

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

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COMMISSION

IN THE MATTER OF:)
)
THE APPLICATION OF KENTUCKY-AMERICAN)
WATER COMPANY FOR A CERTIFICATE OF) **CASE NO. 2007-00134**
CONVENIENCE AND NECESSITY AUTHORIZING)
THE CONSTRUCTION OF KENTUCKY RIVER)
STATION II, ASSOCIATED FACILITIES AND)
TRANSMISSION MAIN)

ORDERING PARAGRAPH 9 REPORT

In accordance with Ordering Paragraph 9 of the Commission’s April 25, 2008 Order, Kentucky-American Water Company (“KAW”) provides the following report on the status of the development and implementation of its water conservation, leak mitigation and demand-side management plans and the water usage effects resulting from those plans.

As set forth in previous reports, KAW retained Gannett Fleming, Inc. to assist with the development of a leak mitigation plan and Strand Associates, Inc. to assist with the development of a conservation/demand management plan in accordance with Ordering Paragraph 8 of the Commission’s April 25, 2008 Order.

As for the leak mitigation plan, the consultant completed its final report and it has been submitted to the Commission. KAW has formed a task force comprised of KAW personnel from various disciplines and job areas that is in the process of implementing many of the recommendations in the report and assessing how and whether the other recommendations can be implemented cost-effectively. Progress has been steady. A copy of the latest task force status report is attached.

As for the conservation/demand management plan, KAW has formed a task force to assess the conservation study that has been submitted to the Commission. This task force is also

comprised of KAW personnel from various disciplines and job areas. The task force will determine the appropriateness, effectiveness, and best methods of implementing the conservation recommendations set forth in the conservation study. The task force requested additional information from the consultant relating to objective results normally achieved from the implementation of various conservation efforts. The task force received the supplemental information from the consultant and met in January to establish a timeline for implementation of some of the consultant recommendations.

The task force also determined that a team needs to be assembled that will focus on raising customer awareness of existing conservation programs and on internal efforts recommended by the consultant. The team met in February and implemented a winter conservation education program that included a customer bill insert for the month of February. The conservation team continued in March to distribute conservation materials and is developing additional customer education materials, including a bill insert that will provide detailed information to help customers track individual usage. In May 2010, KAW continued efforts to educate customers on how to read their bills to determine actual usage and how it impacts overall costs for the customer through additional distribution of materials. Additionally, KAW scheduled a bill insert for outdoor conservation tips and began billboard advertising for conservation.

In June 2010, KAW continued efforts to educate customers on outdoor conservation tips and continued its billboard advertising for conservation. KAW met with the Fayette County Public Schools to explore opportunities for partnerships both through education and assisting schools in water reduction programs. KAW awarded two grants totaling nearly \$20,000. These two grants went to the Hamburg Homeowners Association and the Friends of Raven Run to

assist with programs that focus on watershed protection and education efforts on preserving water resources. KAW also continued to pursue partnerships on sponsoring or supporting rain barrel programs with other organizations. Finally, the task force also continues to work with the NRW task force to develop the IWA/AWWA water audit information, which was recommended as part of the NRW reduction study.

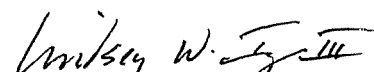
At this time, the plans discussed above are still being finalized. Therefore, to the extent that water usage effects from the implementation of the plans can be isolated and measured, those effects have not occurred.

Respectfully submitted,

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CERTIFICATE OF SERVICE

This is to certify that the original and eight (8) copies of the foregoing have been filed with the Public Service Commission this the 1st day of July, 2010, and a copy mailed to:

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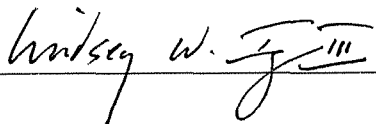
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NRW Status Report

1 July 2010

The Gannett Fleming (GF) study on Non Revenue Water (NRW) for Kentucky American Water (KAW) was supplied to the PSC in early September 2009. KAW has assembled a task force that includes a cross section of KAW personnel from various disciplines and job duties to assess each recommendation, and determine how to best integrate the recommendation into KAW operations.

