

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2008-00427  
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

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**Witness: Michael A. Miller**

23. In Case No. 2004-00103, Kentucky-American's forecasted management fees were stated at \$3,800,677, detailed as follows:

Belleville Lab	\$ 190,529
Call Center/National Customer Care Center	831,065
Corporate	707,381
ITS Shared Service	819,399
Shared Service	448,017
Southeast Region	+ 804,286
Total	<u>\$ 3,800,677</u>

Of this total, the Commission allocated \$367 to other operations, removed business development costs of \$117,525, and permitted the recovery of \$3,682,785. The forecasted management fees in this case are \$7,612,592, a 106.7 percent increase.

- a. List the amounts shown in Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-5, at 1, using the Service Company names used in Case No. 2004-00103 as shown above.
- b. State the reason(s) for the change in the level of each forecasted Service Company charge in this case as compared to that of Case No. 2004-00103.
- c. List each business development cost included in the forecasted Management Fees of this case, state whether each is directly assignable or allocated, and describe the services associated with the cost.

**Response:**

- a. Please see the attached schedule.
- b. Please see attached schedule which includes explanations for the differences in AWWSC costs from those included in case number 2004-00103 to the current case. The Company references Mr. Miller's Testimony on AWWSC costs (Miller Direct at pages 19-31) and Exhibit MAM-6 for further explanations on the offsetting shift in costs from KAWC to AWWSC. In addition, the Company has recently learned that the AWWSC costs budgeted for 2009/2010 have been decreased by approximately \$160,000, and the amount of interest and depreciation expense included in the Company's forecasted AWWSC costs has changed, both of which are reflected in the attached schedule. The Company will be revising its filing for the change in costs, along with other appropriate updates no later than March 17, 2009. Mr. Miller will be

providing a change to his testimony and Exhibit MAM-6 along with the update to the case.

- c. Please see the below account detail of the forecasted Business Development costs included in Management Fees for KAWC in this case. The forecasted costs for Management Fees are determined based upon prior period actual billed amounts to determine allocation factors. The prior period actual billed amounts include direct charges, allocations, and overhead distributions billed in accordance to the contract between KAWC and the Service Company.

Object Account	Description	Forecast Test Yr 2009 - 2010
<b><u>LABOR &amp; LABOR RELATED</u></b>		
501200	Labor	\$ 124,525.00
501711	Incentive Plan	\$ 25,440.00
501712	Long Term Incentive Plan	\$ 9,874.00
504100	Group Insurance	\$ 11,337.00
505100	PBOP	\$ 3,099.00
506100	Pension	\$ 11,051.00
507100	401K	\$ 2,899.00
508101	DCP Oper AG	\$ 3,281.00
685320	FUTA	\$ 54.00
685325	FICA	\$ 7,619.00
685350	SUTA	\$ 214.00
<b>TOTAL LABOR &amp; LABOR RELATED EXPENSES</b>		<b>\$ 199,393.00</b>
<b><u>OTHER EXPENSES</u></b>		
504610	Employee Awards	\$ 167.00
504620	Employee Physical Exams	\$ 67.00
504660	Tuition Assistance	\$ 167.00
504670	Training	\$ 860.00
532000	Contract Services-Accounting	\$ 1,003.00
535000	Contract Services-Other	\$ 8,077.00
535001	Contract Services-Temp Employee	\$ 201.00
541000	Rents-Real Property	\$ 301.00
550000	Transportation	\$ 809.00
557000	Insurance-General Liability	\$ 524.00
558000	Insurance-Work Comp	\$ 730.00
559000	Insurance-Other	\$ 2,498.00
575140	Charitable Contribution-Deductible	\$ 7.00

575280	Dues & Memberships Deduct	\$	353.00	
575340	Employee Expenses & Travel	\$	13,579.00	
575342	Conferences & Registrations	\$	468.00	
575620	Office Supplies & Other Miscellaneous	\$	1,511.00	
575715	Software & License Support	\$	3,311.00	
575740	Telephone & Data Lines	\$	832.00	
	<b>TOTAL OTHER EXPENSES</b>			\$ 35,465.00
	<b>TOTAL BUSINESS DEVELOPMENT COSTS</b>			\$ 234,858.00
	Less: Capital Costs			<u>\$ (10,815.00)</u>
	<b>TOTAL MANAGEMENT FEES</b>			\$ 224,043.00

For the electronic version, refer to KAW\_R\_PSCDR2#23\_010809.pdf.

**Kentucky-American Water Company  
Analysis of AWWSC Costs**

**Reponse to PSCDR2#23a. & b.**

	<u>Case 2004-00103</u>	<u>Forecast Test Yr 2009-2010</u>	<u>Difference</u>
Corporate	707,381	1,894,973	1,187,592
Shared Services	448,017	591,167	143,150
Call Center	831,065	1,839,044	1,007,979
ITS	819,399	1,296,110	476,711
Belleville Lab	190,529	189,753	(776)
Regional Offices	<u>804,286</u>	<u>1,904,002</u>	<u>1,099,716</u>
Subtotal	3,800,677	7,715,049	3,914,372
Less Sox Costs	0	(55,941)	(55,941)
Less Sewer Costs	<u>0</u>	<u>(46,516)</u>	<u>(46,516)</u>
Subtotal	3,800,677	7,612,592	3,811,915
Less: Savings from Procurement Initiative (See Note 1 from Exb. MAM-6, testimony of Michael A. Miller)	0	(294,192)	<u>(294,192)</u>
Less: Amendment to 2009/2010 AWWSC costs (See response to PSCDR2#22 c. (3))	<u>0</u>	<u>(160,000)</u>	<u>(160,000)</u>
Total	3,800,677	7,158,400	3,357,723

**Explanations:**

1	Payroll increases have averaged 3.5% per year for 56 months (payroll @ 49.5% of total AWWSC costs).	315,321
2	Pension Costs for AWWSC increased from \$.691 million in 2004 to \$10.294 million in 2009 (2004-3.41%).	327,462
3	Gr. Ins & PBOB Costs for AWWSC increased from \$9.078 million in 2004 to \$23.629 million in 2009 (04-3.41%).	496,189
4	Defined Contribution Plan costs not present in 2004.	76,639
5	General Inflation at 3.0% per year for 56 months on all non labor & labor benefit costs.	163,825
6	Net depreciation and interest on capital purchases of software for the benefit of regulated subsidiaries above the level in 2004, as noted in Exb. MAM-6 in Mr. Miller's testimony.	574,227
7	Additional Cost of Procurement Group not present in 2004.	65,685
8	KAWC employees in 2004 that are now AWWSC employees (with Overhead at 1.1328%). Offset in KAWC labor & benefits.	
	1. General Counsel (Herb Miller in 04 - A W Turner in 08)	136,720
	2. Legal Adm. Asst. (Jan Dickson in 04 - Louise Magee in 08)	47,896
	3. Mgr. Internal Communications (Susan Lancho)	98,935
	4. Mgr. of HR (Donna Braxton)	105,586
	5. Maintenance Specialist (Rick Curry)	74,221
	6. Sr. Analyst Business Reporting - IT (Donna Taylor)	96,075
	7. Sr. Specialist Computer Support - IT (Michael Shryock)	87,357
9	Finance has added the following employees since 2004: i) 8 employees to monitor internal control processes at regulated subsidiaries for compliance with SOX regulations and SEC reporting requirements, ii) 9 employees in Treasury to fill vacancies in 2004 that were needed to manage benefit plan assets and American Water Capital Corp. activities, and iii) filled 6 vacancies to improve the planning and reporting processes.	237,030
10	Additional Cost of Investor Relations not present in 2004, necessary to attract capital now that AWW is a public company.	42,970
11	Full Staffing for Internal Audit function since 2004.	39,621
12	Addition to Corporate Risk Management Function since 2004 for increased security.	25,121
13	Increase in external audit fees from PwC.	30,697
14	Change in allocation factor from 3.41% in 2004 to 3.56% in 2008 due to increased customers from organic growth and acquisition of Owenton.	325,072
15	Unreconciled Difference.	<u>(8,927)</u>
	Total	3,357,723

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2008-00427  
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

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**Witness: Sheila A. Miller**

24. At page 7 of her direct testimony, Shelia Miller states that the forecasted group insurance reflects the current insurance premium rates in effect as of July 31, 2008. Provide the current group insurance statements to show the “current group insurance premium rates” that are referenced.

**Response:**

See the attached group insurance premium statement as of July 2008.

For the electronic version, refer to KAW\_R\_PSCDR2#24\_010809.pdf.

FORM 392 - TOTAL  
Revision date: 06/2008

**HORIZON BLUECROSS/BLUESHIELD  
GROUP INSURANCE PREMIUM STATEMENT  
(Rates effective January 1, 2008)**

COMPANY: Kentucky American Water Co.  
MONTH OF: July 2008

Insurance/Employees:		Rate	Premium
<b>ACTIVE EMPLOYEES</b>			
<b>LIVES LIFE INSURANCE:</b>			
66	5,805,000	1 Life - Basic (Non Bargaining)	\$0.180 per \$1,000 \$1,044.90
69	3,796,000	2 Life - Basic (Bargaining)	\$0.180 per \$1,000 683.28
69	690,000	3 A. D. & D. (\$10,000 cov. per employee)	0.020 per \$1,000 13.80
66	5,805,000	4 A. D. & D. (Non Bargaining)	0.020 per \$1,000 116.10
5	369,699	5 Life - Voluntary Under 30	\$0.06 per \$1,000 22.18
8	723,377	6 Life - Voluntary 30-34	\$0.08 per \$1,000 57.87
7	753,456	7 Life - Voluntary 35-39	\$0.10 per \$1,000 75.35
8	1,162,936	8 Life - Voluntary 40-44	\$0.12 per \$1,000 139.55
14	1,500,819	9 Life - Voluntary 45-49	\$0.19 per \$1,000 285.16
10	1,359,580	10 Life - Voluntary 50-54	\$0.32 per \$1,000 435.07
8	763,284	11 Life - Voluntary 55-59	\$0.59 per \$1,000 450.34
1	103,688	12 Life - Voluntary 60-64	\$0.75 per \$1,000 77.77
0	0	13 Life - Voluntary 65-69	\$1.37 per \$1,000 0.00
0	0	14 Life - Voluntary 70 and over	\$2.21 per \$1,000 0.00
54	1,080,000	15 Life - Dependent Spouse	\$0.25 per \$1,000 270.00
49	870,000	16 Life - Dependent Children	\$1.20 per \$1,000 58.80
0	0	17 Life - Supplemental	\$0.35 per \$1,000 0.00
2	60,000	18 Life - Optional	\$0.35 per \$1,000 21.00
<b>DISABILITY:</b>			
	324,696	19 Long Term Disability (non union only)	\$0.400 per \$100 1,298.79
	135	20 Short-term Managed Disability	\$2.61 per EMPLOYEE 352.35
	0	21 A. & S.-Coverage for New Jersey only	\$0.335 per \$10 0.00
<b>MEDICAL, DENTAL &amp; PRESCRIPTION COVERAGE:</b>			
	32	22 Employees without dependent coverage	\$482.00 15,424.00
	96	23 Employees with dependent coverage	\$1,188.00 114,048.00
	0	24 Employees with single dental coverage only	\$36.00 0.00
	3	25 Employees with dependent dental coverage only	\$85.00 255.00
Actives' subtotal:			\$135,129.31
<b>CONTINUATION OF COVERAGE</b>			
<b>MEDICAL, DENTAL &amp; PRESCRIPTION COVERAGE:</b>			
	1	30 Individual (former emp., spouse, or dependent)	\$482.00 482.00
	1	31 Family (2 or more individuals)	\$1,188.00 1,188.00
	0	32 Employee with single dental coverage only	\$36.00 0.00
	0	33 Employees with dependent dental coverage only	\$85.00 0.00
Continuation of Coverage Subtotal:			\$1,670.00
TOTAL PREMIUM TO BE PAID TO TRUST:			\$136,799.31

**KENTUCKY-AMERICAN WATER COMPANY  
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**Witness: Michael A. Miller**

25. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-6, at 2 and Direct Testimony of Sheila Miller at 7. Provide the Towers Perrin projections that support the 2009 and 2010 estimated other post retirement employee benefit costs ("OPEB") expenses.

**Response:**

Towers Perrin does not do a separate actuarial report at the in-depth level included in the annual Actuarial Valuation Report for projected costs. They base their projections on many of the assumptions included in the detailed annual Actuarial Valuation Report updated for known changes in pay increases, discount rates, plan earnings, health care cost increases, etc. Attached to this response are the report schedules that are provided by Towers Perrin to support their assumption for the 2009/2010 projected cost increases. In addition, we are providing the latest annual Actuarial Valuation Report which includes a more in-dept analysis of the assumptions used by Towers Perrin in developing the OPEB costs for 2008, and serves as their basis for further projections of the 2009/2010 OPEB costs.

For the electronic version, refer to KAW\_R\_PSCDR2#25\_010809.pdf.

