

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

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IN THE MATTER OF:)

THE APPLICATION OF KENTUCKY-AMERICAN)
WATER COMPANY FOR A CERTIFICATE OF)
CONVENIENCE AND NECESSITY AUTHORIZING)
THE CONSTRUCTION OF KENTUCKY RIVER)
STATION II, ASSOCIATED FACILITIES AND)
TRANSMISSION MAIN)

CASE NO. 2007-00134

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 2010 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 2010 and implemented a winter conservation education program that included a customer bill insert for the month of February. The conservation team continued in March 2010 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.

In July and August 2010, KAW continued efforts to educate customers on outdoor conservation tips and billboard advertising for conservation. A copy of the billboard advertising is attached. KAW hosted an open house at the Richmond Road Station treatment plant on July 27, 2010 which had nearly 400 attendees. In addition to tours of the plant, KAW provided information on outdoor conservation and leak detection kits. On August 20, 2010, KAW participated in the Cane Run Watershed Festival developed by the LFUCG to promote water resource protection. KAW provided a sponsorship, had drinking water available, and provided additional information to participants on conservation tips, water quality, leak detection within the home, and reading the customer bill.

In September 2010, KAW concluded its efforts to educate customers on outdoor conservation tips. The education efforts included radio, television and billboard advertising. KAW ran additional information in the newspaper to help educate customers on reading and understanding their monthly bill, which is a key component of initiating conservation efforts. In addition to the efforts with civic groups, school systems, and industrial customers, KAW met with an apartment organization to discuss partnerships for residential audits, and with groups that are interested in additional information for low-income families.

During October 2010, KAW helped with the promotion of water resource awareness through the promotion of additional watershed festivals, participating with the LFUCG on a water management fee stakeholder committee, and hosting a Medtoss location so that local residents can drop off for disposal expired prescription medications thus preventing their

migration into the water supply. These efforts have helped support the conservation programs through heightened awareness of water as a critical natural resource.

In November 2010, KAW began its efforts to educate customers on indoor conservation starting with cold weather tips. This included a news release and posting on the KAW website. KAW concluded its radio campaign on general wise water tips.

In December 2010, KAW continued its efforts to educate customers on indoor conservation with cold weather tips. This included media and billboard information as well as information on the KAW website. KAW continued to promote to its customers use of the Watersense product program developed by the USEPA that certifies products as being water efficient. KAW also continued to pursue partnerships for additional conservation programs.

In January 2011, KAW continued the indoor conservation efforts and Watersense program mentioned above. KAW also initiated a partnership with the Chrysalis House, a non-profit organization in Lexington by providing a grant for water efficient fixtures and providing a consultant to review the facilities and recommend the most cost effective upgrades.

In February 2011, KAW continued its efforts to educate customers on indoor conservation with cold weather tips through information on the KAW website and continued its efforts relating to the Watersense program. KAW met with the Fayette County Public Schools to explore a partnership on both conservation education programs and conservation programs. The Conservation Team met to review the program and budget, as well as work on Annual Report on Conservation for customers. KAW is working with Bluegrass PRIDE to develop grant and educational resources to further promote conservation programs.

In March 2011, KAW continued to promote to its customers use of the Watersense product program developed by the USEPA that certifies products as being water efficient. KAW

continued to work out details of partnerships with Bluegrass PRIDE and the Fayette County Public Schools to focus on both conservation education programs and conservation programs. The Conservation Team continued work on the Customer Conservation Annual Report that will be sent to customers after the Consumer Confidence Report is completed in time for outdoor water efficiency awareness. KAW met with the Homebuilders Association of Lexington to discuss water efficiency opportunities and with representatives of the LFUCG Legacy Trail to sponsor signage related to water resource awareness. KAW is helping sponsor the Green Habitat Build that is scheduled in Lexington for this year.

In April 2011, KAW continued its efforts related to Watersense, Bluegrass PRIDE, and Fayette County Public Schools mentioned above. Additionally, rain barrel programs sponsored with Bluegrass PRIDE are scheduled for June in Scott and Franklin Counties. Rain garden workshops have also been scheduled for the early summer. The Conservation Team continued to work on the Customer Conservation Annual Report that will be sent to customers this summer. KAW met with the Kentucky Community and Technical College System to discuss water conservation opportunities and with representatives of University of Kentucky extension program to sponsor an education program for farmers to promote best management practices. KAW is helping sponsor the Green Habitat Build that is scheduled in Lexington for this year.