The report's Executive Summary identifies 6 tasks and makes recommendations related to each. This NRW Status Report will discuss each in the order presented in GF's Executive Summary.

Under Task 1, GF recommends four actions. KAW is already implementing the first, regarding four main replacement locations. Warfield Place was replaced in 2005 – 2006, Hanover Court is scheduled to be replaced in August through October 2010, and the other two are being prioritized for possible replacement.

The second recommendation, which involves tracking information that will allow valid assessments as to the costs/benefits of main replacement candidates, is likewise being implemented. The software used for this type of tracking is Computerized Maintenance Management Software, or CMMS. The CMMS program went live in the last week of January in Clark, Jessamine, Bourbon,

Harrison and Woodford counties. Scott County went live in the month of April. Fayette County is schedule to be live in August. Five new "tough books" were purchased and will be operational by the end of April so that the field crews can work from an electronic copy as opposed to a paper copy. These "tough books" have GPS and wireless capability. New maintenance work orders are now in use to capture all leak detection labor and material expenses, which will allow KAW to track the total cost of the leak detection program and weigh it against the benefits. The data being collected will be used to measure the benefits of the program at the end of the year.

The third recommendation under Task 1 addresses third party breaks. KAW is evaluating options to enhance third party performance to reduce the frequency of damage to KAW facilities that have been marked as part of the BUD system. The emphasis currently is tracking mark out accuracy. In the meantime, KAW will try to ensure that all third parties are identified to see if we have any repeat offenders that might require special attention. KAW began tracking third party breaks in January 2008. Among the changes in improved data collection are the taking of photographs of leaks and revisions to the reporting forms used internally. In the meantime, KAW will focus on identifying third party breaks, ensuring that billing occurs for the breaks and phoning those responsible for third-party breaks to make them aware of the problem. Personnel from multiple areas met the first week in December to discuss the billing process regarding damages to company property. A subsequent meeting was held on June 28 to review the process and turn around time of investigations so that billing collection

can be improved. As a result of those meetings, the processes are currently being updated and changes implemented.

The fourth recommendation under Task 1, regarding best use of leak detection equipment, is quite detailed and lengthy, and KAW continues to evaluate how to best address the recommendation as part of routine, ongoing NRW activities. During December 2009, KAW installed Permalog sounding equipment on a large special connection. During January 2010, the Company devoted a great deal of time to tracking hydrant usage. Several changes were made, the most significant of which was the planned change-out to AMR meters for fire connections that are metered. The change-out should be complete sometime this summer. KAW believes GF's "tips for optimal operation of leak detection equipment" are valuable, and is utilizing all of them.

Under Task 2, GF includes two recommendations, but only the second is actually proposed for adoption. It involves enhancements to KAW's Geographic Information System (GIS) capabilities, and KAW continues to evaluate that recommendation. KAW is in the process of upgrading its mapping software and making it more widely available, and we are also expanding the use of the GIS system as recommended by GF. During January 2010, an effort was begun to enter all large fire services into the GIS system. Any expansion of GIS technology, however, must be coordinated with other record-keeping software to make sure they provide complementary information. That coordination is being evaluated. In the meantime, the main break database has been modified to capture leak location information based on SMZ boundaries. This modification

will help identify trends in breaks to assist with the prioritization of main replacements and the leak monitoring process. Tracking and analyzing main breaks is an ongoing process to evaluate if there is a trend for specific areas as well as for certain types of main material.

Under Task 3, GF offers five recommendations. The first two, calling for surge modeling, require very specialized expertise. We are looking at possible outside experts and their cost compared to the benefits that might be gained and are considering budgeting for those costs. The third recommendation is for a tank operating procedure, and KAW is in the process of evaluating the degree of programming and equipment changes that may be required to implement that procedure. The last two recommendations under this task again involve GIS improvements. KAW is evaluating them along with those for Task 2 and is considering including the associated costs in the upcoming budget.