**American Water Before Purchase Accounting After Reflecting Medicare Part D  
Allocation of Projected 2009 - 2013 AWW Plan FAS 106 Costs and  
Northern Illinois Plan FAS 106 Costs**

<b>COMPANY</b>	<b>2008 FAS 106 Cost Allocation %**</b>	<b>Actual 2008 Expense Allocation</b>	<b>Projected 2009 Expense Allocation</b>	<b>Projected 2010 Expense Allocation</b>
AMERICAN WATER WORKS COMPANY	0.49%	134,027	135,240	136,710
AMERICAN WATER SERVICES (AAET, L.P.)	0.04%	10,941	11,040	11,160
AMERICAN WATER SERVICES (Corp)	0.02%	5,470	5,520	5,580
AMERICAN WATER RESOURCES	0.02%	5,470	5,520	5,580
<b>AWW SERVICE COMPANY</b>				
Voorhees	2.26%	618,165	623,760	630,540
Belleville, IL Lab (R)	0.28%	76,587	77,280	78,120
Hershey, PA Data Center (W)	0.10%	27,352	27,600	27,900
Richmond, IN Data Center (H)	0.09%	24,617	24,840	25,110
Western (L)	0.14%	38,293	38,640	39,060
Haddon Heights IS	0.04%	10,941	11,040	11,160
Northeast Region	0.33%	90,263	91,080	92,070
Southeast Region	1.38%	377,464	380,880	385,020
Indiana Region	0.06%	16,411	16,560	16,740
Illinois Region	1.22%	333,700	336,720	340,380
Alton, IL Call Center	0.61%	166,850	168,360	170,190
Shared Services	1.03%	281,730	284,280	287,370
Pennsacola Call Center	1.76%	481,403	485,760	491,040
ITS	1.04%	284,465	287,040	290,160
Procurement/Supply Chain	<u>0.12%</u>	<u>32,823</u>	<u>33,120</u>	<u>33,480</u>
Total AWWs	10.46%	2,861,064	2,886,960	2,918,340
<b>NORTHEAST REGION</b>				
LONG ISLAND	1.99%	544,313	549,240	555,210
NEW JERSEY - AM	9.66%	2,642,245	2,666,160	2,695,140
ELIZABETHTOWN	<u>7.49%</u>	<u>2,048,698</u>	<u>2,067,240</u>	<u>2,089,710</u>
Total Northeast Region	19.14%	5,235,256	5,282,640	5,340,060
<b>SOUTHEAST REGION</b>				
KENTUCKY - AM	2.56%	700,222	706,560	714,240
MARYLAND - AM	0.29%	79,322	80,040	80,910
PENNSYLVANIA - AM	20.63%	5,642,810	5,693,880	5,755,770
TENNESSEE - AM	2.90%	793,221	800,400	809,100
VIRGINIA - AM - EASTERN DISTRICT	0.12%	32,823	33,120	33,480
VIRGINIA - AM	1.58%	432,168	436,080	440,820
WEST VIRGINIA - AM	<u>7.07%</u>	<u>1,933,817</u>	<u>1,951,320</u>	<u>1,972,530</u>
Total Southeast Region	35.15%	9,614,383	9,701,400	9,806,850
<b>CENTRAL REGION</b>				
ILLINOIS - AM	6.95%	1,900,994	1,918,200	1,939,050
INDIANA - AM	6.89%	1,884,583	1,901,640	1,922,310
IOWA - AM	1.57%	429,433	433,320	438,030
MICHIGAN - AM	0.14%	38,293	38,640	39,060
MISSOURI - AM	4.67%	1,277,359	1,288,920	1,302,930
ST. LOUIS	8.59%	2,349,575	2,370,840	2,396,610
OHIO - AM	<u>1.73%</u>	<u>473,197</u>	<u>477,480</u>	<u>482,670</u>
Total Central Region	30.54%	8,353,434	8,429,040	8,520,660
<b>WEST REGION</b>				
CALIFORNIA - AM	3.25%	888,954	897,000	906,750
NEW MEXICO - AM	0.39%	106,674	107,640	108,810
HAWAII - AM	0.24%	65,646	66,240	66,960
ARIZONA - AM	<u>0.26%</u>	<u>71,116</u>	<u>71,760</u>	<u>72,540</u>
Total West Region	4.14%	1,132,390	1,142,640	1,155,060
<b>AWW PLAN</b>	100.00%	27,352,435	27,600,000	27,900,000
<b>NORTHERN ILLINOIS PLAN</b>		<u>34,327</u>	<u>50,000</u>	<u>50,000</u>
<b>TOTAL SYSTEM</b>		<u>27,386,762</u>	<u>27,650,000</u>	<u>27,950,000</u>

American Water  
Retiree Welfare Plan: Annual Valuation  
Using data collected as of July 1, 2007  
11/2008 Cost

**SPREADSHEET RECEIVED FROM CORPORATE**

COMPANY	Company Code	Locality Code	Total Participants	2008 FAS 106 Cost Allocation %**		Retiree Contribution Allocation	2008 FAS 106 Cost + Expected Retirees Contributions Allocation	2008 Receivable Estimated Annual Subsidy **				2007 FAS 106 Cost Allocation %**	Total Remaining 2007 \$1,546,000.00 Subsidy **	2006 Remaining Subsidy ** \$376,597.29	Total Subsidy **
				FAS 106 Cost Allocation %**	Allocation			May-15	Aug-15	Nov-14	2007 FAS 106 Cost Allocation %**				
AMERICAN WATER WORKS COMPANY	2	N/A	54	0.49%	134,027	8,834	142,861	35,715	35,715	35,716	7,918.40	0.39%	6,029.40	1,506.39	15,464.19
AMERICAN WATER SERVICES (IAET, L.P.)	99001	N/A	4	0.04%	10,941	721	11,662	2,916	2,916	2,914	646.40	0.09%	1,391.40	2,184.26	4,222.06
AMERICAN WATER SERVICES (Corp)	99002	N/A	4	0.04%	5,470	361	5,831	1,468	1,468	1,467	323.20	0.02%	309.20	75.32	4,222.06
AMERICAN WATER RESOURCES	21	N/A	2	0.02%	5,470	361	5,831	1,468	1,468	1,457	323.20	0.02%	309.20	37.66	670.06
<b>AWW SERVICE COMPANY</b>															
Voorhees	3	Other	235	2.26%	618,165	40,743	658,908	164,727	164,727	164,727	36,521.60	2.52%	38,959.20	17,361.14	92,841.94
Bellefonte, IL Lab (R)	3	29	29	0.28%	76,587	5,048	81,635	20,409	20,409	20,408	4,524.80	0.39%	4,947.20	1,488.73	10,940.73
Hershey, PA Data Center (W)	3	7	10	0.10%	27,352	1,803	29,155	7,289	7,289	7,288	1,616.00	0.09%	1,391.40	414.26	3,421.66
New England (K)	3	4	9	0.09%	24,617	1,623	26,240	6,580	6,580	6,580	1,464.40	0.08%	1,258.80	376.60	3,067.80
Resident (L)	3	15	15	0.14%	10,941	721	11,662	2,916	2,916	2,914	646.40	0.09%	1,391.40	2,184.26	4,222.06
Resident (L) HHS	3	9	9	0.04%	10,941	721	11,662	2,916	2,916	2,914	646.40	0.09%	1,391.40	2,184.26	4,222.06
Northwest Region	3	4	4	0.33%	90,263	5,949	96,212	24,063	24,063	24,063	5,332.80	0.50%	5,730.00	3,012.78	16,075.58
Southeast Region	3	11	144	1.39%	377,464	24,878	402,342	100,586	100,586	100,584	22,300.80	0.66%	24,117.60	8,699.40	55,117.80
Indiana Region	3	12	6	0.06%	16,411	1,082	17,493	4,373	4,374	4,374	969.60	0.06%	927.60	225.96	2,123.16
Illinois Region	3	14	63	1.22%	333,700	21,987	355,687	88,924	88,924	88,922	19,715.20	1.41%	21,798.60	5,686.62	47,200.42
Alton, IL Call Center	3	14	63	0.61%	166,850	10,987	177,837	44,462	44,462	44,461	9,857.60	0.22%	3,401.20	941.49	14,200.29
Shared Services	3	15	107	1.03%	281,730	19,989	300,299	75,075	75,075	75,074	16,644.80	1.26%	19,479.60	4,443.85	40,568.25
IT Services	3	16	183	1.76%	81,403	5,329	86,732	22,883	22,883	22,883	4,956.00	0.22%	5,329.00	1,445.32	25,626.12
Wisconsin Call Center	3	16	183	1.76%	81,403	5,329	86,732	22,883	22,883	22,883	4,956.00	0.22%	5,329.00	1,445.32	25,626.12
Procurement/Supply Chain	3	12	12	0.12%	32,823	2,163	34,986	8,747	8,747	8,745	1,839.20	0.13%	2,009.80	545.39	5,455.39
Total AWWIS			1,086	10.46%	2,861,064	188,572	3,049,636	762,412	762,412	762,400	168,033.60	9.66%	147,797.60	48,881.80	366,682.70
<b>NORTHEAST REGION</b>															
LONG ISLAND	38	N/A	207	1.99%	544,313	35,975	580,188	145,047	145,047	145,047	32,158.40	2.12%	32,775.20	10,431.74	75,365.34
NEW JERSEY - AM	18	N/A	1,005	9.66%	2,642,245	174,148	2,816,393	704,088	704,088	704,089	156,105.60	9.63%	148,879.50	42,932.09	347,917.49
ELIZABETH TOWN	779	N/A	1,991	7.49%	2,048,698	135,028	2,183,726	545,932	545,932	545,930	121,038.40	7.11%	109,920.60	230,955.00	230,955.00
Total Northeast Region			1,991	19.14%	5,235,256	345,051	5,690,307	1,395,077	1,395,077	1,395,076	309,302.40	18.86%	291,575.60	53,383.83	654,241.83
<b>SOUTHEAST REGION</b>															
KENTUCKY - AM	12	N/A	266	2.56%	700,222	46,151	746,373	186,593	186,593	186,594	41,369.60	2.69%	41,597.40	11,581.54	94,619.54
MARYLAND - AM	13	N/A	30	0.20%	79,322	5,228	84,550	21,138	21,138	21,136	4,686.40	0.28%	4,483.40	1,506.39	10,675.19
PENNSYLVANIA - AM	24	N/A	2,146	20.63%	5,642,810	371,911	6,014,721	1,503,680	1,503,681	1,503,681	333,390.80	20.85%	322,341.00	88,065.24	744,787.04
TENNESSEE - AM	26,107	N/A	302	2.90%	793,221	52,281	845,502	211,376	211,376	211,374	46,864.00	3.00%	46,380.00	12,578.35	105,822.35
VIRGINIA - AM - EASTERN DISTRICT	42	N/A	12	0.12%	32,823	2,163	34,986	8,747	8,747	8,745	1,839.20	0.11%	1,700.60	489.58	4,128.38
VIRGINIA - AM	27	N/A	164	1.58%	432,168	28,484	460,652	115,163	115,163	115,163	25,532.80	1.68%	25,972.80	7,305.99	58,815.59
WEST VIRGINIA - AM	28,1	N/A	736	7.02%	1,933,817	127,465	2,061,273	515,318	515,318	515,319	114,251.20	7.28%	112,546.80	31,445.87	266,245.87
Total Southeast Region			3,656	35.15%	9,614,383	633,674	10,248,057	2,562,015	2,562,012	2,562,012	568,024.00	35.90%	555,014.00	153,952.96	1,276,990.96
<b>CENTRAL REGION</b>															
ILLINOIS - AM	9	N/A	723	6.95%	1,900,994	125,293	2,026,287	506,572	506,572	506,571	112,312.00	7.20%	111,312.00	30,956.30	254,890.30
INDIANA - AM	10	N/A	717	6.89%	1,884,593	124,211	2,008,794	502,199	502,199	502,197	111,342.40	6.85%	105,901.00	29,525.23	246,768.63
IOWA - AM	11	N/A	163	1.57%	429,433	28,304	457,737	114,434	114,434	114,435	25,371.20	1.60%	24,736.00	6,778.75	56,885.95
MICHIGAN - AM	16	N/A	15	0.14%	38,293	2,524	40,817	10,204	10,204	10,205	2,262.40	0.18%	2,782.80	677.88	5,723.08
MISSOURI - AM	17	N/A	486	4.67%	1,277,359	84,190	1,361,549	340,387	340,387	340,388	75,467.20	4.87%	75,280.20	21,767.32	172,524.72
ST. LOUIS	884	N/A	884	8.59%	2,349,575	154,859	2,504,434	626,109	626,109	626,107	138,614.40	8.51%	131,564.60	37,037.00	270,375.00
OHIO - AM	22	N/A	180	1.73%	473,197	31,189	504,386	126,096	126,096	126,097	27,956.80	1.75%	27,518.80	7,155.55	62,650.95
Total Central Region			3,178	30.54%	8,353,434	550,569	8,904,003	2,226,001	2,226,000	2,226,000	493,526.40	30.99%	479,105.40	96,860.83	1,089,492.63
<b>WEST REGION</b>															
CALIFORNIA - AM	5	N/A	338	3.25%	888,954	58,590	947,544	236,886	236,886	236,886	52,520.00	3.29%	50,863.40	14,611.97	117,995.37
NEW MEXICO - AM	19	N/A	41	0.39%	106,674	7,031	113,705	28,426	28,426	28,427	6,302.40	0.41%	6,338.60	1,807.67	14,448.67
HAWAII - AM	30	N/A	25	0.24%	65,646	4,327	69,973	17,493	17,494	17,494	3,878.40	0.22%	3,401.20	1,092.13	8,371.73
ARIZONA - AM	23,645	N/A	27	0.26%	71,116	4,687	75,803	18,951	18,951	18,950	4,201.60	0.25%	3,865.00	1,242.77	9,309.37
Total West Region			431	4.14%	1,132,390	74,635	1,207,025	301,756	301,756	301,757	66,902.40	4.17%	64,488.20	18,754.54	150,125.14
<b>TOTAL SYSTEM</b>			10,404	100.00%	27,352,435	1,802,778	29,155,213	7,286,808	7,286,808	7,286,789	1,616,000.00	100.00%	1,546,000.00	376,597.29	3,538,597.29
			10,404	100.00%	27,352,435	1,802,778	29,155,213	7,286,808	7,286,808	7,286,789	1,616,000.00	100.00%	1,546,000.00	376,597.29	3,538,597.29

\* Based on assumption that 80% of active males and 50% of active females will be married at retirement.  
\*\* The allocation percentage for each company is equal to the ratio of total participants for that company to total participants for the entire American system.

Allocated by: \_\_\_\_\_ Date: \_\_\_\_\_

Verified by: \_\_\_\_\_ Date: \_\_\_\_\_

*American Water Works Company, Inc.*  
*Retiree Welfare Plan*

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**Actuarial Valuation Report**

**Postretirement Welfare Cost for Fiscal Year Ending December 31, 2008**

**Employer Contributions for Plan Year Beginning January 1, 2008**

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*February 2008*

This report is confidential and intended solely for the information and benefit of the immediate recipient thereof. It may not be distributed to a third party unless expressly allowed under the "Actuarial Certification, Reliances and Distribution" section herein.

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## *Management Summary of Valuation Results*

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## Financial Results

This report summarizes the financial results for American Water's Retiree Welfare Plan based on actuarial valuations as of January 1, 2008 and January 1, 2007. All results shown are based on FAS 106 without reflecting purchase accounting upon the sale of American Water to RWE and do not reflect FAS 158.

	January 1, 2008 <sup>(2)</sup>	January 1, 2007 <sup>(2)</sup>
<b>FAS 106 Postretirement Welfare Cost<sup>(1)</sup></b>		
Amount	\$ 27,352,435	\$ 25,013,949
Per active participant	7,110	6,079
<b>FAS 106 Funded Position<sup>(2)</sup></b>		
Accumulated postretirement benefit obligation [APBO]	\$ 451,147,525	\$ 425,315,545
Fair value of assets [FV]	292,899,197	281,389,882
APBO funded percentage [FV ÷ APBO]	64.9%	66.2%
Accrued Postretirement Benefit Cost	\$ 29,178,255	\$ 29,776,429
<b>Employer Contributions</b>		
Funding policy	\$ 27,352,435	\$ 25,013,949
Estimated maximum tax-deductible limit <sup>(3)</sup>	25,300,000	29,200,000 <sup>(4)</sup>
Expected benefit payments and expenses, net of participant contributions	19,397,977	19,559,592 <sup>(5)</sup>

(1) Results do not reflect purchase accounting upon the sale of American Water to RWE and do reflect the Medicare Part D subsidy, except where noted.