In May 2011, KAW continued its efforts related to the Watersense program, rain barrels and rain gardens. KAW continued to review models for a partnership with Fayette County Public Schools to promote conservation through the Watersense program and a follow-up meeting is scheduled for August. KAW employees participated in the Green Habitat Build program referenced above. The Consumer Confidence Report information regarding water quality was mailed to all customers as bill inserts in May. KAW continued its efforts to promote

watershed awareness through the award of three environmental grants and continued sponsorship of Trout in the Classroom, a program that promotes raising trout in school classrooms as part of a learning experience for the need for healthy waterways.

In June 2011, KAW continued to promote to its customers use of the Watersense program. Rain garden workshops and lawn care workshops were scheduled. KAW continued to review models for a partnership with Fayette County Public Schools to promote conservation through the Watersense program. KAW helped sponsor the Green Habitat Build mentioned above. KAW continued its efforts to promote watershed awareness through the award of three environmental grants which were awarded in June at the Fayette County arboretum. A revision to KAW's Water Shortage Response Program (drought management plan) was drafted in June and is under internal review.

In July 2011, KAW continued to promote to its customers use of the Watersense product program developed by the USEPA that certifies products as being water efficient. A Rain Barrel program sponsored with Bluegrass PRIDE was held July 19th in Scott County with a full registration. There was tremendous positive feedback and requests for additional programs to be scheduled. Rain garden workshops and lawn care workshops continue to be scheduled for the fall. KAW continued to review models for a partnership with Fayette County Public Schools to promote conservation through the Watersense program. The Conservation Team continued to work on the Customer Conservation Annual report that will be sent to customers. A revision to KAW's Water Shortage Response Program (drought management plan) continues to be reviewed for final edits. KAW received positive feedback on its assistance with "Trout in the Classroom" programs, which generated watershed awareness with elementary school children in five schools.

In August 2011, KAW continued its promotion of the Watersense program. KAW continued to review models for a partnership with Fayette County Public Schools to promote conservation through the Watersense program. A follow-up meeting with the FCPS representatives is scheduled for early September. The Conservation Team continued to work on the Customer Conservation Annual report that will be sent to customers. KAW continues to work on its Water Shortage Response Program (drought management plan). KAW worked with the Arboretum personnel in providing volunteers for clean-up in the Children's garden area. KAW met with Georgetown College representatives to look at the development of a joint project on sustainability with college students. KAW is continuing to pursue partnerships for additional conservation programs with civic groups, school systems, industrial customers, and other organizations.

In September 2011, KAW continued its efforts to make its customers aware of the Watersense product program developed by the USEPA that certifies products as being water efficient. KAW has scheduled a follow-up meeting in early October with the Fayette County Public Schools representatives to review models for a conservation partnership through the Watersense program. KAW also completed its work with Bluegrass PRIDE on rain barrel and rain garden programs and is now looking toward potential fall yard workshops with Bluegrass PRIDE. The Conservation Team continued its work on the Customer Conservation Annual report, and a revision to KAW's Water Shortage Response Program (drought management plan) continues to be reviewed for final edits. KAW finished its summer education program on wise water use and began a new program with iHigh, which is an online contest called "Own It!"¹ that challenges high school students in KAW's service area to produce conservation and

¹ See: http://www.ihigh.com/kyamericanwater/videopoll_1.html.

sustainability videos to be voted on by their peers and others through the website and various social media. KAW also met again with Georgetown College representatives to look at the development of a joint project on sustainability with college students, which would be similar to an apprenticeship program. KAW continues its outreach efforts to civic groups, school systems, industrial customers, and other organizations in pursuit of new partnerships for additional conservation programs.

In October 2011, KAW continued to promote the Watersense product program to its customers in an effort to raise their awareness of water efficient products. The Conservation Team continued its work on the Customer Conservation Annual report which will be sent to customers towards the end of the year, and KAW is continuing its work on revising its Water Shortage Response Program (drought management plan).

