

Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502 • (859) 269-2386 • Fax (859) 268-6327

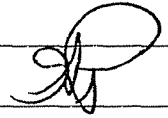
March 7, 2001
IP 96-19
Project No. 10619

KENTUCKY-AMERICAN WATER COMPANY
REVISED INVESTMENT PROJECT 96-19
PURCHASE AND IMPLEMENT CUSTOMER SERVICE SOFTWARE

REFERENCE: Budget Project Memoranda Dated November 14, 1996, June 16, 1998,
November 11, 1998, and November 11, 1999

ESTIMATED COST:

Approved Estimated Cost	\$1,820,000
Prior Expenditures	\$ 990,000
Budgeted 2000 Expenditure	\$ 347,000
Budgeted 2001 Expenditure	\$ 483,000
Revised Estimated Cost	\$2,925,000
Prior Expenditures	\$1,187,400
Proposed 2001 Expenditure	\$ 835,300
Proposed 2002 Expenditure	\$ 902,300

INVESTMENT PROJECT REVIEW		
DEPARTMENT	BY	DATE
ENGINEERING	_____	_____
WATER QUALITY	_____	_____
INFORMATION SYSTEMS		3/23/01
OTHER	_____	_____
RECOMMENDED FOR APPROVAL:		
_____	_____	_____

**KENTUCKY-AMERICAN WATER COMPANY
 PURCHASE AND IMPLEMENT CUSTOMER SERVICE SOFTWARE**

DETAILED COST ESTIMATE

Item	Responsibility	11/98 Estimate	Proposed 11/99 Estimate	Proposed 3/01 Estimate
Implementation and Data Conversion		\$477,067	\$ 844,043	\$1,828,566
EDIS Remediation		-----	\$ 118,950	\$ 119,407
Software		122,815	122,815	\$ 122,815
Labor & Travel Costs		105,995	309,362	\$ 254,243
Equipment		177,000	166,132	\$ 176,463
	Subtotal	\$882,877	\$1,561,302	\$2,501,494
	AFUDC	83,760	259,101	\$ 423,274
	Total	\$966,637	\$1,820,403	\$2,924,768



Kentucky-American Water Company

2300 Richmond Road • Lexington, Kentucky 40502

606-269-2386

November 11, 1999
IP 96-19
Project No. 10619

KENTUCKY-AMERICAN WATER COMPANY
REVISED INVESTMENT PROJECT 96-19
PURCHASE AND IMPLEMENT CUSTOMER SERVICE SOFTWARE

REFERENCE: Budget Project Memoranda Dated November 14, 1996, June 16, 1998, and November 11, 1998

ESTIMATED COST:

Approved Estimated Cost	\$ 966,000
Prior Expenditures	\$ 93,067
Budgeted 1998 Expenditure	\$ 623,133
Budgeted 1999 Expenditure	\$ 250,400
Revised Estimated Cost	\$1,820,000
Prior Expenditures	\$ 990,000
Proposed 2000 Expenditure	\$ 347,000
Proposed 2001 Expenditure	\$ 483,000

INVESTMENT PROJECT REVIEW		
DEPARTMENT	BY	DATE
ENGINEERING	_____	_____
WATER QUALITY	_____	_____
INFORMATION SYSTEMS	<i>A. Pugh</i>	11/17/99
OTHER	_____	_____
RECOMMENDED FOR APPROVAL:		
_____	_____	_____



November 11, 1999
IP 96-19
Project No. 10619
Page Two

DISCUSSION

This project was proposed to replace the legacy customer service software with software designed by ORCOM Systems. The project was revised previously to include funds for local expenses (travel, temporary labor, etc.), an increase in the overall project implementation cost and additional PCs and equipment related at several locations to get the full benefit of the software.

Implementation of the project was delayed to accomplish EDIS remediation for Y2K readiness.

This revision includes the remediation of the EDIS software and the revision of the start-up date as specified in the current implementation schedule. AFUDC on this project has increased accordingly.

Currently, KAWC's estimated start-up date is September 2001.