(2) The annual postretirement welfare cost, ignoring the Medicare Part D subsidy, is \$30,924,631 for 2007 and \$33,451,336 for 2008. These amounts are used to adjust the company's deferred tax asset on the balance sheet.

(3) Estimated based on January 1 assets — should be redetermined at December 31. Actual maximum tax-deductible limit cannot be determined until end of year.

(4) Actual tax-deductible limit for 2007 tax year was \$42,000,000 under permissive aggregation, which includes the St. Louis, Elizabethtown and Long Island VEBA trusts.

(5) Actual benefit payments and expenses, net of participant contributions.

The results above do not reflect FAS 158. Separate results were prepared for financial disclosure purposes that reflect FAS 158 and purchase accounting.

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## Highlights

### Economic Assumptions

The discount rate for postretirement welfare cost purposes is the rate at which the postretirement obligation could be effectively settled. This rate is based on high-grade bond yields, after allowing for call and default risk. The following bond yields were considered in the selection of economic assumptions:

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Moody's Aaa	5.41%	5.46%
Moody's Aa	5.80%	5.72%

The assumed rate of return on assets for postretirement welfare cost purposes is the weighted average of expected long-term asset return assumptions, net of taxes. The compensation increase rate is a long-term rate based on current expectations of future compensation increases. The assumptions for postretirement welfare cost purposes are:

	<b>January 1, 2008</b>	<b>January 1, 2007</b>
Discount rate for obligations	6.20%	5.90%
Rate of return on assets <sup>(1)</sup>	7.75%	7.38%

(1) Rate is weighted average of the expected return on Bargaining VEBAs (which are tax exempt) and the return on Non-Bargained VEBAs (which are taxable, but currently invested in non-taxable Municipal bonds).

Assumptions used to determine the statutory contribution limits must be reasonable, taking into account the experience of the plan and reasonable expectations. The discount rate used to determine normal cost and present value of projected benefits is based on the long-term expected return on assets, net of taxes. The assumptions for contribution purposes are:

	<b>Preliminary 2008<sup>(1)</sup></b>	<b>Final 2007</b>
Discount rate for normal cost and present value of projected benefits:		
▶ Bargaining medical and life insurance	8.20%	8.20%
▶ Non-bargaining medical	3.87%	3.87%

(1) Deductible limits are finalized at year-end based on assumptions determined as of December 31, 2008. Assumptions shown here are preliminary.

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The health care cost trend assumptions used in the valuation are:

	<b>January 1, 2008</b>		<b>January 1, 2007</b>	
	<i>Pre-Medicare Eligible</i>	<i>Medicare Eligible</i>	<i>Pre-Medicare Eligible</i>	<i>Medicare Eligible</i>
<b>Health Care Cost Trend</b>				
2007 trend	N/A	N/A	9.0%	9.0%
2008 trend	8.0%	8.0%	8.0%	8.0%
Ultimate trend	5.0%	5.0%	5.0%	5.0%
Year ultimate reached	2014	2014	2011	2011

The assumed per capita costs are the expected annual per person cash costs of the medical plan, before reflecting participant contributions.

The average per capita costs used in the 2007 and 2008 valuations are:

	<i>Pre-Medicare Eligible</i>		<i>Medicare Eligible</i>	
	<i>Retiree</i>	<i>Spouse</i>	<i>Retiree</i>	<i>Spouse</i>
<b>RWE Promise Participants</b>				
▶ 2007 assumed per capita cost	\$ 9,430	\$ 9,430	\$ 3,911	\$ 3,911
▶ Expected per capita cost increase (trend to 2008)	9.0%	9.0%	9.0%	9.0%
▶ 2008 expected per capita cost	\$ 10,279	\$ 10,279	\$ 4,263	\$ 4,263
▶ 2008 assumed per capita cost	9,690	9,690	4,415	4,415
<b>Non-RWE Promise Participants</b>				
▶ 2007 assumed per capita cost	\$ 9,324	\$ 9,324	\$ 3,815	\$ 3,815
▶ Expected per capita cost increase (trend to 2008)	9.0%	9.0%	9.0%	9.0%
▶ 2008 expected per capita cost	\$ 10,163	\$ 10,163	\$ 4,158	\$ 4,158
▶ 2008 assumed per capita cost	9,603	9,603	4,317	4,317
<b>St. Louis Participants</b>				
▶ 2007 assumed per capita cost	\$ 8,972	\$ 8,972	\$ 3,815	\$ 3,815
▶ Expected per capita cost increase (trend to 2008)	9.0%	9.0%	9.0%	9.0%
▶ 2008 expected per capita cost	\$ 9,779	\$ 9,779	\$ 4,158	\$ 4,158
▶ 2008 assumed per capita cost	9,233	9,233	4,317	4,317

	<i>Pre-Medicare Eligible</i>		<i>Medicare Eligible</i>	
	<i>Retiree</i>	<i>Spouse</i>	<i>Retiree</i>	<i>Spouse</i>
Elizabethtown Bargaining Participants				
▶ 2007 assumed per capita cost	\$ 9,051	\$ 9,051	\$ 3,815	\$ 3,815
▶ Expected per capita cost increase (trend to 2008)	9.0%	9.0%	9.0%	9.0%
▶ 2008 expected per capita cost	\$ 9,866	\$ 9,866	\$ 4,158	\$ 4,158
▶ 2008 assumed per capita cost	9,233	9,233	4,317	4,317
Elizabethtown Non-Bargaining Participants				
▶ 2007 assumed per capita cost	\$ 8,972	\$ 8,972	\$ 3,815	\$ 3,815
▶ Expected per capita cost increase (trend to 2008)	9.0%	9.0%	9.0%	9.0%
▶ 2008 expected per capita cost	\$ 9,779	\$ 9,779	\$ 4,158	\$ 4,158
▶ 2008 assumed per capita cost	9,603	9,603	4,317	4,317
Elizabethtown Dental				
▶ 2007 assumed per capita cost	\$ 353	\$ 353	\$ 0	\$ 0
▶ Expected per capita cost increase (trend to 2008)	9.0%	9.0%	9.0%	9.0%
▶ 2008 expected per capita cost	\$ 385	\$ 385	\$ 0	\$ 0
▶ 2008 assumed per capita cost	371	371	0	0

**Demographic Assumptions**

The cost of providing plan benefits depends on demographic factors such as retirement, mortality, turnover and plan participation. Demographic assumptions used in the valuation were selected to reflect the experience of the covered population and reasonable expectations. If actual experience is more favorable than assumed, plan costs will be lower. Alternatively, if actual experience is less favorable than assumed, future plan costs will be higher.

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**Assets**

In the year ended December 31, 2007, the plan's portfolio realized a 1.73% investment return (net of expenses and taxes), while the capital markets performed as follows (returns are pre-tax, which would apply to a non-taxable trust, such as the Bargaining VEBA):

	<b>December 31, 2007</b>
Large equities [S&P 500]	5.49%
Intermediate/small equities [Russell 2500]	1.38%
Non-U.S. equities [EAFE]	11.63%
Bonds [Lehman Brothers Aggregate]	6.97%
Citi 3 Month Treasury Bill	4.74%
S&P National Municipal Bond Index <sup>(1)</sup>	3.18%

(1) Municipal Bonds are non-taxable investments. This index provides a comparison for the Non-bargaining Medical VEBA.

**Plan Changes**

There have been no plan changes since the prior year.

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## **FAS 106 Postretirement Welfare Cost and Funded Position**

Postretirement welfare cost (calculated without reflecting purchase accounting) is determined in accordance with Financial Accounting Standard No. 106. The fiscal 2008 postretirement welfare cost for the plan is \$27,352,435, or \$7,110 per active participant.

Funded position, on a FAS 106 basis, is measured by comparing the fair value of assets (FV) with the accumulated postretirement benefit obligation (APBO). The APBO is the portion of the total present value of projected benefits allocated to prior years as of the measurement date.

The plan's funded percentage is 64.9% as of January 1, 2008, based on the fair value of assets of \$292,899,197 and an APBO of \$451,147,525.

### **Change in Postretirement Welfare Cost and Funded Position**

The postretirement welfare cost increased from \$25,013,949 in fiscal 2007 to \$27,352,435 in fiscal 2008 because:

- ▶ Expected changes based on prior year's assumptions, methods, plan provisions and contributions decreased the postretirement welfare cost \$374,431.
- ▶ Noninvestment experience including demographic and medical claims experience, increased the postretirement welfare cost \$1,145,037.
- ▶ The return on the fair value of plan assets in fiscal 2007 was 1.73%, which increased the postretirement welfare cost \$1,830,250.
- ▶ Assumption changes decreased the postretirement welfare cost \$262,370.

## **Employer Contributions**

Employer contributions are the amounts paid by American Water to provide for postretirement benefits, net of participant contributions. For 2007, the actual employer contributions of \$27,158,123 were greater than the estimated employer contributions of \$25,013,949.

American Water's funding policy is to contribute an amount equal to the postretirement welfare accounting cost not to exceed the maximum tax-deductible limit. American Water may change its contribution if appropriate to its tax and cash position and the plan's funded position. For 2008, the contribution under the funding policy is \$27,352,435. The maximum tax-deductible contribution limit under the Internal Revenue Code is estimated to be \$25,300,000. However, the actual maximum tax-deductible contribution limit under the Internal Revenue Code for 2008 cannot be determined until actual December 31, 2008 asset and interest rate values are known. Estimated benefit payments for 2008 are \$19,397,977.

## Actuarial Certification, Reliances and Distribution

American Water retained Towers Perrin to perform a valuation of its postretirement welfare benefit plans for the purpose of determining (1) its postretirement welfare cost in accordance with FAS 106 and (2) the maximum tax-deductible contribution allowed by the Internal Revenue Code. This valuation has been conducted in accordance with generally accepted actuarial principles and practices.\*

The consulting actuaries are members of the Society of Actuaries and other professional actuarial organizations and meet their "General Qualification Standard for Public Statements of Actuarial Opinion" relating to the postretirement welfare plans.

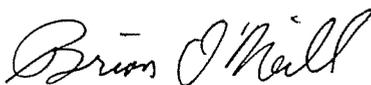
In preparing the results presented in this report, we have relied upon information provided to us regarding plan provisions, plan participants, and plan assets. We have reviewed this information for overall reasonableness and consistency, but have neither audited nor independently verified this information. The accuracy of the results presented in this report is dependent upon the accuracy and completeness of the underlying information.

The actuarial assumptions and the accounting policies and methods employed in the development of the postretirement welfare cost have been selected by the plan sponsor, with the concurrence of Towers Perrin. FAS 106 requires that each significant assumption "individually represent the best estimate of a particular future event."

The actuarial assumptions and methods employed in the development of the contribution limits have been selected by Towers Perrin, with the concurrence of the plan sponsor. The Internal Revenue Code requires the use of assumptions each of which is reasonable (taking into account the experience of the plan and reasonable expectations) and which, in combination, offer the actuary's best estimate of anticipated experience under the plan.

The results shown in this report have been developed based on actuarial assumptions that are considered to be reasonable and within the "best-estimate range" as described by the Actuarial Standards of Practice. Other actuarial assumptions could also be considered to be reasonable and within the best-estimate range. Thus, reasonable results differing from those presented in this report could have been developed by selecting different points within the best-estimate ranges for various assumptions.

The information contained in this report was prepared for the internal use of American Water and its auditors in connection with our actuarial valuation of the postretirement welfare plan. It is neither intended nor necessarily suitable for other purposes. American Water may also distribute this actuarial valuation report to the appropriate authorities who have the legal right to require American Water to provide them with this report, in which case American Water will use best efforts to notify Towers Perrin in advance of this distribution. Further distribution to, or use by, other parties of all or part of this report is expressly prohibited without Towers Perrin's prior written consent.



Brian O'Neill, FSA



Alan Abrams, FSA

Towers Perrin  
February 2008

\* These results do not reflect purchase accounting or FAS 158. Separate results were prepared reflecting both purchase accounting and FAS 158.



## *Supplemental Information*

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## Asset Values

### Asset Values for Calculating Postretirement Welfare Cost

Fair value, excluding contributions receivable:

▶ As of January 1, 2007	\$ 281,389,882
▶ Employer contributions	27,158,123
▶ Participant contributions	1,681,782
▶ Disbursements including expenses	(22,236,294)
▶ Investment return, net of taxes	<u>4,905,704</u>
▶ As of January 1, 2008	\$ 292,899,197
▶ Rate of return	1.73%

Market-related value:

▶ As of January 1, 2007	\$ 281,389,882
▶ As of January 1, 2008	292,899,197
▶ Rate of return	1.73%

### Asset Values for Calculating Employer Contributions

Actuarial value:

▶ As of January 1, 2007	\$ 281,389,882
▶ As of January 1, 2008	292,899,197
▶ Rate of return	1.73%

SI-2

**Asset Values for Determining Employer Contributions — By Trust**

	<b>VEBA Bargaining Medical</b>	<b>VEBA Nonbargaining Medical</b>	<b>VEBA Life Insurance</b>
Market value:			
▶ As of January 1, 2007	\$ 217,958,415	\$ 24,898,955	\$ 12,395,181
▶ Total contributions	20,021,802	7,068,103	1,750,000
▶ Disbursements	(10,703,309)	(9,617,070)	(1,915,915)
▶ Merger	21,423,794	4,713,537	0
▶ Investment return, net of taxes	<u>3,655,930</u>	<u>1,080,890</u>	<u>168,884</u>
▶ As of January 1, 2008	\$ 252,356,632	\$ 28,144,415	\$ 12,398,150
▶ Rate of return	1.49%	4.23%	1.45%
Actuarial value:			
▶ As of January 1, 2007	\$ 217,958,415	\$ 24,898,955	\$ 12,395,181
▶ As of January 1, 2008	252,356,632	28,144,415	12,398,150
▶ Rate of return	1.49%	4.23%	1.45%

