

## **APPENDIX B**

### **Supporting Schedules**

<b>ACC-1</b>	<b>Summary</b>
<b>ACC-2</b>	<b>Cost of Capital</b>
<b>ACC-3 to ACC-13</b>	<b>Rate Base</b>
<b>ACC 14-ACC-41</b>	<b>Operating Income</b>
<b>ACC-42</b>	<b>Revenue Requirement Impact</b>
<b>ACC-43</b>	<b>Income Statement</b>

## KENTUCKY AMERICAN WATER COMPANY

## FUTURE TEST YEAR ENDING NOVEMBER 30, 2005

## REVENUE REQUIREMENT SUMMARY

	Company Claim	Recommended Adjustment	Recommended Position	
	(A)			
1. Pro Forma Rate Base	\$158,958,817	(\$9,443,167)	\$149,515,650	(B)
2. Required Cost of Capital	8.25%	-1.14%	7.11%	(C)
3. Required Return	\$13,114,102	(\$2,485,258)	\$10,628,844	
4. Operating Income @ Present Rates	8,792,281	1,770,273	10,562,554	(D)
5. Operating Income Deficiency	\$4,321,821	(\$4,255,530)	\$66,291	
6. Revenue Multiplier	1.6885	1.6885	1.6885	
7. Revenue Requirement Increase	<b><u>\$7,297,443</u></b>	<b><u>(\$7,185,510)</u></b>	<b><u>\$111,933</u></b>	

## Sources:

- (A) Company Filing, Schedule A, page 1.
- (B) Schedule ACC-3.
- (C) Schedule ACC-2.
- (D) Schedule ACC-14.

**KENTUCKY AMERICAN WATER COMPANY****FUTURE TEST YEAR ENDING NOVEMBER 30, 2005****REQUIRED COST OF CAPITAL**

	Capital Structure	Cost Rate	Weighted Cost
	(A)	(A)	(A)
1. Short Term Debt	7.78%	2.70%	0.21%
2. Long Term Debt	46.41%	6.33%	2.94%
3. Preferred Stock	4.60%	7.72%	0.36%
4. Common Equity	41.21%	8.75%	3.61%
5. Total Cost of Capital	100.00%		<u><b>7.11%</b></u>

## Sources:

(A) Testimony of Dr. Woolridge, Exhibit JRW-1, page 1.

**KENTUCKY AMERICAN WATER COMPANY****FUTURE TEST YEAR ENDING NOVEMBER 30, 2005****RATE BASE SUMMARY**

	Company Claim	Recommended Adjustment		Recommended Position
	(A)			
1. Utility Plant in Service	\$287,861,620	(\$8,165)	(B)	\$287,853,455
2. Utility Plant Acquisition Adjustment	391,650	(314,433)	(C)	77,217
3. Accumulated Depreciation	(68,958,343)	15,308	(D)	(68,943,035)
4. Accumulated Amortization	(7,674)	0		(7,674)
5. Total Net Utility Plant in Service	\$219,287,253	(\$307,290)		\$218,979,963
6. Construction Work in Progress	\$6,124,953	(\$6,124,953)	(E)	\$0
7. Working Capital Allowance	2,495,000	(1,703,201)	(F)	791,799
8. Other Working Capital Allowance	462,149	0		462,149
9. Contributions in Aid of Construction	(34,547,915)	1,482,955	(G)	(33,064,960)
10. Customer Advances	(15,220,324)	(139,049)	(H)	(15,359,373)
11. Deferred Income Taxes	(26,561,822)	1,919,362	(I)	(24,642,460)
12. Deferred Investment Tax Credits	(117,518)	0		(117,518)
13. Deferred Maintenance	2,453,717	0		2,453,717
14. Deferred Debits	6,737,667	(4,570,991)	(J)	2,166,676
15. Other Rate Base Elements	(2,154,343)	0		(2,154,343)
16. Total Rate Base	<b><u>\$158,958,817</u></b>	<b><u>(\$9,443,167)</u></b>		<b><u>\$149,515,650</u></b>

## Sources:

- (A) Company Filing, Schedule B-1, page 2.
- (B) Schedule ACC-4.
- (C) Schedule ACC-5.
- (D) Schedule ACC-6.
- (E) Schedule ACC-7.
- (F) Schedule ACC-8.
- (G) Schedule ACC-9.
- (H) Schedule ACC-10.
- (I) Schedules ACC-12 and ACC-13.
- (J) Schedule ACC-11.

**KENTUCKY AMERICAN WATER COMPANY**  
**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**  
**UTILITY PLANT IN SERVICE**

1. Company Claim	\$287,861,620	(A)
2. Adjusted for Slippage Factor	<u>287,853,455</u>	(B)
3. Recommended Adjustment	<b><u>(\$8,165)</u></b>	

Sources:  
(A) Company Schedule B-1, page 2.  
(B) Response to PSC 2-115.