Coleman D. Bush
Vice-President and Treasurer

CDB/dm

**KENTUCKY-AMERICAN WATER COMPANY
 PURCHASE AND IMPLEMENT CUSTOMER SERVICE SOFTWARE**

DETAILED COST ESTIMATE

Item	Responsibility	11/98 Estimate	Proposed 11/99 Estimate
Implementation and Data Conversion		\$477,067	\$844,043
EDIS Remediation		-----	\$118,950
Software		122,815	122,815
Labor & Travel Costs		105,995	309,362
Equipment		177,000	166,132
	Subtotal	\$882,877	\$1,561,302
	AFUDC	83,760	259,101
	Total	\$966,637	\$1,820,403

KENTUCKY-AMERICAN WATER COMPANY
PURCHASE AND IMPLEMENT CUSTOMER SERVICE SOFTWARE
IP-96-19 (10619)
1996

DESCRIPTION OF ACTIVITY	ENTITY RESPONSIBLE	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
Payment/ Implementation	KAWC												
CASH FORECAST											\$11,890	\$91	\$91

KENTUCKY/AMERICAN WATER COMPANY PURCHASE AND IMPLEMENT CUSTOMER SERVICE SOFTWARE BP 96-19 (10619) 1998													
DESCRIPTION OF ACTIVITY	ENTITY RESPONSIBLE	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
Payment/ Implementation	KAWC												
Equipment	KAWC												
CASH FORECAST		\$23,266	\$17,518	\$20,975	\$50,821	\$18,212	\$76,305	\$27,857	\$147,923	\$95,597	\$25,790	\$23,598	\$22,364

KENTUCKY-AMERICAN WATER COMPANY
 PURCHASE AND IMPLEMENT CUSTOMER SERVICE SOFTWARE
 IP 96-19 (10619)
 2000

DESCRIPTION OF ACTIVITY	ENTITY RESPONSIBLE	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
Payment/Implementation	KAWC												
SUBTOTAL	\$275,097	\$15,119	\$17,489	\$18,650	\$20,926	\$22,817	\$24,591	\$24,687	\$20,843	\$20,540	\$21,857	\$41,035	\$26,543
AFUDC	72,355	5,146	5,271	5,410	5,561	5,729	5,910	6,099	6,274	6,432	6,594	6,835	7,098
CASH FORECAST	\$347,452	\$20,265	\$22,760	\$24,060	\$26,487	\$28,546	\$30,601	\$30,786	\$27,117	\$26,972	\$28,451	\$47,870	\$33,642

**KENTUCKY-AMERICAN WATER COMPANY
ECONOMIC ANALYSIS OF THE IMPACT OF CAPITAL
SPENDING PROPOSAL
ORCOM - CUSTOMER SERVICE SOFTWARE**

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>7.38%</u>

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

Total Pre-Tax Cost of Capital 11.58%

Total Estimated Cost of Project	\$ 1,820,000
Investment by Others	<u>0</u>
Net Investment Financed by Company	<u>\$ 1,820,000</u>
New Common Equity	\$ 728,000
New Long Term Debt	1,092,000

<u>Total Revenue Requirement</u>		<u>Amount</u>	<u>Rate</u>
Required Pre-Tax Operating Income		\$ 210,756	11.58%
Depreciation Rate	1.180%	21,476	1.18%
Property Tax Rate	0.6990%	12,722	0.70%
Change in Operation & Maint. Expense		0	0.00%
Revenue from New Customers		<u>0</u>	<u>0.00%</u>
Total Net Revenue Requirement		<u>\$ 244,954</u>	<u>13.46%</u>
Revenue Tax Rate	0.14537%	357	0.02%
Total Revenue Requirement		<u>\$ 245,311</u>	<u>13.48%</u>

Latest 12 Months Revenue - 05/30/1999	<u>\$ 38,184,069</u>
Required Price Increase	<u>0.64%</u>

0



Kentucky-American Water Company

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

November 11, 1998

IP 96-19

Project No. 10619

KENTUCKY-AMERICAN WATER COMPANY

REVISED INVESTMENT PROJECT 96-19 PURCHASE AND IMPLEMENT CUSTOMER SERVICE SOFTWARE

REFERENCE: Budget Project Memoranda Dated November 14, 1996 and June 16, 1998

ESTIMATED COST:

Approved Estimated Cost	\$746,916
Prior Expenditures	\$72,017
Budgeted 1998 Expenditure	\$550,227
Budgeted 1999 Expenditure	\$124,672
Revised Estimated Cost	\$966,600
Prior Expenditures	\$93,067
Proposed 1998 Expenditure	\$623,133
Proposed 1999 Expenditure	\$250,400