In November 2011, KAW continued to work on models for a partnership with Fayette County Public Schools and continued work to launch a water awareness award program for schools similar to the energy savings awards that will begin in spring 2012. Schools would submit applications through the school's sustainability program that combined student education and active water efficiency programs. A revision to KAW's Water Shortage Response Program (drought management plan) continues to be reviewed for final edits. KAW began its winter wise use educational efforts on the radio and website. KAW continued work with Georgetown College on a new mentoring program for a small group of their students on sustainability.

In December 2011, KAW continued its efforts towards a partnership with Fayette County Public Schools and the water awareness award program. Awards will be provided to three schools within the district for overall conservation and water conservation education for students. KAW continued its winter wise use educational efforts on the radio and website.

KAW launched a partnership with Georgetown College on a new mentoring program for a small group of their students on sustainability. The 2011 Annual Conservation Report was edited and will be made public in early 2012. KAW is continuing to pursue partnerships for additional conservation programs with civic groups, school systems, industrial customers, and other organizations.

In January 2012, KAW continued its work towards models for a partnership with Fayette County Public Schools and the launch of a water awareness award program for schools similar to the energy savings awards that will begin in spring 2012. Also, KAW continued its winter wise use educational efforts on the radio and website. The 2011 Annual Conservation Report was completed and distributed including posting on the KAW website. KAW continues to pursue partnerships for additional conservation programs with civic groups, school systems, industrial customers, and other organizations.

In February 2012, a bill message on customer bills highlighted the availability of KAW's Annual Conservation Report online. KAW distributed and facilitated the distribution of water conservation information through various school outreach programs and science fairs for elementary through high school students in Fayette County. KAW completed the production of a newsletter bill insert that will be distributed to customers in March and that will highlight Fix-A-Leak Week, a national observance coordinated through the Environmental Protection Agency's WaterSense program which emphasizes the importance of fixing residential water leaks promptly.

In March 2012, KAW planned to distribute a newsletter bill insert that highlighted Fix-A-Leak Week, a national observance coordinated through the U.S. EPA's WaterSense program to highlight the importance of fixing residential water leaks promptly. A programming error

prevented the bill insert, so copies of this insert were distributed at the April 2012 community events described below.

In April 2012, KAW participated in numerous community events at which water conservation and watershed protection education was highlighted through interactive activities and/or materials distributed. Such events included Lexington's Reforest the Bluegrass and Arbor Day events, Earth Day at the Carnegie Center for Literacy and a science fun night at Stonewall Elementary School. KAW also highlighted watershed protection in April through its continued participation in MedToss, a pharmaceutical roundup event coordinated by the Lexington-Fayette Urban County Government. KAW announced the three recipients of its annual Ripple Effect Scholarship awards for high school seniors who demonstrate a commitment to environmental stewardship. It also announced the two 2012 recipients of its annual Environmental Grant funds, which support community projects that positively impact a watershed or raise awareness of source water or watershed protection issues. Additionally, KAW piloted the Kentucky American Water Excellence in Water Education program this past school year for Fayette County schools, and in April worked with the school system to determine this year's 2012 recipients which were selected for their commitment to water conservation and watershed protection. Finally, leak detection information and dye tablets continued to be offered via the customer lobby and website, and have been provided to a local branch of the Lexington Public Library System on a trial basis to complement "green" educational materials that can be checked out by patrons.

During the month of May, KAW continued its conservation outreach by utilizing social media tools to highlight water conservation tips during National Drinking Water Week and distributed conservation information during Founders Day at McConnell Springs. KAW awarded two grants totaling \$20,000 to organizations in Scott and Clark Counties for efforts in

restoring wetlands. KAW also awarded three \$500 Ripple Effect Scholarships to high school seniors who have demonstrated a commitment to environmental stewardship. KAW awarded three Lexington schools with the first Excellence in Water Education awards, which recognize schools that go above and beyond in their efforts to promote water conservation to students through presentations, demonstrations and hands-on activities.