**KENTUCKY AMERICAN WATER COMPANY**

**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**

**ACQUISITION ADJUSTMENT**

1. Tri-Village - Company Claim	\$208,310	(A)
2. Elk Lake - Company Claim	<u>106,123</u>	(B)
3. Total Recommended Adjustment	<u><b>\$314,433</b></u>	

Sources:

(A) Company Workpaper 1-2, page 2.

(B) Company Workpaper 1-2, page 3.

**KENTUCKY AMERICAN WATER COMPANY**

**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**

**ACCUMULATED DEPRECIATION**

1. Company Claim	\$68,958,343	(A)
2. Adjusted for Slippage Factor	<u>68,943,035</u>	(B)
3. Recommended Adjustment	<u><b>\$15,308</b></u>	

Sources:

(A) Company Schedule B-1, page 2.

(B) Response to PSC 2-115.

**KENTUCKY AMERICAN WATER COMPANY**  
**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**  
**CONSTRUCTION WORK IN PROGRESS**

1. Company Claim	\$6,124,953	(A)
2. Recommended Adjustment	<b><u>(\$6,124,953)</u></b>	(B)

Sources:  
(A) Company Schedule B-1, page 2.  
(B) Response to PSC 2-115.

## KENTUCKY AMERICAN WATER COMPANY

FUTURE TEST YEAR ENDING NOVEMBER 30, 2005

## CASH WORKING CAPITAL

	Lead/Lag Days		Amount	Dollar Days
	(A)			
1. Payroll	12.00		\$2,843,277	\$34,119,324
2. Payroll	12.00		2,500,386	30,004,632
3. Fuel, Power, Electric	26.96		1,922,641	51,834,401
4. Chemicals	30.49	(B)	1,221,136	37,232,437
5. Service Company Charges	12.00	(C)	3,800,310	45,603,720
6. Group Insurance	(5.82)		950,991	(5,534,768)
7. OPEB	23.13	(D)	798,734	18,474,717
8. Insurance Other Than Group	(44.90)	(D)	560,555	(25,168,920)
9. Transportation Expense	13.56		414,688	5,623,169
10. Rents	18.39		111,438	2,049,345
11. Telephone Expense	10.31		179,476	1,850,398
12. Postage Expense	23.47		388,953	9,128,727
13. Stock E	28.03		62,027	1,738,617
14. Maintenance Expense	18.54		985,954	18,279,587
15. Amortization	0.00		848,606	0
16. Uncollectibles	0.00		250,584	0
17. Waste Disposal	26.90	(D)		0
18. Other	24.44	(B)	4,071,168	99,499,346
19. Depre. & Amort.	0.00		1,583,556	0
20. Payroll Taxes-FUTA	69.11		3,460	239,121
21. Payroll Taxes -SUTA	75.14		18,694	1,404,667
22. Payroll Taxes - FICA	15.00		388,129	5,821,935
23. Other	69.86		2,360,354	164,894,330
24. Income Taxes-Current SIT	52.73	(D)	492,887	25,989,932
25. Income Taxes - Current FIT	30.13	(D)	1,939,212	58,428,458
26. Deferred Income Taxes	0.00		(218,818)	0
27. Interest - LTD	119.64	(D)	5,166,161	618,079,502
28. Interest - STD	14.60	(D)	158,960	2,320,816
29. Preferred Dividends	46.40	(D)	460,980	21,389,472
30. Net Income	0.00		7,488,982	0
31. Net Operating Funds	29.30		\$41,753,481	\$1,223,302,965
32. Revenue Lag		36.66		(A)
33. Expense Lag		29.30		(E)
34. Net Lag		7.36		
35. Daily Requirement		\$107,551		(F)
36. Cash Working Capital Requirement		\$791,799		(G)
37. Company Claim		2,495,000		(H)
38. Recommended Adjustment		<b>(\$1,703,201)</b>		

## Sources:

(A) Company Filing, Schedule B-5.2, page 5.

(B) Response to AG 1-67.

(C) Reflects payroll lag days.

(D) Response to AG 2-29.

(E) Lag days per Line 31.

(F) Amount per Line 31 / 365 days less daily requirement adjustment per Schedule ACC-8A.

(G) Line 34 X Line 35.

(H) Company Schedule B-1, page 2.

Schedule 8-A

**KENTUCKY AMERICAN WATER COMPANY**

**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**

**CASH WORKING CAPITAL**

1. Net Income	(\$1,866,705)	(A)
2. Operating Expenses	(1,163,580)	(B)
3. Other Taxes	(14,970)	(B)
4. Interest Expense	(618,552)	(B)
5. Income Taxes	<u>1,294,905</u>	(B)
6. Total	(\$2,368,903)	
7. Daily Requirement	<b><u>(\$6,490)</u></b>	

Sources:

(A) Reflects change in operating income per Schedule ACC-1  
less change in interest expense per Schedule ACC-40.

