

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ADJUSTMENT OF RATES OF KENTUCKY-) CASE NO. 2004-00103
AMERICAN WATER COMPANY)

ORDER

On November 5, 2004, the Commission granted the Attorney General's motion for disclosure of all communications between the Commission and its employees and Kentucky-American Water Company ("Kentucky-American") relating to the merits of this proceeding in which representatives of his office were not present or which occurred prior to the establishment of this proceeding. Appended to that Order was a listing of all written communications that our General Counsel's investigation revealed.

On November 10, 2004, during the evidentiary hearing on the merits of Kentucky-American's application, Commission Staff advised us in open session of a letter from a Kentucky-American employee to the Commission's Executive Director¹ that was not previously disclosed.² A copy of this letter is appended to this Order. Kentucky-American supplied this letter to the Commission and to the parties on November 3, 2004 as part of its lengthy response to an information request. Commission Staff advised us that it did not learn of the existence of the letter until November 9, 2004.³

¹ Letter from Herbert A. Miller, Jr., counsel for Kentucky-American Water Company, to Thomas Dorman, Executive Director, Public Service Commission (July 2, 2002).

² Transcript, Vol. 3 at 5 - 7.

³ Id.

Following disclosure of this document, the Commission's General Counsel conducted a search of the Commission's records to locate this letter and determine what action, if any, was taken in response. He has advised the Commission that his search of the Commission's files and document logs has failed to reveal any record of this document prior to its filing on November 3, 2004. Commission employees who are currently employed with the Commission and have served in a decision-making or advisory capacity for water utility issues have no recollection of this letter.

Based upon the above, the Commission HEREBY ORDERS that our Order of November 5, 2004 is amended to reflect the existence of this letter.

Done at Frankfort, Kentucky, this 23rd day of February, 2005.

By the Commission

ATTEST:

A handwritten signature in black ink, consisting of several overlapping loops and a long horizontal stroke at the bottom.

Executive Director

APPENDIX A

APPENDIX TO AN ORDER OF THE KENTUCKY PUBLIC SERVICE
COMMISSION IN CASE NO. 2004-00103 DATED FEBRUARY 23, 2005



Kentucky-American Water Company

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Herbert A. Miller, Jr.
Vice President and
Corporate Counsel
(859) 268-6339

July 2, 2002

Hon. Tom Dorman
Public Service Commission
211 Sower Blvd.
Frankfort, KY 40601

Re: Kentucky-American Water Company:
Deferrals

Dear Mr. Dorman:

By Order dated November 27, 2000, in Case No. 2000-120, the Commission ordered Kentucky-American Water Company (the "Company") to apply for the accruing of expenses as regulatory assets. On September 26, 2001, the Company filed a request with the Commission for such treatment on other matters unrelated to this request.

Following the events of September 11, 2001, and due to heightened security needs generally for water supply systems, on November 28, 2001, in Case No. 2001-00440, the Company sought to amend its filed rate schedules to permit the assessment of an Asset Protection Charge rather than seek treatment as a regulatory asset. This application for the rate surcharge recovery of security costs did not reach a conclusion on its merits, before the Commission, in Case 2002- 00018, included a condition that stated:

"KAWC will, within 10 days of the date of this Order, withdraw its proposed Asset Protection Charge Tariff that is currently the subject of review in Case No. 2001-00440 and will not for 5 years from the date of this Order apply to the Commission for recovery of costs associated with the protection of water utility assets except through adjustments in its general rates for water service."

The Company accepted this condition and has complied with the terms of the Order.

Consequently, through the request contained in this letter, the Company respectfully requests that the Commission approve the establishment of regulatory assets to accrue the expenses associated with security and the protection of the Company's assets, personnel and customers.

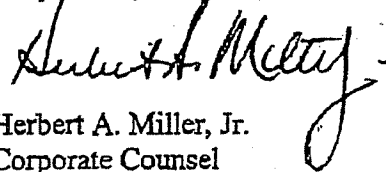
Hon. Tom Dorman
July 2, 2002
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Utility expenses associated with security measures, and cost recovery thereof, have been recognized by the NARUC Board of Directors as special needs that may not be either revenue producing or are items that are likely to produce efficiencies by reducing expenses over time. Nevertheless, NARUC has encouraged water utilities "to take all necessary and prudent precautionary steps to secure facilities." NARUC Resolution of the Board of Directors dated November 13, 2001 (copy attached).

Kentucky-American Water Company responded to the urgency of the threat after September 11, 2001 and continues to respond today. The Company is in frequent communication with law enforcement agencies on federal, state and local levels to monitor, measure and respond to various levels of threats.

As a result, the Company has incurred, and continues to incur, significant expenses associated with the protection of its assets. Kentucky-American Water Company hereby requests that it be permitted to treat these expenditures as regulatory assets and defer the expenses until its next general rate case.

Respectfully submitted,



Herbert A. Miller, Jr.
Corporate Counsel

Attachment