INVESTMENT PROJECT REVIEW		
DEPARTMENT	BY	DATE
ENGINEERING	_____	_____
WATER QUALITY	_____	_____
INFORMATION SYSTEMS	<i>William Proff</i>	12/3/98
OTHER	_____	_____
RECOMMENDED FOR APPROVAL:		

November 11, 1998
IP 96-19
Project No. 10619
Page Two

DISCUSSION

This project was proposed to replace the internally generated customer service software with software designed by ORCOM Systems. The project was revised previously to include funds for local expenses (travel, temporary labor, etc.), an increase in the overall project implementation costs and additional PCs and equipment required at several locations to get the full benefit of the software.

Additional costs for implementation now require the project to be further revised.



Coleman D. Bush
Vice-President and Treasurer

CDB/dm

**KENTUCKY-AMERICAN WATER COMPANY
PURCHASE AND IMPLEMENT CUSTOMER SERVICE SOFTWARE**

DETAILED COST ESTIMATE

Item	Responsibility	6/98 Estimate	Proposed 11/98 Estimate
Implementation		\$201,273	\$477,067
Software and Data Conversion		\$123,445	\$122,815
Labor & Travel Costs		\$182,500	\$105,995
Equipment		\$177,000	\$177,000
	Subtotal	\$684,218	\$882,877
	AFUDC	\$ 62,698	\$83,760
	Total	\$746,916	\$966,637

Kentucky-American Water Company
Economic Analysis of the Impact of Capital
Spending Proposal
Purchase and Implement Customer Service Software

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	<u>8.25%</u>
Required Rate of Return on CE for Project	18.44%
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	<u>7.00%</u>
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	\$966,637
Investment by Others	0
Net Investment Financed by Company	<u>\$966,637</u>
New Common Equity	\$386,655
New Long Term Debt	579,982

<u>Total Revenue Requirement</u>		<u>Amount</u>	<u>Rate</u>
Required Pre-Tax Operating Income		\$111,937	11.58%
Depreciation Rate	20.030%	193,617	20.03%
Property Tax Rate	0.6990%	6,757	0.70%
Change in Operation & Maint. Expense		0	0.00%
Revenue from New Customers		0	0.00%
Total Net Revenue Requirement		<u>\$312,311</u>	<u>32.31%</u>
Revenue Tax Rate	0.14537%	455	0.05%
Total Revenue Requirement		<u><u>\$312,766</u></u>	<u><u>32.36%</u></u>

Latest 12 Months Revenue - 9/30/98	<u>\$37,453,760</u>
Required Price Increase	<u><u>0.84%</u></u>

KENTUCKY-AMERICAN WATER COMPANY PURCHASE AND IMPLEMENT CUS (OVER SERVICE) SOFTWARE (F-96-19 (10/99) 1995													
DESCRIPTION OF ACTIVITY	ENTITY RESPONSIBLE	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
Payment/ Implementation	KAWC												
Equipment	KAWC												
Subtotal	\$194,429	\$31,999	\$31,429	\$31,936	\$18,323	\$13,463	\$11,704	\$12,374	\$9,994	\$11,199	\$7,550	\$7,815	\$6,643
AFUDC	\$55,973	\$4,040	\$4,283	\$4,526	\$4,718	\$4,840	\$4,936	\$5,029	\$5,114	\$5,196	\$5,267	\$5,326	\$2,698
CASH FORECAST	\$250,402	\$36,039	\$35,712	\$36,462	\$23,041	\$18,303	\$16,640	\$17,403	\$15,108	\$16,395	\$12,817	\$13,141	\$9,341



Kentucky-American Water Company

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

June 16, 1998
BP 96-19
Project No. 10619

KENTUCKY-AMERICAN WATER COMPANY REVISED CAPITAL BUDGET PROJECT 96-19 PURCHASE AND IMPLEMENT CUSTOMER SERVICE SOFTWARE

REFERENCE: Budget Project Memorandum Dated November 14, 1996

ESTIMATED COST:

Approved Estimated Cost	\$352,200
Budgeted 1996 Expenditure	\$ 11,800
Budgeted 1997 Expenditure	\$ 0
Budgeted 1998 Expenditure	\$197,100
Budgeted 1999 Expenditure	\$143,300
Revised Estimated Cost	\$746,916
Proposed 1996 Expenditure	\$ 12,072
Proposed 1997 Expenditure	\$ 59,945
Proposed 1998 Expenditure	\$550,227
Proposed 1999 Expenditure	\$124,672

BUDGET PROJECT REVIEW		
DEPARTMENT	BY	DATE
ENGINEERING	_____	_____
WATER QUALITY	_____	_____
OTHER ACCOUNTING	<i>[Signature]</i>	6/17/98
RECOMMENDED FOR APPROVAL:		
<i>[Signature]</i>	<i>[Signature]</i>	6/16/98
PRESIDENT		

June 16, 1998
BP 96-19
Project No. 10619
Page Two

DISCUSSION

This project was proposed to replace the internally generated customer service software with software designed by ORCOM Systems. As written, the original budget project did not include any funds for local expenses (travel, temporary labor, etc.). Implementation of the software will require significant expenditures at the local level for travel and for temporary labor to replace hourly employees while traveling. Additional labor and travel expense will also be necessary as a result of Kentucky-American Water Company employees' work on the core implementation team. This revision also includes an increase in the overall project implementation cost.

During the initial stages of training and implementation, we have learned more about the specific characteristics of the software. It is clear that to get the full benefit of the software throughout the company, additional PCs and equipment will be required at several locations. This additional equipment has been included in this revision.

AFUDC on this project has increased accordingly.

Completion of the project is expected in November 1999.



Coleman D. Bush
Vice-President and Treasurer

CDB/dm

**KENTUCKY-AMERICAN WATER COMPANY
 PURCHASE AND IMPLEMENT CUSTOMER SERVICE SOFTWARE**

DETAILED COST ESTIMATE

Item	Responsibility	11/96 Estimate	Proposed
			6/98 Estimate
Implementation Costs		\$169,400	\$201,273
Software Installation and Data Conversion Costs		119,500	123,445
Labor & Travel Costs		49,100	182,500
Equipment			177,000
	Subtotal	\$338,000	\$684,218
	AFUDC	14,200	62,698
	Total	\$352,200	\$746,916

Kentucky-American Water Company
Economic Analysis of the Impact of Capital
Spending Proposal
Purchase and Implement Customer Service Software

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	\$746,916
Investment by Others	0
Net Investment Financed by Company	<u><u>746,916</u></u>
New Common Equity	\$298,766
New Long Term Debt	448,150

<u>Total Revenue Requirement</u>		<u>Amount</u>	<u>Rate</u>
Required Pre-Tax Operating Income		\$86,493	11.58%
Depreciation Rate	20.030%	149,607	20.03%
Property Tax Rate	0.6990%	5,221	0.70%
Change in Operation & Maint. Expense		0	0.00%
Revenue from New Customers		0	0.00%
Total Net Revenue Requirement		<u>\$241,321</u>	<u>32.31%</u>
Revenue Tax Rate	0.14537%	351	0.05%
Total Revenue Requirement		<u><u>\$241,672</u></u>	<u><u>32.36%</u></u>

Latest 12 Months Revenue	<u>\$36,167,332</u>
Required Price Increase	<u><u>0.67%</u></u>

KENTUCKY-AMERICAN WATER COMPANY PURCHASE AND IMPLEMENTATION CUSTOMER SERVICE SOFTWARE BP 96-19 (10614) 1996													
DESCRIPTION OF ACTIVITY	ENTITY RESPONSIBLE	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
Payment/ Implementation	KAWC												
Equipment	KAWC												
CASH FORECAST											\$11,890	\$91	\$91

KENTUCKY-AMERICAN WATER COMPANY
 PURCHASE AND IMPLEMENTATION CUSTOMER SERVICE SOFTWARE
 BP 96-19 (10/19)
 1997

DESCRIPTION OF ACTIVITY	ENTITY RESPONSIBLE	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
Payment/ Implementation	KAWC												
Equipment	KAWC												
CASH FORECAST		\$91	\$91	\$91	\$91	\$91	\$91	\$91	\$7,876	\$13,100	\$11,899	\$12,858	\$13,577