(B) Schedule ACC-43.

**KENTUCKY AMERICAN WATER COMPANY**  
**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**  
**CONTRIBUTIONS IN AID OF CONSTRUCTION**

1. Company Claim	\$34,547,015	(A)
2. Adjusted for Slippage Factor and Correction of Errors	<u>33,064,060</u>	(B)
3. Recommended Adjustment	<u><b>\$1,482,955</b></u>	

Sources:  
(A) Company Schedule B-1, page 2.  
(B) Response to PSC 2-115.

**KENTUCKY AMERICAN WATER COMPANY**

**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**

**ADVANCES FOR CONSTRUCTION**

1. Company Claim	\$15,220,324	(A)
2. Adjusted for Slippage Factor	<u>15,359,373</u>	(B)
3. Recommended Adjustment	<u><b>(\$139,049)</b></u>	

Sources:

(A) Company Schedule B-1, page 2.

(B) Response to PSC 2-115.

**KENTUCKY AMERICAN WATER COMPANY**  
**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**  
**DEFERRED DEBITS**

	(A)
1. Security Costs	(\$2,665,378)
2. Shared Services Center	(529,630)
3. Customer Call Center	(542,835)
4. Rate Case Costs	(518,675)
5. Tri-Village Acquisition	(213,532)
6. Elk Lake Acquisition	<u>(100,941)</u>
7. Total Recommended Adjustment	<b><u>(\$4,570,991)</u></b>

Sources:

(A) Company Workpaper 1-12, page 3.

**KENTUCKY AMERICAN WATER COMPANY**

**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**

**DEFERRED INCOME TAXES-PLANT**

1. Company Claim	(\$26,561,822)	(A)
2. Adjusted for Slippage Factor	<u>(26,487,563)</u>	(B)
3. Recommended Adjustment	<u>\$74,259</u>	

Sources:

(A) Company Schedule B-1, page 2.

(B) Response to PSC 2-115.

**KENTUCKY AMERICAN WATER COMPANY**

**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**

**DEFERRED INCOME TAXES-DEFERRED DEBITS**

1. Recommended Rate Base Adjustment	\$4,570,991	(A)
2. Income Taxes @	40.37% <u>1,845,103</u>	
3. Recommended Adjustment	<u><b>\$1,845,103</b></u>	

Sources:

(A) Schedule ACC-11.

## KENTUCKY AMERICAN WATER COMPANY

## FUTURE TEST YEAR ENDING NOVEMBER 30, 2005

## OPERATING INCOME SUMMARY

		Schedule No.
1. Company Claim	\$8,792,281	1
Recommended Adjustments:		
2. Residential Consumption	538,172	15
3. Residential Customers	76,690	16
4. Commercial Consumption	363,941	17
5. Commercial Customers	112,830	18
6. Public Fire Revenue	53,082	19
7. Private Fire Revenue	17,308	20
8. AFUDC	(280,843)	21
9. Salaries and Wages- Vacancies	106,258	22
10. Salaries and Wages - Other	115,569	23
11. Incentive Plans	101,848	24
12. Payroll Taxes	7,791	25
13. OPEBs	30,641	26
14. Deferred Costs	234,636	27
15. Waste Disposal	34,986	28
16. Maintenance Costs	126,113	29
17. Regulatory Commission Expense	13,915	30
18. Rental Expenses	34,764	31
19. Social Club Dues	3,118	32
20. Institutional Advertising	43,184	33
21. Business Development Costs	70,085	34
22. Low Income Discount	17,890	35
23. Property Taxes	1,136	36
24. Acquisition Amortization	4,991	37
25. Depreciation Expense	(1,056)	38
26. Consolidated Income Taxes	192,903	39
27. Interest Synchronization	<u>(249,682)</u>	40
28. Net Operating Income	<b><u>\$10,562,554</u></b>	

## KENTUCKY AMERICAN WATER COMPANY

## KENTUCKY AMERICAN WATER COMPANY

## RESIDENTIAL CONSUMPTION

1. Recommended Consumption Per Customer (gals)	174.68	(A)
2. Annual Consumption Per Customer (Tg)	63.76	(B)
3. Pro Forma Customers - Per Company	<u>101,969</u>	(C)
4. Total Annual Consumption (Tg)	6,501,344	(D)
5. Total Annual Consumption (Ccf)	8,691,636	(E)
6. Company Claim	<u>8,038,042</u>	(C)
7. Recommended Adjustment (Ccf)	653,594	
8. Rate per Ccf	<u>1.676</u>	(F)
9. Total Incremental Revenue	\$1,095,293	
10. Total Incremental Costs	<u>192,843</u>	(G)
11. Net Revenue Adjustment	\$902,450	
12. Income Taxes @	40.37% <u>364,278</u>	
13. Operating Income	<u><b>\$538,172</b></u>	

## Sources:

(A) Reflects average of 183.94 gallons per customer/day in the Company's last case and the claim of 165.42 gallons per customer/day in the current case, see the response to Staff 2-49.