	<b>VEBA Long Island Bargaining</b>	<b>VEBA Elizabethtown Bargaining</b>	<b>VEBA Elizabethtown Non-bargaining</b>	<b>VEBA St. Louis Bargaining</b>
Market value:				
▶ As of January 1, 2007	\$ 5,486,634	\$ 4,296,451	\$ 4,713,537	\$ 11,640,709
▶ Total contributions	0	0	0	0
▶ Disbursements	0	0	0	0
▶ Merger	(5,486,634)	(4,296,451)	(4,713,537)	(11,640,709)
▶ Investment return, net of taxes	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
▶ As of January 1, 2008	\$ 0	\$ 0	\$ 0	\$ 0
▶ Rate of return	N/A	N/A	N/A	N/A
Actuarial value:				
▶ As of January 1, 2007	\$ 5,486,634	\$ 4,296,451	\$ 4,713,537	\$ 11,640,709
▶ As of January 1, 2008	0	0	0	0
▶ Rate of return	N/A	N/A	N/A	N/A

## Basic Results for Postretirement Welfare Cost

	January 1, 2008	January 1, 2007
<b>Service Cost</b>		
Medical	\$ 12,156,105	\$ 12,483,299
Life insurance	<u>261,356</u>	<u>192,105</u>
Total	\$ 12,417,461	\$ 12,675,404
<b>Accumulated Postretirement Benefit Obligation [APBO]</b>		
Medical:		
▶ Current retirees	\$ 181,195,973	\$ 168,105,288
▶ Other participants fully eligible for benefits	11,515,719	7,759,622
▶ Other active participants	<u>232,380,003</u>	<u>225,277,506</u>
▶ Total	\$ 425,091,695	\$ 401,142,416
Life insurance:		
▶ Current retirees	\$ 20,262,099	\$ 20,237,563
▶ Other participants fully eligible for benefits	572,545	351,209
▶ Other active participants	<u>5,218,186</u>	<u>3,584,357</u>
▶ Total	\$ 26,052,830	\$ 24,173,129
All benefits:		
▶ Current retirees	\$ 201,461,072	\$ 188,342,851
▶ Other participants fully eligible for benefits	12,088,264	8,110,831
▶ Other active participants	<u>237,598,189</u>	<u>228,861,863</u>
▶ Total	\$ 451,147,525	\$ 425,315,545
<b>Assets</b>		
Fair value [FV]	\$ 292,899,197	\$ 281,389,882
Unrecognized investment losses (gains)	<u>0</u>	<u>0</u>
Market-related value	\$ 292,899,197	\$ 281,389,882

SI-4

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	<b>January 1, 2008</b>	<b>January 1, 2007</b>
<b>Key Economic Assumptions</b>		
Discount rate	6.20%	5.90%
Expected return on assets <sup>(1)</sup>	7.75%	7.38%
Health care cost trend rate:		
▶ First year	8.00%	9.00%
▶ Ultimate	5.00%	5.00%
▶ Year ultimate reached	2014	2011

(1) Blended expected return of tax-exempt trusts and taxable trust, which is primarily invested in tax-exempt municipal bonds.

**Development of Prepaid (Accrued)  
Postretirement Benefit Cost  
as of December 31, 2007**

Prepaid (accrued) postretirement benefit cost as of December 31, 2006		\$ (29,776,429)
Changes during fiscal 2007:		
▶ Income (cost) recognized		(25,013,949)
▶ Employer contributions		27,158,123
▶ Adjustments		0
▶ Expected receipt of federal subsidy		<u>(1,546,000)</u>
Prepaid (accrued) postretirement benefit cost as of December 31, 2007		\$ (29,178,255)

	<b>January 1, 2008</b>	<b>January 1, 2007</b>
<b>Reconciliation of Funded Status</b>		
Funded status [FV – APBO]	\$ (158,248,328)	\$ (143,925,663)
Unrecognized transition obligation	20,703,757	24,844,509
Unrecognized net actuarial loss (gain)	108,362,567	89,300,442
Unrecognized prior service cost (credit)	<u>3,749</u>	<u>4,283</u>
Prepaid (accrued) postretirement benefit cost (before FAS 158)	\$ (29,178,255)	\$ (29,776,429)

**Effect of Change in Health Care  
Cost Trend Rate**

One-percentage-point increase:		
▶ Sum of service cost and interest cost	\$ 6,226,256	\$ 6,123,950
▶ APBO	57,867,787	56,262,511
One-percentage-point decrease:		
▶ Sum of service cost and interest cost	(5,099,719)	(4,985,608)
▶ APBO	(48,220,200)	(46,710,243)

The results above do not reflect FAS 158 or purchase accounting upon sale of American Water to RWE. The above results differ from financial disclosure statements provided on January 17, 2008 due to the fact that preliminary estimated year-end 2007 assets were used for those disclosures; this report reflects the final January 1, 2008 asset value.

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## Postretirement Welfare Cost

	<b>Fiscal 2008</b>	<b>Fiscal 2007</b>
<b>Postretirement Welfare Cost<sup>(1)</sup></b>		
Service cost	\$ 12,417,461	\$ 12,675,404
Interest cost	28,148,734	25,326,408
Expected return on assets	(23,002,172)	(21,065,260)
Amortization:		
▶ Unrecognized transition obligation	4,140,752	4,140,752
▶ Unrecognized net loss (gain)	5,647,126	3,936,111
▶ Unrecognized prior service cost (credit)	<u>534</u>	<u>534</u>
Postretirement welfare cost	\$ 27,352,435	\$ 25,013,949
Per active participant	\$ 7,110	\$ 6,079

### Change in Postretirement Welfare Cost

Postretirement welfare cost for fiscal 2007	\$ 25,013,949
Change from fiscal 2007 to fiscal 2008:	
▶ Expected based on prior valuation	(374,431)
▶ Loss (gain) from noninvestment and claims experience	1,145,037
▶ Loss (gain) from asset experience	1,830,250
▶ Assumption changes	<u>(262,370)</u>
Postretirement welfare cost for fiscal 2008	\$ 27,352,435

(1) The cost before recognition of the federal subsidy as a result of the MMA is \$30,924,631 for fiscal 2007 and \$33,451,366 for fiscal 2008. See additional details on the following page.

Results do not reflect purchase accounting upon sale of American Water to RWE.

**Postretirement Welfare Basic Results and Cost Not Reflecting Medicare Modernization Act Subsidy**

	<b>January 1, 2008</b>	<b>January 1, 2007</b>
<b>Basic Results</b>		
Service cost	\$ 13,634,636	\$ 13,942,556
APBO	499,873,588	471,486,486
<b>Postretirement Welfare</b>		
Service cost	\$ 13,634,636	\$ 13,942,556
Interest cost	31,195,859	28,125,255
Expected return on assets	(22,940,703)	(21,065,260)
Amortization:		
▶ Transition obligation	4,159,514	4,159,514
▶ Net loss (gain)	7,401,526	5,762,032
▶ Prior service cost (credit)	<u>534</u>	<u>534</u>
Postretirement welfare cost	\$ 33,451,366	\$ 30,924,631
<b>Reconciliation of Funded Status</b>		
Funded status [FV – APBO]	\$ (206,974,391)	\$ (190,096,604)
Unrecognized transition obligation	20,797,570	24,957,084
Unrecognized net actuarial loss (gain)	132,884,447	115,613,120
Unrecognized prior service cost (credit)	<u>3,749</u>	<u>4,283</u>
Prepaid (accrued) postretirement benefit cost (before FAS 158)	\$ (53,288,625)	\$ (49,522,117)

The results above do not reflect FAS 158 or purchase accounting upon sale of American Water to RWE.

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## Information for the Deferred Tax Calculation

The following information is provided for purposes of determining the company's balance sheet adjustment to reflect the deferred tax asset associated with the postretirement welfare cost.

	<b>Reflecting MMA Subsidy</b>	<b>Ignoring MMA Subsidy</b>
<b>Postretirement Welfare Cost</b>		
2007	\$ 25,013,949	\$ 30,924,631
2008	27,352,435	33,451,366
<b>Development of Prepaid (Accrued) Postretirement Benefit Cost</b>		
Prepaid (accrued) postretirement benefit cost, beginning of year	\$ (29,776,429)	\$ (49,522,117)
Changes during fiscal 2007:		
▶ Postretirement welfare cost	(25,013,949)	(30,924,631)
▶ Employer contributions	27,158,123	27,158,123
▶ Adjustments	0	0
▶ Expected receipt of federal subsidy	<u>(1,546,000)</u>	<u>0</u>
Prepaid (accrued) postretirement benefit cost, end of year (before FAS 158)	\$ (29,178,255)	\$ (53,288,625)

**Actuarial Present Value of Benefit Obligation for SOP 92-6  
(as amended by SOP 01-2)**

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
<b>Actuarial Present Value of Benefit Obligation<sup>(1)</sup></b>		
Participants currently receiving benefits	\$ 225,895,622	\$ 208,788,769
Other fully eligible participants	13,708,350	8,991,317
Other participants	<u>260,269,616</u>	<u>253,706,400</u>
Total	\$ 499,873,588	\$ 471,486,486
Fair value of assets	292,899,197	281,389,882
Effect on obligation of one-percentage-point increase in health care cost trend rate	65,829,097	64,324,276
<b>Change in Incurred but not reported (IBNR) Claims Reserve</b>		
Balance as of December 31, 2006 <sup>(3)</sup>	\$ 3,700,000	
▶ Claims reported and approved for payment	21,417,577	
▶ Claims paid <sup>(2)</sup>	(21,317,577)	
▶ Reserve adjustment	<u>0</u>	
▶ Total change in reserve	<u>\$ 100,000</u>	
Balance as of December 31, 2007 <sup>(3)</sup>	\$ 3,800,000	
<b>Change in Postretirement Benefit Obligations</b>		
Balance as of December 31, 2006 <sup>(3)</sup>	\$ 467,786,486	
▶ Benefits earned	13,942,556	
▶ Benefits reclassified to amounts currently payable <sup>(2)</sup>	(21,317,577)	
▶ Interest	28,125,255	
▶ Change in actuarial assumptions	(2,709,891)	
▶ Actuarial (gains) losses	<u>10,246,759</u>	
▶ Total change in reserve	<u>\$ 28,287,102</u>	
Balance as of December 31, 2007	\$ 496,073,588	

- (1) These results do not reflect the recognition for the federal subsidy as a result of the MMA. Balances are estimated to reflect the reserves associated with benefit payments for retirees.
- (2) Assets are different from the amount shown on the year end 2007 disclosure since assets were estimated for disclosure purposes. Actual assets as of December 31, 2007 are shown above.
- (3) These balances are estimated to reflect the reserves associated with benefit payments for retirees (and excluding any reserves for active employees' benefits).

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**Total Obligation<sup>(1)</sup>**

Balance as of December 31, 2006	\$ 471,486,486
Increase (decrease) in reserve	<u>28,387,102</u>
Balance as of December 31, 2007	\$ 499,873,588

**Change in Plan Assets<sup>(2)</sup>**

Fair value of plan assets as of December 31, 2006	\$ 281,389,882
▶ Actual return on plan assets	4,905,704
▶ Employer contributions	27,158,123
▶ Participant contributions	1,681,782
▶ Disbursements	<u>(22,236,294)</u>
Fair value of plan assets as of December 31, 2007	\$ 292,899,197

The key actuarial assumptions used for SOP 01-2 calculations are the same as those used to determine the postretirement welfare cost and are shown in the Actuarial Assumptions and Methods section. All obligations shown are net of retiree contributions. In addition to deductibles and copayments, retirees currently pay approximately 9% of the estimated cost of providing benefits.

- (1) This result does not reflect the recognition of the federal subsidy as a result of the MMA.
- (2) Assets are different from the amount shown on the year end 2007 disclosure since assets were estimated for disclosure purposes. Actual assets as of December 31, 2007 are shown above.

**Basic Results for Employer Contributions<sup>(1)</sup>**

	<b>January 1, 2008</b>	<b>January 1, 2007<sup>(2)</sup></b>
<b>Present Value of Projected Benefits</b>		
Medical — Bargaining	\$ 259,861,523	\$ 248,367,318
Medical — Non-bargaining	209,377,028	164,836,337
Life Insurance	20,199,534	18,094,056
Long Island — Bargaining	N/A <sup>(3)</sup>	N/A
Elizabethtown — Bargaining	N/A <sup>(3)</sup>	N/A
Elizabethtown — Non-bargaining	N/A <sup>(3)</sup>	N/A
St. Louis — Bargaining	<u>N/A<sup>(3)</sup></u>	<u>N/A</u>
Total	\$ 489,438,085	\$ 431,297,711
<b>Actuarial Value of Assets</b>		
Medical — Bargaining	\$ 252,356,632	\$ 239,382,209
Medical — Non-bargaining	28,144,415	29,612,492
Life Insurance	12,398,150	12,395,181
Long Island — Bargaining	N/A <sup>(3)</sup>	N/A
Elizabethtown — Bargaining	N/A <sup>(3)</sup>	N/A
Elizabethtown — Non-Bargaining	N/A <sup>(3)</sup>	N/A
St. Louis — Bargaining	<u>N/A<sup>(3)</sup></u>	<u>N/A</u>
Total	\$ 292,899,197	\$ 281,389,882

(1) These results do not reflect the recognition of the federal subsidy as a result of the MMA.

(2) 2007 values shown are the amounts used to calculate the final 2007 maximum tax-deductible limit.

(3) Merged into American Water plan as of December 31, 2006.

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	<b>January 1, 2008</b>	<b>January 1, 2007</b>
<b>Key Economic Assumptions</b>		
Discount rate for present value of projected benefits <sup>(1)</sup>	8.20%/3.87%	8.20%/3.87% <sup>(2)</sup>
Health care cost trend rate <sup>(3)</sup>		
▶ First year	8.00%	9.00%
▶ Ultimate	5.00%	5.00%
▶ Year ultimate reached	2014	2011

(1) Interest rate for the life insurance VEBA and the bargaining VEBA is 8.20%. The 3.87% interest rate for the non-bargaining medical VEBA is net of applicable taxes.

(2) Interest rates shown are the rates for the prior year 2007 final maximum tax deductible limit. Prior estimates were calculated using 8.00% for the life insurance VEBA and the bargaining VEBA.

(3) Health care cost trend is only applied to the bargaining medical VEBAs, in accordance with provisions of the Internal Revenue Code.