KENTUCKY AMERICAN WATER COMPANY PURCHASE AND IMPLEMENT CUSTOMER SERVICE SOFTWARE BP 96-19 (10619) 1998													
DESCRIPTION OF ACTIVITY	ENTITY RESPONSIBLE	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
Payment/ Implementation	KAWC												
Equipment	KAWC												
CASH FORECAST		\$23,266	\$17,518	\$20,975	\$50,821	\$18,212	\$76,305	\$27,857	\$147,923	\$95,597	\$25,790	\$23,598	\$22,364

KENTUCKY-AMERICAN WATER COMPANY
PURCHASE AND IMPLEMENTATION CUSTOMER SERVICE SOFTWARE
 BP 96-197 (10619)
 1999

DESCRIPTION OF ACTIVITY	ENTITY RESPONSIBLE	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC
Equipment	KAWC												
CASH FORECAST		\$13,617	\$10,729	\$13,365	\$12,150	\$12,346	\$10,040	\$12,371	\$9,289	\$11,478	\$10,836	\$8,450	

Approved at Board of
Directors Meeting
December 16 1996



Kentucky-American Water Company

200 East Park Drive • Suite 600 • P.O. Box 1688 • Mt. Laurel, New Jersey 08054 • 609-778-0400

November 14, 1996

KENTUCKY-AMERICAN WATER COMPANY PROPOSED CAPITAL BUDGET PROJECT 96-19 PURCHASE AND IMPLEMENT CUSTOMER SERVICE SOFTWARE

SUBJECT OF STUDY

A review of existing customer service system software and software available from outside vendors has been conducted to determine the software required to meet current and future needs of the Company.

RECOMMENDATION

It is recommended that the Company purchase software licensing and implementation services from Orcom Systems, Inc.

ESTIMATED COST

Total Estimated Cost	\$352,200
Proposed 1996 Expenditure	\$11,800
Proposed 1997 Expenditure	\$0
Proposed 1998 Expenditures	\$197,100
Proposed 1999 Expenditures	\$143,300

ADEQUACY

The new Orcom system software will provide an adequate customer service information system for the next three (3) to five (5) years with the implementation of necessary software upgrades.

BUDGET PROJECT REVIEW		
DEPARTMENT:	BY:	DATE:
ENGINEERING _____		
WATER QUALITY _____		
OTHER <i>J. D. Hachtel</i>		<i>12/2</i>
RECOMMENDED FOR APPROVAL <i>[Signature]</i>		<i>11/14/96</i>
PRESIDENT		

KAWC - Purchase and Implement Customer Service Software
Proposed Capital Budget Project 96-__

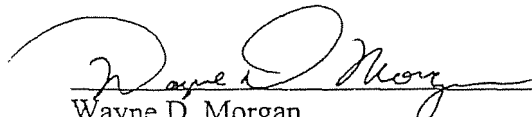
November 14, 1996
Page Two

DISCUSSION

In 1995, the American Water Works System began an investigation regarding the adequacy and compatibility of its various customer service software systems. The recommendation of the committee established to investigate the customer service software systems was to purchase software from Orcom Systems, Inc. of Bend, Oregon.

Kentucky-American is currently using internally developed software. This development was done in conjunction with the Information System Offices in the American Water System located at Richmond, Indiana; Hershey, Pennsylvania and Haddon Heights, New Jersey. The development of the customer service software has been an on-going project which would not have been completed for several years. This effort has been terminated as a result of the American Water System decision to pursue outside standard customer service software applications.

While the current software applications meet many of our information and customer service needs, they do not have many features built into the Orcom Systems software that would allow for advanced capabilities. Substantial programming would be required in order for our current software to perform the features included in the Orcom Systems software. The Orcom Systems software advanced features will improve the customer service and reporting efficiency of the Company. In addition, it is expected that the needs for programming support will reduce greatly.


Wayne D. Morgan
Vice-President

**KENTUCKY-AMERICAN WATER COMPANY
PURCHASE AND IMPLEMENT CUSTOMER SERVICE SOFTWARE**

Detailed Cost Estimate

Implementation Costs	\$169,400
Software Installation and Data Conversion Costs	\$119,500
Labor & Travel Costs	\$49,100
AFUDC	<u>\$14,200</u>
Total	\$352,200

The rate impact related to the capital cost of the project is 0.2 percent.

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