(B) Line 1 X 365 days.

(C) Company Exhibit 37, M-3, pages 11, 29, and 47.

(D) Line 2 X Line 3.

(E) Line 4 X 1.333 Ccf/Tg.

(F) Current rate per Exhibit 37, M-3, page 11.

(G) Reflects purchased water, power and chemical costs of \$72,000, \$1,922,641 and \$1,221,136 respectively divided by total treated water of 14,940,000 Tg per the response to AG 1-99, converted to Ccfs, times incremental sales.

Also includes uncollectible coss and PSC fees.

## KENTUCKY AMERICAN WATER COMPANY

## FUTURE TEST YEAR ENDING NOVEMBER 30, 2005

## RESIDENTIAL CUSTOMERS

	Base Period	Forecast Period	
	(A)	(B)	
1. Central	100,578	99,745	
2. Tri-Village	1,731	1,880	
3. Elk Lake	316	344	
4. Total	102,625	101,969	
5. Adjustment		656	
6. Annual Usage/Customer @ 174.68 gals		63,758	(C)
7. Annual Usage/Customer (Ccfs)		85.238	(D)
8. Rate Per Ccf		1.676	(E)
9. Total Volumetric Revenue Per Customer		\$142.84	
10. Annual Fixed Charge		\$87.72	(F)
11. Total Revenue Per Customer		\$230.56	
12. Total Incremental Revenue		151,249	(G)
13. Total Incremental Costs		22,648	(H)
14. Net Revenue Adjustment		\$128,601	
15. Income Taxes @	40.37%	51,910	
16. Operating Income		<u>\$76,690</u>	

## Sources:

(A) Company Exhibit 37, M-3, pages 3,21, and 39.

(B) Company Exhibit 37, M-3, pages 11, 29, and 47.

(C) Usage recommendation of Ms. Crane, see Schedule ACC-15

(D) Line 4 X 1.333 ccf/tg.

(E) Current rate per Exhibit 37, M-3, page 11.

(F) Monthly charge of \$7.31 per Exhibit 37 M-3, page 3 times 12 months.

(G) Line 5 X Line 11.

(H) Reflects purchased water, power and chemical costs of \$72,000, \$1,922,641 and \$1,221,136 respectively divided by total treated water of 14,940,000 Tg per the response to AG 1-99, converted to Ccfs, times incremental sales. Also includes incremental customer accounting costs of \$18.18 per customer, uncollectibles, and PSC fees.

**KENTUCKY AMERICAN WATER COMPANY****FUTURE TEST YEAR ENDING NOVEMBER 30, 2005****COMMERCIAL CONSUMPTION**

1. Recommended Consumption Per Customer (gals)	1,469.48	(A)
2. Annual Consumption Per Customer (Tg)	536.36	(B)
3. Pro Forma Customers - Per Company	<u>8,289</u>	(C)
4. Total Annual Consumption (Tg)	4,445,875	(D)
5. Total Annual Consumption (Ccf)	5,943,683	(E)
6. Company Claim	<u>5,458,288</u>	(C)
7. Recommended Adjustment	485,395	
8. Rate per Ccf	<u>\$1.55</u>	(F)
9. Total Incremental Revenue	\$753,187	
10. Total Incremental Costs	<u>142,901</u>	(G)
11. Net Revenue Adjustment	\$610,286	
12. Income Taxes @	40.37% <u>246,345</u>	
13. Operating Income	<u><b>\$363,941</b></u>	

## Sources:

(A) Reflects average of 1553.43 gallons per customer/day in the Company's last case and the claim of 1385.522 gallons per customer/day in the current case, see the response to Staff 2-49.

(B) Line 1 X 365 days.

(C) Company Exhibit 37, M-3, pages 12, 30, and 48.

(D) Line 2 X Line 3.

(E) Line 4 X 1.333 Ccf/Tg.

(F) Current rate per Exhibit 37, M-3, page 12.

(G) Reflects purchased water, power and chemical costs of \$72,000, \$1,922,641 and \$1,221,136 respectively divided by total treated water of 14,940,000 Tg per the response to AG 1-99, converted to Ccfs, times incremental sales. Also includes uncollectible costs and PSC fees.