**Estimated Maximum Tax-Deductible Employer Contribution —  
VEBA**

	<b>Medical Non-bargaining VEBA</b>	<b>Life Insurance VEBA</b>
<b>Estimated Maximum Tax-Deductible Employer Contribution</b>		
Qualified direct costs <sup>(1)</sup>	\$ 9,954,000	\$ 1,362,000
Permitted addition to qualified asset account <sup>(2)</sup>	6,976,000	1,038,000
Estimated investment income <sup>(3)</sup>	(913,000)	(523,000)
Estimated participant contributions	<u>(592,000)</u>	<u>(72,000)</u>
Estimated maximum tax-deductible employer contribution limit	\$ 15,425,000	\$ 1,805,000

	<b>Medical Bargaining VEBA</b>
<b>Estimated Maximum Tax-Deductible Employer Contribution</b>	
Estimated present value of projected benefits at December 31, 2008	\$ 269,157,000
Estimated actuarial value of assets at December 31, 2008 <sup>(3)</sup>	<u>(261,037,000)</u>
Unfunded present value (minimum of \$0)	\$ 8,120,000
Estimated maximum tax-deductible contribution	8,120,000

(1) The estimated amount of benefits and expenses paid from the trust in the current year

(2) Normal cost plus change in incurred-but-unpaid claims reserve

(3) Assumed results through the end of the year.

Notes:

- There is no minimum employer contribution to the trusts required by the IRS.
- Key employees and retirees who were key employees are not funded through the trusts and, therefore, are excluded from the calculations.
- To be tax-deductible in the indicated fiscal year, employer contributions must be made prior to the end of the fiscal year.
- The maximum tax-deductible contributions cannot be finalized until the end of the year.

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## Expected Benefits and Administrative Expenses

	January 1, 2008	January 1, 2007
<b>Medical</b>		
Gross disbursements	\$ 19,883,113	\$ 19,045,314
Participant contributions	<u>1,901,529</u>	<u>2,668,027</u>
Net disbursements	\$ 17,981,584	\$ 16,377,287
<b>Life Insurance</b>		
Gross disbursements	\$ 1,488,149	\$ 1,409,779
Participant contributions	<u>71,756</u>	<u>73,627</u>
Net disbursements	\$ 1,416,393	\$ 1,336,152
<b>Total</b>		
Gross disbursements	\$ 21,371,262	\$ 20,455,092
Participant contributions	<u>1,973,285</u>	<u>2,741,654</u>
Net disbursements	\$ 19,397,977	\$ 17,713,438

## Actuarial Assumptions and Methods

	<b>FAS 106 Cost</b>	<b>Employer Contributions</b>
<b>Economic Assumptions</b>		
Discount rate:		
▶ Pre-tax	6.20%	N/A
▶ After-tax	N/A	8.20%/3.87%
Weighted average rate of return on plan assets <sup>(1)</sup>	7.75%	N/A

(1) Rate is weighted average of the expected return on Bargaining VEBAs (which are tax exempt) and the return on the Non-Bargained VEBA, which is taxable but invested in tax-exempt bonds.

### Medical Benefit Assumptions

Average per capita claims cost:<sup>(2)</sup>

Age	<i>RWE Promise Participants</i>	<i>Non-RWE Promise Participants</i>	<i>Elizabethtown Non-Bargaining Participants</i>	<i>Elizabethtown Bargaining Participants</i>	<i>Elizabethtown Dental Participants</i>	<i>St. Louis Participants</i>
<29	\$ 4,724	\$ 4,682	\$ 4,501	\$ 4,501	\$ 178	\$ 4,501
30-39	4,711	4,668	4,488	4,488	177	4,488
40-44	5,675	5,625	5,407	5,407	213	5,407
45-49	6,198	6,142	5,905	5,905	233	5,905
50-54	7,141	7,077	6,804	6,804	268	6,804
55-59	8,510	8,434	8,108	8,108	320	8,108
60-64	10,840	10,743	10,328	10,328	407	10,328
65-69	3,929	3,842	3,842	3,842	0	3,842
70-74	4,387	4,290	4,290	4,290	0	4,290
75-79	4,662	4,559	4,559	4,559	0	4,559
80-84	4,760	4,655	4,655	4,655	0	4,655
85-89	4,950	4,841	4,841	4,841	0	4,841
>90	4,159	4,067	4,067	4,067	0	4,067

(2) Includes cost for pre-65 dental coverage. Per capita costs for retirees 65 or older represent costs of Supplemental Plan net of Medicare benefits. Surviving dependent costs are assumed to equal retiree costs. Administrative expenses included in per capita cost

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	<b>Postretirement Welfare Cost</b>	<b>Employer Contributions</b>
Health care cost trend rate (covered charges):	8.00% in 2008 reducing to 5.00% in 2014 and after	Same <sup>(1)</sup>
Participant contribution trend rate	Same as applicable medical plan trend rate	Same <sup>(1)</sup>

(1) For calculating contributions to the non-bargaining medical VEBA, no trend is assumed for the per capita costs and the retiree cost-sharing amounts.

**MMA Assumptions**

Eligible medical plans	All plans	N/A														
Test for actuarial equivalence	Plan passes test for actuarial equivalence indefinitely on a net basis (after taking into account retiree contributions) for retirees and dependents. Surviving spouses, who pay for their full cost of coverage, are only eligible for the federal subsidy until 2008.	N/A														
Distribution of prescription drug claims to estimate Medicare Part D subsidy	Towers Perrin proprietary claims distribution table adjusted to reflect American Water prescription drug claims data	N/A														
Federal subsidy amounts	\$600 per retired participant per year beginning in 2006	N/A														
Federal subsidy trend	<table border="1"> <tbody> <tr><td>2008</td><td>8.00%</td></tr> <tr><td>2009</td><td>7.50%</td></tr> <tr><td>2010</td><td>7.00%</td></tr> <tr><td>2011</td><td>6.50%</td></tr> <tr><td>2012</td><td>6.00%</td></tr> <tr><td>2013</td><td>5.50%</td></tr> <tr><td>2014+</td><td>5.00%</td></tr> </tbody> </table>	2008	8.00%	2009	7.50%	2010	7.00%	2011	6.50%	2012	6.00%	2013	5.50%	2014+	5.00%	
2008	8.00%															
2009	7.50%															
2010	7.00%															
2011	6.50%															
2012	6.00%															
2013	5.50%															
2014+	5.00%															

**Demographic and Other Assumptions for American Water Participants**

Mortality:

- ▶ Healthy                                      Sex-distinct RP-2000 table projected to 2015 using scale AA with phase-out without any collar adjustment.
- ▶ Disabled                                     Select and ultimate mortality rates from the PBGC disabled mortality for Social Security recipients

Termination

Rates varying by age and service

Representative rates:

Age	<u>Service</u>			Ultimate
	0-4	5-9	10-14	
25	0.100	0.090	0.080	0.060
35	0.070	0.065	0.060	0.040
40	0.065	0.055	0.050	0.040
45	0.060	0.050	0.040	0.030
55	0.000	0.000	0.000	0.000

Disability

50% of 1987 CGDT. Rates varying by age and gender

Representative rates:

Age	Male	Female
25	.0004	.0006
35	.0006	.0012
40	.0010	.0015
45	.0018	.0023
55	.0059	.0053

Retirement

Rates vary by age, average age 62.

Age	Rate	Age	Rate
55	0.10	61	0.10
56	0.07	62	0.60
57	0.07	63	0.40
58	0.07	64	0.40
59	0.10	65	0.45
60	0.10	66	1.00

*Current Retirees*

*Future Retirees*

Percent married

Based on valuation census data

80% of males; 50% of females

Spouses age

Based on valuation census data

Wife three years younger than husband

Participation

Based on valuation census data

100%

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**Demographic and Other Assumptions for St. Louis Participants**

Mortality:

- ▶ Healthy                      Sex-distinct RP-2000 table projected to 2015 using scale AA with phase-out without any collar adjustment.
- ▶ Disabled                     Select and ultimate mortality rates from the PBGC disabled mortality for Social Security recipients

Termination

Rates varying by age and service

Representative rates:

Age	<u>Service</u>			Ultimate
	0-4	5-9	10-14	
25	0.100	0.090	0.080	0.060
35	0.070	0.065	0.060	0.040
40	0.065	0.055	0.050	0.040
45	0.060	0.050	0.040	0.030
55	0.000	0.000	0.000	0.000

Disability

50% of 1955 UAW Disability Table. Rates varying by age and gender

Representative rates:

Age	Male	Female
25	.0003	.0005
35	.0005	.0008
40	.0007	.0010
45	.0010	.0015
55	.0036	.0049

Retirement

Rates vary by age,

Age	Rate	Age	Rate
55	.10	61	.10
56	.07	62	.60
57	.07	63	.40
58	.07	64	.40
59	.10	65	.45
60	.10	66	1.00

*Current Retirees*

*Future Retirees*

Percent married

Based on valuation census data

80% of males; 50% of females

Spouses age

Based on valuation census data

Wife three years younger than husband

Participation

Based on valuation census data

90% pre-65; 0% post-65

**Demographic and Other Assumptions for Elizabethtown Participants**

Mortality Sex-distinct RP-2000 table projected to 2015 using scale AA with phase-out without any collar adjustment.

Termination Rates varying by age and service

Representative rates:

Age	<u>Service</u>			
	0-4	5-9	10-14	Ultimate
25	0.100	0.090	0.080	0.060
35	0.070	0.065	0.060	0.040
40	0.065	0.055	0.050	0.040
45	0.060	0.050	0.040	0.030
55	0.000	0.000	0.000	0.000

Retirement Rates vary by age, average age 63.

Age	Rate	Age	Rate
55	.025	61	.075
56	.025	62	.350
57	.025	63	.300
58	.025	64	.200
59	.025	65	.600
60	.075	66	.200

*Current Retirees*

*Future Retirees*

Percent married Based on valuation census data

80% of males; 50% of females

Spouses age Based on valuation census data

Wife three years younger than husband

Participation Based on valuation census data

90% pre-65; 70% post-65

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**Methods**

Postretirement welfare cost:

- ▶ Service cost and APBO      Projected unit credit actuarial cost method, allocated from the valuation date on or after date of hire to full eligibility date (age 62 or earlier retirement age)
- ▶ Market-related value of assets      Fair value as reported by company
- ▶ Development of claims cost      Average medical plan claims per person were developed based upon a review of actual claims experience for 2003, 2004 and nine months of 2005. The average claims costs were adjusted to reflect (i) medical trend (through the valuation date) and expenses, (ii) change from paid claims to incurred claims, (iii) differences in expected claims between the medical plans, (iv) plan design changes and (v) age-specific patterns expected based upon plan census information and standard claims distribution tables.

Employer contributions:

- ▶ Normal cost and present value of projected benefits      Aggregate cost method for non-bargaining medical and life insurance VEBAs. For bargaining medical VEBA, the account limit is set equal to the present value of all future benefits.
- ▶ Actuarial value of assets      Fair value as reported by the trustee
- ▶ Development of claims cost      Same as for postretirement welfare cost

**Benefits Not Valued**

- Postretirement welfare cost      None
- Contributions      Benefits for key employees and life insurance benefits in excess of DEFRA limits (generally \$50,000) were not valued.

**Change in Methods and Assumptions Since Prior Valuation**

- Postretirement welfare cost      The discount rate for benefit obligations changed from 5.90% to 6.20%.  
  
Expected return on assets for the bargained VEBA changed from 8.00% to 8.20%. The resulting weighted average rate of return after-tax changed from 7.38% to 7.75%.  
  
The Elizabethtown termination rates were changed to the American Water termination rates.
- Employer contributions      The pre-tax discount rates were changed from 8.00% to 8.20%.

### **Data Sources**

Towers Perrin used asset data supplied by the trustee. The company furnished the claims cost data, as well as the accrued postretirement benefits cost as of December 31, 2007. Participant census data were provided as of July 1, 2007. Data were reviewed for reasonableness and consistency, but no audit was performed. We are not aware of any errors or omissions in the data that would have a significant effect on the results of our calculations.

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**Participant Data**

	<b>January 1, 2008</b>	<b>January 1, 2007</b>
<b>Active</b>		
Number:		
▶ Fully eligible for benefits	139	105
▶ Other	<u>3,708</u>	<u>4,010</u>
▶ Total	3,847	4,115
Average age	47.8	46.5
Average past service	18.0	16.8
Average future service:		
▶ To full eligibility age	10.635	11.243
▶ To expected retirement	11.119	11.805
<b>Currently Receiving Benefits</b>		
Retired participants and surviving spouses:		
▶ Number:		
– Under age 65	524	554
– Age 65 and over	<u>1,823</u>	<u>1,948</u>
– Total	2,347	2,502
▶ Average age	72.6	72.7
Dependents:		
▶ Number:		
– Under age 65	522	528
– Age 65 and over	<u>847</u>	<u>824</u>
– Total	1,369	1,352
▶ Average age	68.2	68.1

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## **Plan Provisions for Employees of the American Water Works Company, Inc.**

### **Medical and Dental Benefits**

Eligibility	<p>Pension retirement or long-term disability.</p> <p><u>Nonunion</u>: Pension requirement: the first day of any month on which the employee elects to retire provided that:</p> <ul style="list-style-type: none"><li>(a) the employee has attained age 55, and</li><li>(b) the sum of the individual's age and years of service totals at least 70.</li></ul> <p>Non-bargaining employees hired on or after January 1, 2002 are not eligible for these benefits.</p> <p><u>Union (as of January 1, 2006)</u>: The first day of any month in which the employee elects to retire provided that:</p> <ul style="list-style-type: none"><li>(a) the employee has attained age 55 and 20 years of service, or</li><li>(b) the employee has attained age 65.</li></ul>
Dependent eligibility	<p>Spouse and unmarried children under age 19 or a full-time student under age 23.</p>
Survivor eligibility	<p>Eligibility can continue for provided that the survivor pays the full premium for coverage.</p> <p>Effective January 1, 2008: Surviving spouses will be covered pre-65 provided they pay full premium coverage</p>
LTD requirement	<p>10 years of service and approved for Social Security Disability Income.</p>

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Retiree contributions  
(medical):

- ▶ Retirees (except at Northwest Indiana, St. Louis and Long Island)

– Basic

Under Age 65: None for retirements prior to 1/1/96. The following schedule applies to those who retire on or after 1/1/96:

<u>Retirement Date</u>	<u>Monthly Contribution</u>		
	<u>Retiree</u>	<u>Dependent</u>	<u>Family</u>
1/1/1996	\$0.00	\$10.00	\$10.00
1/1/2001	5.00	5.00	10.00
1/1/2002	7.50	12.50	20.00
1/1/2003	9.00	13.50	22.50
1/1/2004	10.00	15.00	25.00
1/1/2005	11.00	16.50	27.50

Effective January 1, 2006: Retiree pays 50% of active contribution (Annual active contributions for 2006: \$581 for standard plan, \$444 for Premium Plan and \$780 for EPO/HMO plan).

Age 65 and Over: None for retirements prior to 1/1/2000. The following schedule of monthly contributions applies to those who retire on or after January 1, 2000.

