

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION

IN THE MATTER OF:

THE JOINT PETITION OF KENTUCKY-AMERICAN)
WATER COMPANY, THAMES WATER AQUA)
HOLDINGS GMBH, RWE AKTIENGESELLSCHAFT,)
THAMES WATER AQUA US HOLDINGS, INC.,) CASE NO. 2006-00197
AND AMERICAN WATER WORKS COMPANY,)
INC. FOR APPROVAL OF A CHANGE IN CONTROL)
OF KENTUCKY-AMERICAN WATER COMPANY)

RESPONSES TO ATTORNEY GENERAL'S
SECOND REQUEST FOR INFORMATION
DATED JULY 21, 2006

Item No. 18

Witness: Nick Rowe/Michael Miller

18. Concerning response to AG 1-45, RWE Supervisory Board minutes of 11/4/05, page 8. On this page, it states: "In connection with the discussions about the most recent planning by American Water's management, it had become clear to him that leakage problems in the US would tend to worsen in future. For instance, the share of water production in New Jersey that is lost by leakage had risen from 15% to currently 18%. The comparable value for Pennsylvania stood at 30%. While replacing Thames Water's entire pipe system would take 125 years at the current renewal rate, the corresponding figure for American Water was over 200 years. The reason for this extraordinarily high value was that American Water, across a period of several years, had not met regulatory stipulations in various US states. In part, this was due to insufficient investment by American Water in the previous 10 years prior to RWE acquiring its holding. In view of this renewal backlog, there ought to be no investment restraint in dealing with these defects. The elimination of major deviations from regulators' stipulations is likely to last into the year 2008." Concerning this:
- a. Please provide comparable loss figures for KAWC.
 - b. Has KAWC experienced a similar level of "insufficient investment"?
 - c. What is the current renewal rate for the replacement of KAWC's pipe system?

RESPONSE:

- a. See the following table.

<u>12-months ended June 2006</u>	<u>%</u>
Sales	84.7%
Non-Revenue Usage	1.8%
Unaccounted for Water	13.6%
Total System Delivery	100.0%

- b. No. The appropriate level of main replacement varies from system to system, and is based on the performance of the existing assets. Parameters demonstrating the performance of the existing mains would include the amount of leakage, number of main breaks, water quality complaints and fire flow capability.

AWW has estimated that an overall replacement rate of 1.2% per year could be supported to maintain long-term sustainability of the buried assets. Systems with older distribution systems or corrosive soil conditions will generally warrant a higher replacement rate. KAWC's level of unaccounted-for water is lower than the AWW average, and much of its distribution system is relatively new, implying that a replacement rate lower than the 1.2% per year should be adequate for long-term sustainability of the assets in this system.

In 2005, KAWC invested \$2.5 million in "Network Renewal" projects. KAWC replaced 5.4 miles of main in 2005.

KAWC pipe renewals for 2004 and prior are as follows:

1999: 3.2 miles
2000: 7.9 miles
2001: 1.3 miles
2002: 11.7 miles
2003: 2.0 miles
2004: 4.1 miles

In addition to condition-based renewal projects, KAWC is periodically required to replace its mains located in public right-of-way due to road relocation projects not included in the totals above.

Replacements due to road re-locations in the last five years have included:

- Paris Pike - the installation of 37,250 feet of 12" and 8" to replace existing 12, 8 and 4 inch pipe at a total cost of \$2,171,383;

- Richmond Road - the replacement of 6,033 feet of 30" and 12" pipe to replace existing 30" pipe at a total cost of \$1,114,510;
 - Harrodsburg Road - the installation of 7,720 feet of 16" and 12" pipe to replace existing pipe at a total cost of \$1,058,187; and
 - Louden Avenue - the installation of 8,060 feet of 24" and 8" main to replace existing 24" and 6" pipe at a total cost of \$1,399,406
- c. KAWC plans to invest \$5.5 million "Network Renewal" projects in 2006. Based on this level of investment, the current level of pipeline renewal is approximately 0.7%.

KAWC plans to continue its investment in renewal of the distribution network in conformity with the following schedule:

2007: \$6.3 million
2008: \$7.8 million
2009: \$8.6 million
2010: \$9.2 million
2011: \$9.3 million