**KENTUCKY AMERICAN WATER COMPANY****FUTURE TEST YEAR ENDING NOVEMBER 30, 2005****COMMERCIAL CUSTOMERS**

	Base Period	Forecast Period	
	(A)	(B)	
1. Central	8,436	8,239	
2. Tri-Village	46	50	
3. Elk Lake	0	0	
4. Total	8,482	8,289	
5. Adjustment		193	
6. Annual Usage per customer @ 1,469.48 gals		536,360	(C)
7. Annual Usage per day/customer (Ccfs)		717,059	(D)
8. Rate Per Ccf		<u>1.55</u>	(E)
9. Total Volumetric Revenue		\$1,112.66	
10. Annual Fixed Charge		<u>\$87.72</u>	(F)
11. Total Revenue Per Customer		\$1,200.38	
12. Total Incremental Revenue		231,773	(G)
13. Total Incremental Costs		<u>42,571</u>	(H)
14. Net Revenue Adjustment		\$189,203	
15. Income Taxes @	40.37%	<u>76,373</u>	
16. Operating Income		<u><b>\$112,830</b></u>	

## Sources:

(A) Company Exhibit 37, M-3, pages 4,22, and 40.

(B) Company Exhibit 37, M-3, pages 12, 30, and 48.

(C) Usage recommendation of Ms. Crane, see Schedule ACC-17

(D) Line 4 X 1.333 ccf/tg.

(E) Current rate per Exhibit 37, M-3, page 11.

(F) Monthly charge of \$7.31 per Exhibit 37 M-3, page 3 times 12 months.

(G) Line 5 X Line 11.

(H) Reflects purchased water, power and chemical costs of \$72,000, \$1,922,641 and \$1,221,136 respectively divided by total treated water of 14,940,000 Tg per the response to AG 1-99, converted to Ccfs, times incremental sales. Also includes incremental customer accounting costs of \$18.18 per customer, uncollectibles, and PSC fees.

**KENTUCKY AMERICAN WATER COMPANY****FUTURE TEST YEAR ENDING NOVEMBER 30, 2005****PUBLIC HYDRANT REVENUE**

1. Original Company Claim	\$1,802,175	(A)
2. Revised Company Claim	<u>1,891,188</u>	
3. Recommended Adjustment	\$89,013	
4. Income Taxes @ 40.37%	<u>35,931</u>	
5. Operating Income Impact	<u><b>\$53,082</b></u>	

Sources:

(A) Response to LFUCG 1-42.

**KENTUCKY AMERICAN WATER COMPANY**

**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**

**PRIVATE FIRE REVENUE**

1. Original Company Claim		\$839,000	
2. Revised Company Claim		<u>868,023</u>	
3. Recommended Adjustment		\$29,023	
4. Income Taxes @	40.37%	<u>11,715</u>	(A)
5. Operating Income Impact		<u><b>\$17,308</b></u>	

Sources:

(A) Response to LFUCG 1-42.

**KENTUCKY AMERICAN WATER COMPANY**  
**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**  
**ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION**

1. Original Company Claim		\$470,940	(A)
2. Income Taxes @	40.37%	<u>190,097</u>	(A)
3. Recommended Adjustment		<u>\$280,843</u>	

Sources:  
(A) Company Filing, Schedule D-1, page 1.

**KENTUCKY AMERICAN WATER COMPANY****FUTURE TEST YEAR ENDING NOVEMBER 30, 2005****SALARIES AND WAGES-VACANCIES**

1. Total Labor Expense per Company		\$5,114,517	(A)
2. Number of Employees		<u>133</u>	(A)
3. Average Expense per Employee		\$38,455	
4. Benefits and Taxes	54.45%	<u>20,939</u>	(B)
5. Total Pro Forma Cost Per Employee		\$59,394	
6. Pro Forma Vacancies		<u>3</u>	
7. Total Pro Forma Expense Adjustment		\$178,181	
8. Income Taxes @	40.37%	<u>71,924</u>	
9. Operating Income		<u><b>\$106,258</b></u>	

## Sources:

(A) Response to PSC 2-52.

(B) Testimony of Mr. Bush, Exhibit 1, page 1.

## KENTUCKY AMERICAN WATER COMPANY

## FUTURE TEST YEAR ENDING NOVEMBER 30, 2005

## SALARIES AND WAGES - OFFICE OF THE PRESIDENT

1. President's Salary/Overhead Allocated to KAWC	\$142,492	(A)
2. Ex. Sec. Salary/Overhead Allocated to KAWC	<u>72,837</u>	(A)
3. Total Allocation to KAWC	\$215,329	
4. Recommended Adjustment (%)	<u>90%</u>	(B)
5. Recommended Adjustment (\$)	\$193,796	
6. Income Taxes @	40.37%	
	<u>78,227</u>	
7. Operating Income Impact	<u><b>\$115,569</b></u>	

## Sources:

(A) Company Exhibit 1, page 1.