<u>Retirement Date</u>	<u>Monthly Contribution</u>		
	<u>Retiree</u>	<u>Dependent</u>	<u>Family</u>
1/1/2000	\$ 5.00	\$ 5.00	\$10.00
1/1/2001	10.00	10.00	20.00
1/1/2002	10.00	10.00	20.00
1/1/2003	10.00	10.00	20.00
1/1/2004	10.00	10.00	20.00
1/1/2005	10.00	10.00	20.00
1/1/2006 and beyond	50.00	50.00	125.00

– Additional

Nonunion: Under Age 65: For retirements on or after 8/1/93, an additional contribution is required based on age at retirement. This contribution applies from retirement to age 65.

<u>Age at retirement</u>	<u>Monthly Contribution</u>		
	<u>Retiree</u>	<u>Dependent</u>	<u>Family</u>
55	\$100	\$0	\$100
56	90	0	90
57	80	0	80
58	70	0	70
59	60	0	60
60	50	0	50
61	50	0	50
62 and later	0	0	0

Union: For retirement on or after January 1, 2006, retirees are required to pay the above monthly surcharge plus 50% of the active monthly contribution.

Age 65 and Over: None.

▶ Surviving dependents

Pays 100% of a budgeted premium. Premiums for 2006 are as follows:

Under Age 65: \$435 per month.

Age 65 and Over: \$331 per month (Premium PPO).

▶ Disableds

Disabled employees pay the dependent coverage charge in effect at the time of disability. This charge is not expected to increase from that point.

▶ Northwest Indiana Retirees

Pay 100% of the cost of the plan for pre-65 benefits. Various contribution levels for post-65 benefits

▶ St. Louis Retirees who retire after January 1, 1993

Participant contributions are based on age plus service as of January 1, 1993.

▶ Long Island Nonunion Retirees who retire before July 1, 2001 and Long Island Union Retirees who retire before May 1, 2004

No participant contributions required.

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► AW Protected Retirees

Any AW retirees as of January 10, 2003 and any AW active participant who is eligible for retiree welfare benefits as of January 10, 2003 (age 55 with 70 points), will pay the contributions in effect at that time (i.e., 2003 contribution schedule).

Pre-65 benefits:

	Standard PPO	Premium PPO	HMO/EPO
<b>Medical (In-network)</b>			
▪ Annual Deductible (single/family)	▪ \$1,000/\$3,000	▪ None	▪ None
▪ Coinsurance	▪ 80%	▪ 90%	▪ 100%
▪ Out-of-Pocket Maximum (excluding deductible) (single/family)	▪ \$3,500/\$10,500	▪ \$1,000/\$3,000	▪ None
▪ Lifetime maximum benefit	▪ Unlimited	▪ Unlimited	▪ Unlimited
▪ Office Visits (primary care physician and specialist)	▪ 80% after deductible	▪ \$15 copay	▪ \$15 copay
▪ Hospital inpatient services	▪ 80% after deductible	▪ 90%	▪ 100% after \$100 copay per admit
▪ Hospital outpatient surgery	▪ 80% after deductible	▪ 100%	▪ 100%
▪ Prescription Drugs (participant coinsurance)	▪ Preferred drug list ▪ Retail: Generic: 10% Preferred brand: 20% Non-preferred brand: 20% ▪ Mail: Generic: \$14 Preferred brand: \$30 Non-preferred brand: \$70	▪ Preferred drug list ▪ Retail: Generic: 10% Preferred brand: 20% Non-preferred brand: 20% ▪ Mail: Generic: \$14 Preferred brand: \$30 Non-preferred brand: \$70	▪ Preferred drug list ▪ Retail: Generic: 10% Preferred brand: 20% Non-preferred brand: 20% ▪ Mail: Generic: \$14 Preferred brand: \$30 Non-preferred brand: \$70

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	Standard PPO	Premium PPO	HMO/EPO
<b>Medical (Out-of-network)</b>			
▪ Annual Deductible (single/family)	▪ \$1,500 /\$4,500	▪ \$200/\$600	▪ N/A
▪ Coinsurance	▪ 60%	▪ 70%	▪ N/A
▪ Out-of-Pocket Maximum (excluding deductible) (single/family)	▪ \$4,000/\$12,000	▪ \$3,000 per person	▪ N/A
▪ Lifetime maximum benefit	▪ Unlimited	▪ Unlimited	▪ N/A
▪ Office Visits (primary care physician and specialist)	▪ 60% after deductible	▪ 70% after deductible	▪ N/A
▪ Hospital inpatient services	▪ 60% after deductible	▪ \$250 copay per admit and 70% after deductible	▪ N/A
▪ Hospital outpatient surgery	▪ 60% after deductible	▪ 70% after deductible	▪ N/A
▪ Prescription Drugs (participant coinsurance)	▪ Preferred drug list ▪ Retail: Generic: 10% Preferred brand: 20% Non-preferred brand: 20% ▪ Mail: Generic: \$14 Preferred brand: \$30 Non-preferred brand: \$70	▪ Preferred drug list ▪ Retail: Generic: 10% Preferred brand: 20% Non-preferred brand: 20% ▪ Mail: Generic: \$14 Preferred brand: \$30 Non-preferred brand: \$70	▪ N/A

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	Standard PPO	Premium PPO	HMO/EPO
<b>Dental</b>			
Deductible (single/family)	\$100/\$200	\$50/\$100	\$50/\$100
Preventive Care	80% covered expenses after deductible	100% covered expenses with no deductible	100% covered expenses with no deductible
Basic services/Major Services	Covered at 50% after deductible/50% after deductible	Covered at 80% after deductible/50% after deductible	Covered at 80% after deductible/50% after deductible
Calendar year maximum	\$1,000	\$1,000	\$1,000
Orthodontia	Not covered	\$1,500 lifetime max; pays 50% of covered expenses after deductible (covers dependents only)	\$1,500 lifetime max; pays 50% of covered expenses after deductible (covers dependents only)

Post-65 benefits

Medicare Supplement Comprehensive Plan coordinated with Medicare on a modified exclusion basis. Specifically, it will cover the following:

- Medicare Part A deductible.
- 80% of reasonable and customary medical/surgical charges not covered by Medicare Part B including, but not limited to, the following:
  - Part B deductibles and coinsurance
  - Outpatient hospital expenses
  - Inpatient hospital expenses not covered by Medicare.
  - Covered surgical expenses

A separate annual \$150 single/\$300 family deductible applies before the plan will coordinate with Medicare.

Prescription drugs are covered through a card plan, which pays drug expenses at 90% for generic drugs and 80% for brand name drugs when purchased at a retail location. For mail-order prescriptions, the participants pay a \$5 copay for generic drugs and \$15 for brand name drugs.

Effective December 31, 2001, Medicare HMO options are no longer offered at designated locations to retirees residing in Pennsylvania and New Jersey.

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**Life Insurance Benefits (Basic, Optional and Supplemental)**

Eligibility:

- ▶ Basic Same as medical plan.
- ▶ Optional Available only to participants who chose coverage prior to January 1, 1996; otherwise same as medical plan.
- ▶ Supplemental Available only to certain executives, otherwise same as medical plan. American Water retirees prior to January 1, 1997 retain their prior plan provisions.

Dependent eligibility None.

Retiree contributions:

- ▶ Basic None.
- ▶ Optional \$8.40 per month per \$1,000.
- ▶ Supplemental \$6.00 per month per \$1,000.

Benefits:

- ▶ Basic
  - For retirements prior to 2003:  
1x salary (excluding overtime) at retirement (rounded up to the next higher \$1,000) to maximum of \$50,000. Except for disabled employees, reduced 10% per year, beginning at earlier of first anniversary of retirement or age 66, to a minimum of 50% after 5 years.
  - For retirements after 2002: \$10,000.
- ▶ Optional 1/2 x or 1x salary scheduled amount at retirement to maximum of \$40,000. Except for disabled employees, reduced 10% per year, beginning at earliest of first anniversary of retirement or age 66, to a minimum of 50% after 5 years.
- ▶ Supplemental Up to 2x salary at retirement to maximum of \$80,000. Except for disabled employees, reduced 10% per year, beginning at earliest of first anniversary of retirement or age 66, to a minimum of 50% after 5 years.



Medical

The retiree welfare plan is closed for union employees hired on or after April 1, 2006. Employees hired prior to April 1, 2006 have the following plan structure.

Union Pre-65			Union Post-65	
Group	Plan	Employee Contributions	Plan	Employee Contributions
Retirees after 4/1/2006	Choice of three AW medical plans	0% of medical and dental cost 100% of Rx cost	AW Medicare Plan (non RWE promise)	50% of total cost (changes every year)
2004 through 2006	Etown PPO No dental	30% of total cost (changes every year)	AW Medicare Plan (non RWE promise)	65% of total cost (changes every year)
1994 through 2003	Etown PPO No dental	45% of total cost (changes every year)	AW Medicare Plan (non RWE promise)	75% of total cost (changes every year)
Pre-1994	No one in this group		AW Medicare Plan (non RWE promise)	\$74.56 single \$168.96 married (if spouse over 65) This does not change

**Life Insurance Plan**

Amount \$10,000; current retirees have varying amounts.  
Duration of coverage Lifetime

**Salaried**

Eligibility Age 55 and 10 years of service.

**Medical Plan**

Coverage duration:

- ▶ Retiree Lifetime
- ▶ Spouse Lifetime

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**Medicare Part B Reimbursement** For salaried participants retiring prior to January 1, 2006, Etown Water Co. provides a Medicare Part B reimbursement for all retirees and their participating spouses upon attaining age 65. Retirees and spouses receive reimbursements for their lifetime.

For nonunion participants retiring on or after January 1, 2006, Etown Water Co. will not provide a Medicare Part B reimbursement.

**Dental** For salaried participants retiring on or after January 1, 2006, Etown Water Co. will cover 70% of dental coverage for all retirees and their spouses until they attain age 65.

**Medical** The retiree welfare plan is closed for salaried participants hired on or after January 1, 2006. Employees hired prior to January 1, 2006 have the following plan structure.

Nonunion Pre-65			Nonunion Post-65	
Group	Plan	Employee Contributions	Plan	Employee Contributions
Retirees after 12/31/2005	Choice of three AW medical plans including dental & vision	30% of total cost	AW Medicare Plan (non RWE promise)	50% of total cost
2004 through 2005	AW Premium PPO (no dental, no vision)	30% of total cost	AW Medicare Plan (non RWE promise)	65% of total cost
1994 through 2003	AW Premium PPO (no dental, no vision)	25% of total cost	AW Medicare Plan (non RWE promise)	25% of total cost
Pre-1994	No one in this group		AW Medicare Plan (non RWE promise)	\$74.56 single \$168.96 married (if spouse over 65) This does not change

**Life Insurance Plan**

Amount \$10,000  
Duration of coverage Lifetime

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## Plan Provisions for Employees of the St. Louis Water Company

The actuarial valuation reflects the benefit and contribution provisions summarized below with respect to future retirees, except as noted. As a result, this summary only includes the benefits for bargaining employees. Current retirees and their spouses were assumed to continue under the provisions currently in effect, which may differ from those described below.

### Postretirement Medical Plan

#### Eligibility for Benefits

Normal Retirement (Age/Service)	65/0; benefits prorated if less than 15 years of service at retirement
Early Retirement (Age/Service)	60/20 for clerical union and 60/25 for physical union
Disability (Age/Service)	50/0; benefits prorated if less than 15 years of service at disability  Disabled individuals are covered by the active plan until retirement
Preretirement Death (Age/Service)	0/20 (no service requirement for clerical union); spouse must be age 55 (62 for clerical union) at participant's death

#### Medical Benefits

For dates of retirement prior to January 1, 1993, St. Louis offers Plan 109T on a noncontributory basis.

Plan 109T: Medicare Supplement with \$100 deductible, 80% coinsurance and \$1,000 out of pocket maximum. Prescription drugs are covered the same as other medical expenses.

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For dates of retirement on or after January 1, 1993, the following plan design is offered:

Pre-65 benefits:

	Standard PPO	Premium PPO	HMO/EPO
<b>Medical (In-network)</b>			
▪ Annual Deductible (single/family)	▪ \$1,000/\$3,000	▪ None	▪ None
▪ Coinsurance	▪ 80%	▪ 90%	▪ 100%
▪ Out-of-Pocket Maximum (excluding deductible) (single/family)	▪ \$3,500/\$10,500	▪ \$1,000/\$3,000	▪ None
▪ Lifetime maximum benefit	▪ Unlimited	▪ Unlimited	▪ Unlimited
▪ Office Visits (primary care physician and specialist)	▪ 80% after deductible	▪ \$15 copay	▪ \$15 copay
▪ Hospital inpatient services	▪ 80% after deductible	▪ 90%	▪ 100% after \$100 copay per admit
▪ Hospital outpatient surgery	▪ 80% after deductible	▪ 100%	▪ 100%
▪ Prescription Drugs (participant coinsurance)	<ul style="list-style-type: none"> <li>▪ Preferred drug list</li> <li>▪ Retail: Generic: 10%</li> <li>Preferred brand: 20%</li> <li>Non-preferred brand: 20%</li> <li>▪ Mail: Generic: \$14</li> <li>Preferred brand: \$30</li> <li>Non-preferred brand: \$70</li> </ul>	<ul style="list-style-type: none"> <li>▪ Preferred drug list</li> <li>▪ Retail: Generic: 10%</li> <li>Preferred brand: 20%</li> <li>Non-preferred brand: 20%</li> <li>▪ Mail: Generic: \$14</li> <li>Preferred brand: \$30</li> <li>Non-preferred brand: \$70</li> </ul>	<ul style="list-style-type: none"> <li>▪ Preferred drug list</li> <li>▪ Retail: Generic: 10%</li> <li>Preferred brand: 20%</li> <li>Non-preferred brand: 20%</li> <li>▪ Mail: Generic: \$14</li> <li>Preferred brand: \$30</li> <li>Non-preferred brand: \$70</li> </ul>
<b>Medical (Out-of-network)</b>			
▪ Annual Deductible (single/family)	▪ \$1,500 /\$4,500	▪ \$200/\$600	▪ N/A
▪ Coinsurance	▪ 60%	▪ 70%	▪ N/A

	Standard PPO	Premium PPO	HMO/EPO
▪ Out-of-Pocket Maximum (excluding deductible) (single/family)	▪ \$4,000/\$12,000	▪ \$3,000 per person	▪ N/A
▪ Lifetime maximum benefit	▪ Unlimited	▪ Unlimited	▪ N/A
▪ Office Visits (primary care physician and specialist)	▪ 60% after deductible	▪ 70% after deductible	▪ N/A
▪ Hospital inpatient services	▪ 60% after deductible	▪ \$250 copay per admit and 70% after deductible	▪ N/A
▪ Hospital outpatient surgery	▪ 60% after deductible	▪ 70% after deductible	▪ N/A
▪ Prescription Drugs (participant coinsurance)	<ul style="list-style-type: none"> <li>▪ Preferred drug list</li> <li>▪ Retail: Generic: 10%</li> <li style="padding-left: 20px;">Preferred brand: 20%</li> <li style="padding-left: 20px;">Non-preferred brand: 20%</li> <li>▪ Mail: Generic: \$14</li> <li style="padding-left: 20px;">Preferred brand: \$30</li> <li style="padding-left: 20px;">Non-preferred brand: \$70</li> </ul>	<ul style="list-style-type: none"> <li>▪ Preferred drug list</li> <li>▪ Retail: Generic: 10%</li> <li style="padding-left: 20px;">Preferred brand: 20%</li> <li style="padding-left: 20px;">Non-preferred brand: 20%</li> <li>▪ Mail: Generic: \$14</li> <li style="padding-left: 20px;">Preferred brand: \$30</li> <li style="padding-left: 20px;">Non-preferred brand: \$70</li> </ul>	▪ N/A

Post-65 benefits

Medicare Supplement Comprehensive Plan coordinated with Medicare on a modified exclusion basis. Specifically, it will cover the following:

- Medicare Part A deductible.
- 80% of reasonable and customary medical/surgical charges not covered by Medicare Part B including, but not limited to, the following:
  - Part B deductibles and coinsurance
  - Outpatient hospital expenses
  - Inpatient hospital expenses not covered by Medicare.
  - Covered surgical expenses

Prescription drugs are covered through a card plan, which pays drug expenses at 90% for generic drugs and 80% for brand name drugs when purchased at a retail location. For mail-order prescriptions, the participants pay a \$5 copay for generic drugs and \$15 for brand name drugs.

