget - OPEX is an unfavorable variance of \$1.25 million for YTD. This is primarily the result of management fees (related to transition costs and timing) and depreciation expense, offset by miscellaneous and maintenance expense savings.

Operatinn Result

Month vs Budget - OR for the month reflects an unfavorable variance of \$1.1 million. This is reflected in the previously mentioned revenue and OPEX variance explanations.

YTD vs Budget - OR for YTD reflects an unfavorable variance of \$3.1 million. This is reflected in the previously mentioned revenue and OPEX variance explanations.

CAPX

Month vs Budget - CAPEX is \$117,000 over budget due to the timing of construction. The company expects to spend capex included in the Q3RF for the year.

YTD vs Budget - CAPEX is \$5.9 million under budget due to delays and reductions. The company still expects to spend capex at the level in Q3RF for the year.

Free Cash Flow I

Month vs Budget - Free cash flow is an unfavorable variance of \$952,000 for the month.

YTD vs Budget - The unfavorable \$2.9 million variance is due to the timing of payments.

Net Debt

Net Debt is under plan \$2.0 million for the month due to CAPX delays and timing of payments..

Net Operating Assets

YTD vs Budget - A reduction from plan of \$3.5 million results from delayed capex offset by lower OR adjusted for timing.

Headcount

YTD vs Budget - The remaining vacancies are being actively pursued.

Kentucky American Water
Markets/Customer Indicators
September-04

Markets/Customer Indicators

Markets

Growth from Non-regulated business - Value Contribution explanation and potential growth initiatives

YTD vs Budget - KAWC is now providing management services to the City of Jackson KY and the Bluegrass Depot

YTD vs Forecast -

Growth from 'tuck-in' acquisitions - Operating Result explanation and potential growth opportunities

YTD vs Budget - The Company is preparing the information to seek Kentucky PSC approval of the lease back transaction and now expects to close on the Owenton water and wastewater systems by December, 2004, pending completion of property title transfers, a pipeline relocation project and final regulatory review.

YTD vs Forecast -

Customer Indicators

Customer service levels continue to meet targets.

Kentucky American Water
Employee Indicators
September-04

Employee Indicators

Key Employee Indicators

The operating result/FTE for September was \$9,904 compared to a budget of \$16,887. See operating result explanation earlier in report. The operating result/FTE YTD is \$66,026 versus a budget of \$79,872. See operating result explanation earlier in report.