(B) Recommendation of Ms. Crane.

## KENTUCKY AMERICAN WATER COMPANY

FUTURE TEST YEAR ENDING NOVEMBER 30, 2005

## INCENTIVE PLANS

1. Three Year Average Excluding LIP		\$145,899	(A)
2. Operational/Individual Components (%)		<u>40.00%</u>	(B)
3. Pro Forma Expense		\$58,360	
4. Company Claim		<u>229,146</u>	(C)
5. Recommended Adjustment		\$170,786	
6. Income Taxes @	40.37%	<u>68,939</u>	
7. Operating Income Impact		<u><b>\$101,848</b></u>	

## Sources:

(A) Reponse to AG 1-70.

(B) Testimony of Mr. Miller, page 50.

(C) Response to PSC 2-57.

**KENTUCKY AMERICAN WATER COMPANY**

**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**

**PAYROLL TAXES - INCENTIVE PLANS**

1. Incentive Plan Adjustment	\$170,786	(A)
2. Payroll Taxes @ 7.65%	13,065	(B)
3. Income Taxes @ 40.37%	<u>5,274</u>	
4. Operating Income Impact	<u><b>\$7,791</b></u>	

Sources:

(A) Schedules ACC- 24.

(B) Reflects statutory rate.

**KENTUCKY AMERICAN WATER COMPANY****FUTURE TEST YEAR ENDING NOVEMBER 30, 2005****OTHER POST EMPLOYMENT BENEFIT COSTS**

1. Projected 2004 Cost		\$904,227	(A)
2. Expense Ratio		<u>82.65%</u>	(A)
3. Pro Forma OPEB Costs		\$747,353	
4. Company Claim		<u>\$798,734</u>	(B)
5. Recommended Adjustment		\$51,381	
6. Income Taxes @	40.37%	<u>20,740</u>	
7. Operating Income Impact		<u><b>\$30,641</b></u>	

## Sources:

(A) Response to AG 1-75, page 77.

(B) Response to PSC 1-17.

**KENTUCKY AMERICAN WATER COMPANY**  
**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**  
**DEFERRED COSTS**

1. Deferred Security Costs	\$2,805,661	(A)
2. Shared Services Transition	557,505	(A)
3. Customer Care Transition	<u>571,405</u>	(A)
4. Total	\$3,934,571	
5. Amortization Period	<u>10</u>	
6. Annual Amortization	\$393,457	
7. Income Taxes @ 40.37%	<u>158,821</u>	
8. Operating Income Impact	<u><b>\$234,636</b></u>	

Sources:

(A) Company Workpaper 1-12, page 3.

**KENTUCKY AMERICAN WATER COMPANY****FUTURE TEST YEAR ENDING NOVEMBER 30, 2005****WASTE DISPOSAL COSTS**

1. Richmond Road Cleaning		\$70,000	
2. Proposed Recovery Period		<u>3</u>	
3. Proposed Annual Recovery		\$23,333	(A)
4. Company Claim		<u>70,000</u>	(A)
5. Recommended Adjustment		\$46,667	
6. Ongoing Cost Adjustment		<u>12,000</u>	(B)
7. Total Adjustments		\$58,667	
8. Income Taxes @	40.37%	<u>23,681</u>	
9. Operating Income		<b><u>\$34,986</u></b>	

## Sources:

(A) Company Workpaper 3-4, page 2.

(B) Response to PSC 2-99d.

**KENTUCKY AMERICAN WATER COMPANY****FUTURE TEST YEAR ENDING NOVEMBER 30, 2005****MAINTENANCE COSTS**

1. Company Claim		\$1,361,626	(A)
2. Less Claimed Amortizations		<u>388,920</u>	(A)
3. Ongoing Maintenance Claim		\$972,706	
4. Three Year Average Ongoing Maintenance		<u>761,229</u>	(B)
5. Recommended Adjustment		\$211,477	
6. Income Taxes @	40.37%	<u>85,364</u>	
7. Operating Income		<u><b>\$126,113</b></u>	

## Sources:

(A) Company Workpaper 3-14, page 2.

(B) Three year average per Company Workpaper 3-14, page 2, plus Tri-Village costs of \$9,535.

**KENTUCKY AMERICAN WATER COMPANY****FUTURE TEST YEAR ENDING NOVEMBER 30, 2005****REGULATORY COMMISSION EXPENSES**

1. Company Claim		\$622,049 (A)
2. Pro Forma Regulatory Commission Expenses		<u>552,049 (B)</u>
3. Recommended Adjustment		\$70,000
4. Amortization Period		<u>3 (C)</u>
5. Annual Adjustment		23,333
6. Income Taxes @	40.37%	<u>9,419</u>
7. Operating Income Impact		<u><b>\$13,915</b></u>

## Sources:

(A) Company Workpaper 3-8, page 1.