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A separate annual \$150 single/\$300 family deductible applies before the plan will coordinate with Medicare.

Monthly retiree contributions

Retirement prior to 1993: \$0

Retirement in 1993 or later: Retirees and spouses contribute the difference between the total cost and the portion paid by the company as defined in the coverage phase-out chart

Spouse coverage after retiree's death

Only if retiree completed 20 years of service at retirement and spouse age 55 (62 for clerical union) at retiree's death

## Coverage phase-out

Company pays 100% for those retiring prior to 1993 and 80% for those retiring during 1993. For retirements after 1993, company contribution based on following schedule:

<u>Age + Service</u> <u>1/1/93</u>	<u>Company</u> <u>Percentage</u>
90	70%
89	68
88	66
87	64
86	62
85	60
84	58
83	56
82	54
81	52
80	50
79	49
78	48
77	47
76	46
75	45
74	43
73	41
72	39
71	37
70	35
69	34
68	33
67	32
66	31
65	30
64	26
63	22
62	19
61	17
60	15
Under 60 or hired after 1992	0

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Medicare Part B supplements

Retirement prior to 1993: \$20 per month per retiree or spouse if company insurance coordinates with Medicare Part B

Retirement in 1993 or later: none

**Postretirement Life Insurance Plan**

Eligibility for Benefits

Normal Retirement (Age/Service)

65/0; benefits prorated if less than 15 years at retirement

Early Retirement (Age/Service)

60/30 for non-union, 60/20 for clerical union and 60/25 for physical union

Disability (Age/Service)

50/0; benefits prorated if less than 15 years at retirement

Disabled individuals are covered by the active plan until retirement

Death Benefits

Clerical union

1.15 times pay at retirement, maximum of \$50,000, decreasing by 10% per year to 50%

Physical union

50% of active life insurance benefit (\$16,000) at retirement. This amount decreases 10% per year to 25% of active life insurance benefit

Changes in Death Benefits

None

**Changes in Benefits Valued**

There have been no changes in benefits valued since the prior year.

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2008-00427**  
**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

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**Witness: Michael A. Miller**

26. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-7, at 1-3.
- a. Provide the Towers Perrin report supporting the pension projections for the years 2009 and 2010.
  - b. State the number of active participants for each company listed.
  - c. Explain why the ratio to allocate pensions to Kentucky-American is 2.03 percent while the ratio to allocate OPEB's is 2.56 percent.

**Response:**

- a. Towers Perrin does not do a separate actuarial report at the in-depth level included in the annual Actuarial Valuation Report for projected pension costs. They base their projections on many of the assumptions included in the detailed annual Actuarial Valuation Report updated for known changes in pay increases, discount rates, plan earnings, number of participants, etc. Attached to this response are the report schedules that are provided by Towers Perrin to support their assumption for the 2009/2010 projected costs. In addition, we are providing the latest annual Actuarial Valuation Report which includes a more in-dept analysis of the assumptions used by Towers Perrin in developing the Pension costs for 2008, and serves as their basis for further projections of the 2009/2010 Pension costs.
- b. See attached.
- c. Please see attachment. Pension Valuation Earnings is the basis used to allocate pension costs. Number of Participants in the OPEB plan is the basis used to allocate OPEB costs.

For the electronic version, refer to KAW\_R\_PSCDR2#26\_010809.pdf.

**American Water Before Purchase Accounting  
Allocation of Projected 2009 - 2013 AWW Qualified Plan FAS 87 Costs**

<u>COMPANY</u>	<u>Allocation Percentage</u>	<u>Actual 2008 Allocated Pension Cost</u>	<u>Projected 2009 Allocated Pension Cost</u>	<u>Projected 2010 Allocated Pension Cost</u>
<b>AMERICAN WATER WORKS COMPANY</b>	0.05%	19,813	18,650	17,450
<b>AMERICAN WATER SERVICES (AAET, L.P.)</b>	0.03%	11,888	11,190	10,470
<b>AMERICAN WATER SERVICES (Corp)</b>	0.06%	23,776	22,380	20,940
<b>AWW SERVICE COMPANY</b>				
Awws Corp	4.64%	1,838,646	1,730,720	1,619,360
Belleville, IL Lab (R)	0.55%	217,943	205,150	191,950
Western (L)	1.40%	554,764	522,200	488,600
Northeast Region	1.33%	527,026	496,090	464,170
Southeast Region	3.11%	1,232,368	1,160,030	1,085,390
Central Region	4.30%	1,703,918	1,603,900	1,500,700
Alton, IL Call Center	4.27%	1,692,030	1,592,710	1,490,230
Shared Services	2.20%	871,772	820,600	767,800
Pensacola Call Center	1.66%	657,792	619,180	579,340
ITS	3.37%	1,335,396	1,257,010	1,176,130
Procurement/Supply Chain	0.77%	305,120	287,210	268,730
Total AWW Service Company	27.60%	10,936,775	10,294,800	9,632,400
<b>NORTHEAST REGION</b>				
NEW JERSEY - AM	8.58%	3,399,909	3,200,340	2,994,420
LONG ISLAND	1.66%	657,792	619,180	579,340
ELIZABETHTOWN	6.49%	2,571,727	2,420,770	2,265,010
Total Northeast Region	16.73%	6,629,428	6,240,290	5,838,770
<b>SOUTHEAST REGION</b>				
KENTUCKY - AM	2.03%	804,408	757,190	708,470
VIRGINIA - AM - EASTERN DISTRICT	0.12%	47,551	44,760	41,880
PENNSYLVANIA - AM	14.74%	5,840,870	5,498,020	5,144,260
MARYLAND - AM	0.10%	39,626	37,300	34,900
TENNESSEE - AM	1.70%	673,642	634,100	593,300
VIRGINIA - AM	1.11%	439,849	414,030	387,390
WEST VIRGINIA - AM	4.91%	1,945,636	1,831,430	1,713,590
Total Southeast Region	24.71%	9,791,582	9,216,830	8,623,790
<b>CENTRAL REGION</b>				
ILLINOIS - AM	6.45%	2,555,877	2,405,850	2,251,050
INDIANA - AM	4.50%	1,783,170	1,678,500	1,570,500
IOWA - AM	1.01%	400,223	376,730	352,490
MISSOURI - AM	9.55%	3,784,283	3,562,150	3,332,950
OHIO - AM	1.45%	574,577	540,850	506,050
MICHIGAN - AM	0.11%	43,589	41,030	38,390
Total Central Region	23.07%	9,141,719	8,605,110	8,051,430
<b>WEST REGION</b>				
CALIFORNIA - AM	4.52%	1,791,095	1,685,960	1,577,480
NEW MEXICO - AM	0.36%	142,654	134,280	125,640
ARIZONA - AM	2.42%	958,949	902,660	844,580
HAWAII	0.29%	114,915	108,170	101,210
TEXAS	0.16%	63,402	59,680	55,840
Total West Region	7.75%	3,071,015	2,890,750	2,704,750
<b>TOTAL SYSTEM</b>	100.00%	<u>39,625,996</u>	<u>37,300,000</u>	<u>34,900,000</u>
		39,625,996	37,300,000	34,900,000

**American Water**  
**Allocation of 7/1/2007 Valuation Earnings**

Pension Plan: Annual Valuation  
 using data collected as of July 1, 2007

COMPANY	July 1, 2007	July 1, 2007	Number of Active Participants	Valuation Earnings	Allocation Percentage *	Annual Expense Allocation	Monthly Expense Allocation
	Company Code	Locality Code					
<b>AMERICAN WATER WORKS COMPANY</b>	2	N/A	2	144,047	0.05%	19,813	1,651.08
<b>AMERICAN WATER SERVICES (AAET, L.P.)</b>	99001	N/A	1	80,649	0.03%	11,888	990.67
<b>AMERICAN WATER SERVICES (Corp)</b>	99002	N/A	0	0	0.00%	0	-
	99016	N/A	1	185,400	0.06%	23,776	1,981.33
<b>AWW SERVICE COMPANY</b>							
AWWS Corp	3	1	119	13,758,481	4.64%	1,838,646	153,220.50
Belleville, IL Lab (R)	3	2	30	1,628,745	0.55%	217,943	18,161.92
Western (L)	3	6	36	4,141,281	1.40%	554,764	46,230.33
Northeast Region	3	10	34	3,952,989	1.33%	527,026	43,918.83
Southeast Region	3	11	107	9,243,788	3.11%	1,232,368	102,697.33
Central Region	3	13	149	12,763,689	4.30%	1,703,918	141,993.17
Alton, IL Call Center	3	14	347	12,667,580	4.27%	1,692,030	141,002.50
Shared Services	3	15	97	6,542,155	2.20%	871,772	72,647.67
Pensacola Call Center	3	16	165	4,917,578	1.66%	657,792	54,816.00
ITS	3	17	117	9,994,580	3.37%	1,335,396	111,283.00
Procurement/Supply Chain	3	19	<u>27</u>	<u>2,293,683</u>	<u>0.77%</u>	<u>305,120</u>	<u>25,426.67</u>
Total AWW Service Company			1228	81,904,549	27.60%	10,936,775	911,397.92
<b>NORTHEAST REGION</b>							
NEW JERSEY - AM	18	N/A	403	25,473,813	8.58%	3,399,910	283,325.83
LONG ISLAND	38	N/A	73	4,914,624	1.66%	657,792	54,816.00
ELIZABETH TOWN	52, 53	N/A	<u>290</u>	<u>19,255,310</u>	<u>6.49%</u>	<u>2,571,727</u>	<u>214,310.58</u>
Total Northeast Region			766	49,643,747	16.73%	6,629,429	552,452.42
<b>SOUTHEAST REGION</b>							
KENTUCKY - AM	12	N/A	116	6,011,493	2.03%	804,408	67,034.00
VIRGINIA - AM - EASTERN DISTRICT	42	700	7	348,582	0.12%	47,551	3,962.58
PENNSYLVANIA - AM	24	N/A	810	43,747,260	14.74%	5,840,872	486,739.33
MARYLAND - AM	13	N/A	6	298,720	0.10%	39,626	3,302.17
TENNESSEE - AM	26	N/A	94	5,038,305	1.70%	673,642	56,136.83
VIRGINIA - AM	27	N/A	62	3,279,651	1.11%	439,849	36,654.08
WEST VIRGINIA - AM	28	N/A	<u>270</u>	<u>14,564,718</u>	<u>4.91%</u>	<u>1,945,636</u>	<u>162,136.33</u>
Total Southeast Region			1,365	73,288,729	24.71%	9,791,584	815,965.33
<b>CENTRAL REGION</b>							
ILLINOIS - AM	9	N/A	367	19,148,497	6.45%	2,555,877	212,989.75
INDIANA - AM	10	N/A	266	13,359,274	4.50%	1,783,170	148,597.50
IOWA - AM	11	N/A	57	2,993,972	1.01%	400,223	33,351.92
MISSOURI - AM	17	N/A	536	28,340,031	9.55%	3,784,283	315,356.92
OHIO - AM	22	N/A	86	4,294,590	1.45%	574,577	47,881.42
MICHIGAN - AM	16	N/A	<u>7</u>	<u>338,059</u>	<u>0.11%</u>	<u>43,589</u>	<u>3,632.42</u>
Total Central Region			1,319	68,474,423	23.07%	9,141,719	761,809.92
<b>WEST REGION</b>							
CALIFORNIA - AM	5	N/A	198	13,417,454	4.52%	1,791,095	149,257.92
NEW MEXICO - AM	19	N/A	22	1,073,356	0.36%	142,654	11,887.83
ARIZONA - AM	23	N/A	124	7,189,211	2.42%	958,949	79,912.42
HAWAII	30	N/A	14	870,552	0.29%	114,915	9,576.25
TEXAS	50	N/A	<u>13</u>	<u>489,640</u>	<u>0.16%</u>	<u>63,402</u>	<u>5,283.50</u>
Total West Region			371	\$23,040,213	7.75%	\$3,071,015	255,917.92
<b>TOTAL SYSTEM</b>			5,053	\$296,761,757	100.00%	\$39,625,996	3,302,166.58

\* The allocation percentage for each company is equal to the ratio of valuation earnings for that company to total valuation earnings for the entire American system.