In June 2012, KAW partnered with Bluegrass PRIDE on three rain barrel workshops in Owen and Scott Counties whereby participants learned about the benefits of rain barrels to water conservation and reduction of storm water runoff. There were nearly 75 participants, all of whom received materials to construct such barrels during the workshop. These events and the use of rain barrels were further promoted through an article on www.kyforward.com written by Amy Sohner, Bluegrass PRIDE executive director. KAW also highlighted water conservation tips through its summer From the Tap newsletter bill insert, which was distributed to all customers through their monthly bills. KAW again sponsored the annual Kentucky RiverSweep coordinated by the Ohio River Valley Sanitation Commission through a monetary donation as well as in-kind support to the Fayette County volunteer group participating. KAW employees used the occasion to host a reservoir cleanup with the Lake Ellerslie Fishing Club on Reservoir #4 in Lexington. All of these efforts highlight the importance of protecting and preserving waterways through community engagement.

In July 2012, KAW purchased a series of print advertisements highlighting water conservation tips in the *Owenton News-Herald*. The ads provide customers with practical ways to conserve water inside and outside the home. During drought times in early July, KAW communicated through news releases, social media postings and media interviews that although water supply was ample to meet the needs of customers, wise water use is a good practice

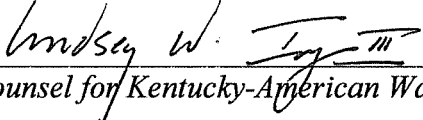
throughout the year, and water conservation tips continue to be easily available to customers through the company website.

In August 2012, KAW continued running water conservation tips through print advertisements in the Owenton News Herald. In addition, KAW hosted its third annual WaterFest community open house at its Richmond Road location in Lexington on August 30. The event included treatment plant tours as well as a variety of demonstrations and exhibits educating the public about water service and related topics, such as water conservation, water quality and environmental stewardship. Nearly 600 people attended.

At this time, the plans discussed above are still in progress. 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,

Lindsey W. Ingram III
STOLL KEENON OGDEN PLLC
300 West Vine Street, Suite 2100
Lexington, Kentucky 40507-1801
Telephone: (859) 231-3000


Counsel for Kentucky-American Water Company

CERTIFICATE OF SERVICE

This is to certify that the original and ten (10) copies of the foregoing have been filed with the Public Service Commission this the 4th day of September, 2012, and a copy mailed to:

David E. Spenard, Esq.
Dennis G. Howard II, Esq.
Assistant Attorneys General
1024 Capital Center Drive, Suite 200
Frankfort, KY 40601-8204

David Barberie, Esq.
Leslye M. Bowman, Esq.
Lexington-Fayette Urban County Gov't.
Department of Law
200 East Main Street
Lexington, KY 40507

Tom FitzGerald, Esq.
Kentucky Resources Council, Inc.
P.O. Box 1070
Frankfort, KY 40602

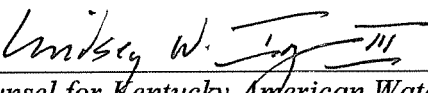
David F. Boehm, Esq.
Boehm, Kurtz & Lowry
36 East Seventh Street, Suite 1510
Cincinnati, OH 45202

Damon R. Talley, Esq.
112 N. Lincoln Blvd.
P.O. Box 150
Hodgenville, KY 42748-0150

John N. Hughes, Esq.
124 W. Todd Street
Frankfort, KY 40601

John E. Selent, Esq.
Edward T. Depp, Esq.
Dinsmore & Shohl LLP
101 South Fifth Street, Suite 2500
Louisville, KY 40202

Barbara K. Dickens, Esq.
Louisville Water Company
550 South Third Street
Louisville, KY 40202



Counsel for Kentucky-American Water Company

NRW Status Report

1 September 2012

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. Only the tasks with pending actions in October 2010 are referenced in this report.

Under Task 1, GF recommended four actions. Four of the four recommended main replacement projects are complete.

Under Task 4, GF has recommended two metering studies that may offer value in ensuring metering accuracy. KAW conducted a detailed meter demand study to ensure that all large meters with bypass settings are metered at the bypass. As standard operating practice, Kentucky American Water will continue to monitor large meters as recommended in GF executive summary task 4.

Under Task 5, the GF study made three recommendations. The first and third recommendation, were addressed in prior reports and are complete. The second recommendation deals with property owners who do not address known

leaks on private services. KAW continues to work with customers to address these issues.

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 continues to move forward on the third. The company's 12 month rolling NRW is 13.9% at July 31, 2012, as compared to 13.7% at the time of the GF study.

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.