(B) Recommendation of Ms. Crane.

**KENTUCKY AMERICAN WATER COMPANY**

**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**

**RENTAL EXPENSE**

1. Recommended Expense Reduction		\$58,295	(B)
2. Income Taxes @	40.37%	<u>23,531</u>	
3. Operating Income Impact		<u><b>\$34,764</b></u>	

Sources:

(A) Response to AG 1-138.

**KENTUCKY AMERICAN WATER COMPANY**  
**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**  
**SOCIAL CLUB DUES**

1. Company Claim		\$5,228	(A)
2. Income Taxes @	40.37%	<u>2,110</u>	(B)
3. Operating Income Impact		<u><b>\$3,118</b></u>	

Sources:  
(A) Company Filing, Schedule F-1, page 1.

**KENTUCKY AMERICAN WATER COMPANY**

**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**

**INSTITUTIONAL ADVERTISING**

1. Company Claim		\$72,415	(A)
2. Income Taxes @	40.37%	<u>29,231</u>	
3. Operating Income		<u><b>\$43,184</b></u>	

Sources:

(A) Company Filing, Schedule F-4, page 1.

**KENTUCKY AMERICAN WATER COMPANY**

**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**

**BUSINESS DEVELOPMENT COSTS**

1. Company Claim		\$117,525	(A)
2. Income Taxes @	40.37%	<u>47,440</u>	
3. Operating Income Impact		<u><b>\$70,085</b></u>	

Sources:

(A) Response to AG 1-17.

**KENTUCKY AMERICAN WATER COMPANY**

**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**

**LOW INCOME DISCOUNT**

1. Company Claim		\$30,000	(A)
2. Income Taxes @	40.37%	<u>12,110</u>	
3. Operating Income Impact		<u><b>\$17,890</b></u>	

Sources:

(A) Testimony of Mr. Miller, page 65.

**KENTUCKY AMERICAN WATER COMPANY**

**FUTURE TEST YEAR ENDING NOVEMBER 30, 2005**

**PROPERTY TAXES**

1. Original Company Claim		\$2,223,673	(A)
2. Adjusted for Slippage		<u>2,221,768</u>	(A)
3. Recommended Adjustment		\$1,905	
4. Income Taxes @	40.37%	<u>769</u>	
5. Operating Income Impact		<b><u>\$1,136</u></b>	

Sources:

(A) Response to PSC 2-115.

**KENTUCKY AMERICAN WATER COMPANY****FUTURE TEST YEAR ENDING NOVEMBER 30, 2005****ACQUISITION AMORTIZATION**

1. Tri-Village Annual Acquisition Amortization	\$5,546	(A)
2. Elk Village Annual Acquisition Amortization	<u>2,824</u>	(B)
3. Recommended Annual Amortization	\$8,370	
4. Income Taxes @ 40.37%	<u>3,379</u>	
5. Operating Income Impact	<u><b>\$4,991</b></u>	

## Sources:

(A) Company Workpaper 1-2, page 2.

(B) Company Workpaper 1-2, page 3.

**KENTUCKY AMERICAN WATER COMPANY****FUTURE TEST YEAR ENDING NOVEMBER 30, 2005****DEPRECIATION EXPENSE**

1. Original Claimed Depreciation Expense	\$7,760,915	(A)
2. Revised Depreciation Expense	<u>7,762,685</u>	(B)
3. Recommended Adjustment	\$1,770	
4. Income Taxes @	40.37% <u>714</u>	
5. Operating Income Impact	<u><b>\$1,056</b></u>	

## Sources:

(A) Company Schedule C-1, page 1.

(B) Response to PSC 2-115, Schedule C-1, page 1.

## KENTUCKY AMERICAN WATER COMPANY

FUTURE TEST YEAR ENDING NOVEMBER 30, 2005

## CONSOLIDATED INCOME TAX ADJUSTMENT

	2000	2001	2002
	(A)	(A)	(A)
1. Positive Taxable Income	\$224,065,688	\$219,475,964	\$194,396,985
2. KAWC Taxable Income	535,523	6,072,890	4,337,965
3. Percent KAWC	0.24%	2.77%	2.23%
4. Tax Losses	\$39,058,757	\$30,507,503	\$32,084,301
5. Tax Losses All. to KAWC	\$93,351	\$844,141	\$715,961
6. Three Year Average	\$551,151		
7. Federal Income Taxes @ 35%	<u>\$192,903</u>		

## Sources:

(A) Response to AG 1-144.