Under Task 4, GF has recommended two metering studies that may offer value in ensuring metering accuracy. KAW continues to evaluate the scope and costs of conducting those studies as part of overall ongoing metering strategy. As part of this evaluation, KAW is determining how many of its large meters have bypass meters on them. Last year KAW installed a flow-search meter on a large meter. In December KAW bought a second flow-search meter, and they were installed at two additional locations. The two meters are being used to monitor trends in usage and flows in relation to the size of meters. The monitoring is being conducted on large meters (6 and 8 inch) that do not have a low flow or non-compound meter. The data from the Flow Search monitoring

recorder installed on a 4" meter setting at the University of Kentucky research farm indicated that 42% of the usage was below the minimum 10 gpm rate of flow for the meter now in place. Because of this, there is a potential that all low flow usage is not being captured. The current meter will be changed to a smaller sized meter appropriate for capturing all flows based on the current demand Use of Flow Search monitoring equipment to assess demand patterns continued during the month of June. The equipment is also being deployed as meter sizing questions arise for installations already in place. One additional golf course installation will be monitored during the month of July to confirm the suitability of the meters currently in place. In addition, KAW has replaced two 2-inch meters that were in a dual meter setting at a location where we have experienced problems with the meters. The new turbine meters will be monitored throughout the summer.

Under Task 5, GF had made three recommendations. The third recommendation, for placing a lien on properties with private mains that leak, is not authorized by Kentucky law and will not be pursued. KAW is already implementing the first, which is a pilot program to use Permaloggers on a private main.

The second, for installation of meters on private mains that are known to leak, is a good idea that KAW is working to implement. Significant effort was begun on this recommendation in December, focusing on private fire services, and it continues. KAW has initiated an end-to-end process review of fire service billings, collections, and leaks, and changes are being implemented. KAW has

investigated possible leaks at Colestream Farm and found that unaddressed leakage is not occurring there. Investigations of the University of Kentucky main campus area, south side, are still underway. Permalogs moved to the KY Horse Park to assess that property have been read throughout the month and no hidden leaks were found. Some of the water losses on this property can be attributed to the lack of meters on some facilities inside the Park. KAW personnel are currently working with Park management to identify unmetered facilities and install meter installations where necessary. Those Permalogs have now been redeployed to the former G.F. Vaughn Tobacco Storage facility, and they have indicated no that no leakage is occurring. Further investigation through manual sounding will be scheduled during the month of July. Loggers deployed at the University of Kentucky Main Campus, eastern quadrant will be left in place.

KAW has proposed a change in its fire service tariff in the pending rate case to allow us to charge for known usage detected on theft meters that is unrelated to extinguishing fires. Finally, KAW previously identified one fire service showing usage on the theft meter, and through coordinated efforts with the owner, the leak was found on the fire line and repaired during the month of April. An apparent leak on the private fire service main on the McGoodwin property has been identified and is currently under investigation. Permalogs deployed on the property to assist in the investigation have indicated no that no leakage is occurring. Further investigation through manual sounding will be scheduled during the month of July. Once the necessary data has been

obtained, direction will be given to the owner or responsible party on what corrective measures must be taken to resolve this issue.

Under Task 6, GF offers three recommendations, all involving adoption of the IWA/AWWA tracking methodology. KAW is already implementing both of the first two and is moving forward on the third. In conjunction with this process, KAW is replacing all AMR meters in Clark County, which used an old technology, with new AMR meters. The three recommendations taken together require accumulation and tracking of data from numerous sources. KAW continues to assess data for the initial compilation, but an initial, very rough draft of a water audit balance sheet has been compiled. In February, KAW conducted a review of the year end balance worksheet, and credit adjustment trends in 2009 are being reviewed to determine whether any process changes need to be implemented. Work is continuing in this area, with particular attention in May on water loading station sales.

The IWA/AWWA methodology offers transparency into the various components of non-revenue water that may supplement information provided on the current PSC water loss reports.