**KENTUCKY AMERICAN WATER COMPANY****FUTURE TEST YEAR ENDING NOVEMBER 30, 2005****INTEREST SYNCHRONIZATION**

1. Pro Forma Rate Base	\$149,515,650	(A)
2. Weighted Cost of Debt	<u>3.15%</u>	(B)
3. Pro Forma Interest Expense	\$4,706,568	
4. Company Claim	<u>5,325,120</u>	(C)
5. Increase in Taxable Income	\$618,552	
6. Income Taxes @ 40.37%	<u><b>\$249,682</b></u>	

## Sources:

(A) Schedule ACC-3.

(B) Schedule ACC-2.

(C) Company Filing, Schedule E-1.3, page 1.

**KENTUCKY AMERICAN WATER COMPANY****FUTURE TEST YEAR ENDING NOVEMBER 30, 2005****INCOME TAX FACTOR**

1. Revenue	100.00%	
2. State Income Tax Rate	<u>8.25%</u>	(A)
3. Federal Taxable Income	91.75%	
4. Income Taxes @ 35%	<u>32.11%</u>	(A)
5. Operating Income	59.63%	
6. Total Tax Rate	<u><b>40.37%</b></u>	(B)

## Sources:

(A) Company Filing, Exhibit 37E, page 13.

(B) Line 2 + Line 4.

**KENTUCKY AMERICAN WATER COMPANY****FUTURE TEST YEAR ENDING NOVEMBER 30, 2005****REVENUE REQUIREMENT IMPACT OF ADJUSTMENTS**

1. Rate of Return	(\$3,062,887)
2. Utility Plant in Service	(980)
3. Utility Plant Acquisition Adjustment	(37,743)
4. Accumulated Depreciation	1,837
5. Construction Work in Progress	(735,201)
6. Working Capital Allowance	(204,442)
7. Contributions in Aid of Construction	178,005
8. Customer Advances	(16,691)
9. Deferred Income Taxes	230,388
10. Deferred Debits	(548,673)
11. Residential Consumption	(908,709)
12. Residential Customers	(129,492)
13. Commercial Consumption	(614,519)
14. Commercial Customers	(190,515)
15. Public Fire Revenue	(89,630)
16. Private Fire Revenue	(29,224)
17. Salaries and Wages- Vacancies	(179,417)
18. Salaries and Wages - Other	(195,140)
19. Incentive Plans	(171,971)
20. Payroll Taxes	(13,156)
21. OPEBs	(51,738)
22. Deferred Costs	(396,186)
23. Waste Disposal	(59,074)
24. Maintenance Costs	(212,944)
25. Regulatory Commission Expense	(23,495)
26. Rental Expenses	(58,699)
27. Social Club Dues	(5,264)
28. Institutional Advertising	(72,917)
29. Business Development Costs	(118,340)
30. Low Income Discount	(30,208)
31. Property Taxes	(1,918)
32. AFUDC	474,206
33. Depreciation Expense	1,782
34. Acquisition Amortization	(8,428)
35. Consolidated Income Taxes	(325,719)
36. Interest Synchronization	421,590
37. Total Recommended Adjustments	(\$7,185,510)
38. Company Claim	<u>7,297,443</u>
39. Recommended Revenue Requirement Deficiency	<b><u>\$111,933</u></b>

## KENTUCKY AMERICAN WATER COMPANY

FUTURE TEST YEAR ENDING NOVEMBER 30, 2005

## PRO FORMA INCOME STATEMENT

	Per Company	Recommended Adjustments	Pro Forma Present Rates	Recommended Rate Adjustment	Pro Forma Proposed Rates
1. Operating Revenues	\$43,389,662	\$1,878,598	\$45,268,260	\$111,933	\$45,380,193
2. Operating Expenses	21,910,724	(1,163,580)	20,747,144	754	20,747,898
3. Depreciation & Amort.	7,760,915	(10,140)	7,750,775	0	7,750,775
4. Taxes Other Than Income	2,712,460	(14,970)	2,697,490	0	2,697,490
5. Taxable Income Before Interest Expenses	\$11,005,563	\$3,067,288	\$14,072,851	\$111,179	\$14,184,030
6. Interest Expense	5,325,120	(618,552)	4,706,568	0	4,706,568
7. Taxable Income	\$5,680,443	\$3,685,841	\$9,366,284	\$111,179	\$9,477,462
8. Income Taxes @ 40.37%	2,213,281	1,294,905	3,508,186	44,878	3,553,064
9. Operating Income	\$8,792,282	\$1,772,384	\$10,564,666	\$66,301	\$10,630,966
10. Rate Base	\$158,958,817		\$149,515,650		\$149,515,650
11. Rate of Return	<u>5.53%</u>		<u>7.07%</u>		<u>7.11%</u>