Kentucky-American Water  
Response to Staff Data Request 26 part b and c

<u>COMPANY</u>	Number of OPEB Participants	OPEB Allocation Percentage	Number of Active Pension Participants	Valuation Earnings	Pension Allocation Percentage
<b>AMERICAN WATER WORKS COMPANY</b>	54	0.52%	2	\$144,047	0.05%
<b>AMERICAN WATER SERVICES (AAET, L.P.)</b>	4	0.04%	1	80,649	0.03%
<b>AMERICAN WATER SERVICES (Corp)</b>	2	0.02%	-	-	0.00%
<b>AMERICAN WATER RESOURCES</b>	2	0.02%	1	185,400	0.06%
<b>AWW SERVICE COMPANY</b>					
AWWS Corp	235	2.26%	119	13,758,481	4.64%
Belleville, IL Lab (R)	29	0.28%	30	1,628,745	0.55%
Western (L)	15	0.14%	36	4,141,281	1.40%
Northeast Region	34	0.33%	34	3,952,989	1.33%
Southeast Region	144	1.38%	107	9,243,788	3.11%
Central Region	133	1.28%	149	12,763,689	4.30%
Alton, IL Call Center	63	0.61%	347	12,667,580	4.27%
Shared Services	107	1.03%	97	6,542,155	2.20%
Pensacola Call Center	183	1.76%	165	4,917,578	1.66%
ITS	127	1.22%	117	9,994,580	3.37%
Procurement/Supply Chain	12	0.12%	27	2,293,683	0.77%
Total AWW Service Company	1082	10.40%	1,228	81,904,549	27.60%
<b>NORTHEAST REGION</b>					
NEW JERSEY - AM	1005	9.66%	403	25,473,813	8.58%
LONG ISLAND	207	1.99%	73	4,914,624	1.66%
ELIZABETHTOWN	779	7.49%	290	19,255,310	6.49%
Total Northeast Region	1991	19.14%	766	49,643,747	16.73%
<b>SOUTHEAST REGION</b>					
KENTUCKY - AM	266	2.56%	116	6,011,493	2.03%
VIRGINIA - AM - EASTERN DISTRICT	12	0.12%	7	348,582	0.12%
PENNSYLVANIA - AM	2146	20.63%	810	43,747,260	14.74%
MARYLAND - AM	30	0.29%	6	298,720	0.10%
TENNESSEE - AM	302	2.90%	94	5,038,305	1.70%
VIRGINIA - AM	164	1.58%	62	3,279,651	1.11%
WEST VIRGINIA - AM	736	7.08%	270	14,564,718	4.91%
Total Southeast Region	3,656	35.15%	1,365	73,288,729	24.70%
<b>CENTRAL REGION</b>					
ILLINOIS - AM	723	6.95%	367	19,148,497	6.45%
INDIANA - AM	717	6.89%	266	13,359,274	4.50%
IOWA - AM	163	1.57%	57	2,993,972	1.01%
MISSOURI - AM	1380	13.27%	536	28,340,031	9.55%
OHIO - AM	180	1.73%	86	4,294,590	1.45%
MICHIGAN - AM	15	0.14%	7	338,059	0.11%
Total Central Region	3,178	30.56%	1,319	68,474,423	23.07%
<b>WEST REGION</b>					
CALIFORNIA - AM	338	3.25%	198	13,417,454	4.52%
NEW MEXICO - AM	41	0.39%	22	1,073,356	0.36%
ARIZONA - AM	27	0.26%	124	7,189,211	2.42%
HAWAII	25	0.24%	14	870,552	0.29%
TEXAS	0	0.00%	13	489,640	0.16%
Total West Region	431	4.14%	371	23,040,213	7.76%
<b>TOTAL SYSTEM</b>	10,400	100.00%	5,053	\$296,761,757	100.00%

*American Water Works Company, Inc.*  
*Pension Plan*

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**Actuarial Valuation Report**

**Pension Cost for Fiscal Year Ending December 31, 2008**

**Employer Contributions for Plan Year Beginning July 1, 2007**

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*February 2008*

This report is confidential and intended solely for the information and benefit of the immediate recipient thereof. It may not be distributed to a third party unless expressly allowed under the "Actuarial Certification, Reliances and Distribution" section herein.

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## Financial Results

This report summarizes financial results for the American Water Works Company, Inc. Pension Plan based on actuarial valuations as of January 1, 2008 and January 1, 2007 for determination of pension accounting cost, and valuations as of July 1, 2007 and July 1, 2006 for determination of plan contributions.

	January 1, 2008 <sup>(1)</sup>	January 1, 2007 <sup>(1)</sup>
<b>FAS 87 Pension Cost<sup>(2)</sup></b>		
Amount	\$ -39,625,996	\$ 38,968,697
Percent of covered pay <sup>(3)</sup>	13.4%	13.5%
<b>FAS 87 Funded Position</b>		
Accumulated benefit obligation [ABO]	\$ 772,542,892	\$ 749,311,739
Fair value of assets [FV]	627,988,678	578,280,462
ABO funded percentage [FV ÷ ABO]	81.3%	77.2%
Prepaid (accrued) pension cost	\$ (90,483,238)	\$ (102,302,391)
	July 1, 2007	July 1, 2006
<b>Employer Contributions<sup>(3)</sup></b>		
Minimum required	\$ 75,996,105	\$ 0
Percent of covered pay <sup>(4)</sup>	25.8%	0.0%
Maximum deductible	\$ 673,880,639	\$ 539,127,891
Percent of covered pay	228.5%	186.7%
<b>ERISA Funded Position<sup>(5)</sup></b>		
Actuarial accrued liability [AAL]	\$ 687,475,512	\$ 556,822,415
Actuarial value of assets [AV]	591,972,484	518,247,375
AAL funded percentage [AV ÷ AAL]	86.1%	93.1%
Current liability funded percentage:		
▶ Selected interest rate	73.9%	80.0%
▶ Highest allowable interest rate	73.9%	80.0%

(1) Pension costs for fiscal year 2007 and 2008 reflect the merger of the Elizabethtown Water Company Pension Plan into the American Water Pension Plan. Results are prior to FAS 158.

(2) All FAS 87 results shown in this report were prepared before application of purchase accounting due to the sale of American Water to RWE.

(3) All results reflect the merger of Elizabethtown Water Company Pension Plan into the American Water Pension Plan as of January 1, 2007.

(4) For fiscal year 2007 and the plan year beginning July 1, 2007, covered pay is based on the most recent valuation data received from the client (Elizabethtown covered compensation of \$22,483,921 expected in fiscal year 2006 and American Water covered compensation of \$266,216,479 expected in plan year 2006).

(5) July 1, 2006 values shown are before the merger of Elizabethtown Water Company pension plan.

## Discussion of Financial Results

The financial results of American Water Works Company, Inc.'s Pension Plan were affected by the following factors:

- ▶ Effective December 31, 2006, the Elizabethtown Pension Plan was merged into the American Water Works Plan. Funding and expense results in this report reflect the merged plan.
- ▶ Investment returns during the prior fiscal year were lower than expected, which decreased the funded percentage and increased the pension cost.
- ▶ Long-term bond yields increased during the prior year resulting in a higher FAS 87 discount rate, which increased the funded percentage and decreased the pension cost.
- ▶ The mortality table used for the calculation of current liability was changed from 1983 GAM to RP-2000 to reflect final IRS regulations issued in February 2007, which increased the minimum required contribution and decreased the current liability funded percentage.
- ▶ The interest rate used for calculating Actuarial Accrued Liability and Normal Cost under ERISA was changed from 8.25% in the prior year to 8.00% in the current year to reflect expected long term plan returns. This increased the minimum required contribution and decreased funded percentage.
- ▶ On August 17, 2006 the Pension Protection Act (PPA) was signed into law. Among other provisions, the PPA:
  - Extended current liability interest rate relief for the 2006 and 2007 plan years
  - Modified several aspects of the calculation of the maximum tax deductible contribution for 2006 and 2007 (most notably, increased the maximum deductible amount from 100% of the plan's unfunded current liability to 150%)
  - Made permanent the increased statutory limits on pensionable earnings and pension benefits that were temporarily increased under EGTRRA
  - Beginning with 2008, made extensive changes in the determination of both the minimum required contribution and the maximum tax deductible limit. This did not impact the 2007 valuation results.

Note that there is some uncertainty regarding how the 25% of pay limitation is to be applied for 2006 and 2007 due to the PPA. Deductibility should be reviewed prior to any contributions being made.

## Highlights

### Economic Assumptions

The discount rate for pension cost purposes is the rate at which the pension obligations could be effectively settled. This rate is developed from yields on available high-quality bonds and reflects the plan's expected cash flows. The following bond yields provide information on the general interest rate environment:

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
30-year Treasury	4.45%	4.81%
Merrill Lynch 10+ High Quality	6.18%	5.85%
Moody's Aa	5.80%	5.72%
Moody's Baa	6.56%	6.35%

The assumed rate of return on assets for pension cost purposes is the weighted average of expected long-term asset return assumptions. The salary increase rate is a long-term rate based on current expectations of future pay increases. The assumptions for pension cost purposes are:

	<b>December 31, 2007</b>	<b>December 31, 2006</b>
Discount rate	6.27%	5.90%
Rate of return on assets	7.90%	8.00%
Salary increase rate	Age-graded scale averaging 4.25%	Age-graded scale averaging 4.25%

Assumptions used to determine statutory contribution limits must be reasonable taking into account the experience of the plan and reasonable expectations. The discount rate used to determine the normal cost and actuarial accrued liability is based on the long-term expected return on assets. The current liability interest rates must be within permissible ranges as issued by the IRS. These ranges and assumptions for contribution purposes are:

	<b>July 1, 2007</b>	<b>July 1, 2006</b>
Discount rate for normal cost and actuarial accrued liability	8.00%	8.25%
Current liability interest rates:		
▶ Permissible range	5.25% to 5.83%	5.19% to 5.77%
▶ Selected rate	5.83%	5.77%
Salary increase rate	Age-graded scale averaging 4.25%	Age-graded scale averaging 4.25%

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## Assets

In fiscal 2007, the fund recorded a 4.7% investment return, while the capital markets performed as follows:

Large equities [S&P 500]	5.49%
Intermediate/small equities [Russell 2500]	1.38%
Non-U.S. equities [EAFE]	11.63%
Bonds [Lehman Brothers Aggregate]	6.97%
Cash equivalents [Citi 3 Month T-Bill]	4.74%

## Demographic Assumptions

The cost of providing plan benefits depends on demographic factors such as retirement, mortality, and turnover. With the exception of the IRS-required mortality basis used to calculate current liability, demographic assumptions used in the valuation were selected to reflect the experience of the covered population and reasonable expectations. If actual experience is more favorable than assumed, future plan costs will be lower. Alternatively, if actual experience is less favorable than assumed, future plan costs will be higher.

Demographic assumptions have been changed since the prior valuation. The mortality basis used to calculate current liability was changed from 1983 GAM to RP-2000 to reflect final IRS regulations issued in February 2007. Plans were given the option to use separate non-annuitant and annuitant mortality tables, or to use a single combined table of non-annuitant and annuitant mortality. For purposes of the 2007 plan year valuation, the separate non-annuitant and annuitant tables were used. In addition, the termination rate assumptions were aligned for prior Elizabethtown Plan participants and American Water Plan participants.

American Water Works Company, Inc. had 5,053 active participants covered under this pension plan as of July 1, 2007 versus 4,745 for the prior year. Covered payroll increased 10.8% from the prior year.

The average compensation increase for the participants who remained active since July 1, 2006 was about 4.7%.

---

## **Changes in Benefits Valued**

There were no changes in benefits valued since the prior year other than to reflect increases in the statutory limits on pay and benefits, including the elimination of the sunset provision for the IRS pay and benefit limits under the Pension Protection Act.

## **Legislative Changes**

On August 17, 2006 the Pension Protection Act (PPA) was signed into law, as discussed on page MS-2.

In February 2007, the IRS issued final regulations regarding the selection of the mortality basis used to calculate current liability. These regulations updated the basis from 1983 GAM sex-distinct mortality to RP-2000 sex-distinct mortality.

## **PBGC Reporting Requirements**

Beginning in 2007, the PPA eliminated the PBGC participant notification requirements for plans that are required to pay a PBGC variable premium and have a funded percentage below a specified "gateway" percentage. The PPA stipulates that all defined benefit plans are required to issue annual funding notices (due 120 days after the end of the plan year) for plan years beginning in 2008.

Additional financial and actuarial information must be provided to the PBGC if, at the end of the year, all defined benefit plans within the controlled group have an unfunded vested liability of \$50 million or more using assumptions mandated by the PBGC. In February 2007, the IRS updated the interest rate assumption and asset valuation method used to calculate the \$50 million "gateway test." The interest rate assumption was updated from 85% to 100% of the applicable PFEA corporate bond rate, and the asset valuation method was updated from actuarial value to market value for all calculations.

As of June 30, 2006, unfunded vested liabilities for all defined benefit plans within the controlled group were more than \$50 million. Consequently, additional financial and actuarial information will be provided to the PBGC.

## **Plan Merger**

Effective December 31, 2006, the Elizabethtown Pension Plan was merged into the American Water Works Pension Plan. Results shown in this report generally reflect the plan merger.

## **FAS 87 Pension Cost and Funded Position**

Pension cost is the amount recognized in AW's financial statement as the cost of the pension plan and is determined in accordance with Financial Accounting Standard No. 87. The fiscal 2008 pension cost for the plan is \$39,825,996, or 13.4% of covered pay.

Under FAS 87, one measure of funded position is a comparison of the fair value of assets to the accumulated benefit obligation (ABO). The ABO is the present value of accumulated benefits based on service and pay as of the measurement date.

American Water's ABO funded percentage is 81.3% as of January 1, 2008, based on the fair value of assets of \$627,988,678 and an ABO of \$772,542,892.

### **Change in Pension Cost and Funded Position**

The pension cost increased from \$38,968,697 in fiscal 2007 to \$39,625,996 in fiscal 2008 because:

- ▶ Expected changes, based on prior year's assumptions, methods, plan provisions, and contributions, decreased the pension cost \$2,555,740.
- ▶ Noninvestment experience increased the pension cost \$6,511,120.
- ▶ The return on the fair value of plan assets was 4.7% in fiscal 2007, which increased the pension cost \$3,105,575.
- ▶ Assumption changes decreased the pension cost \$6,565,802.
- ▶ Plan changes increased the pension cost \$162,146.

The ABO funded percentage increased from 77.2% to 81.3%.

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### History of Pension Cost and ABO Funded Percentage

----- Pension cost -----

<i>Fiscal year</i>	<i>Amount</i>	<i>Percent of covered pay</i>	<i>ABO funded percentage</i>	<i>Discount rate</i>
2008*	\$ 39,625,996	13.4%	81.3%	6.27%
2007*	38,968,697	13.5	77.2	5.90
2006	40,327,960	16.7	67.6	5.65
2005	36,845,672	15.5	78.9	6.00
2004	35,623,816	14.9	80.8	6.25

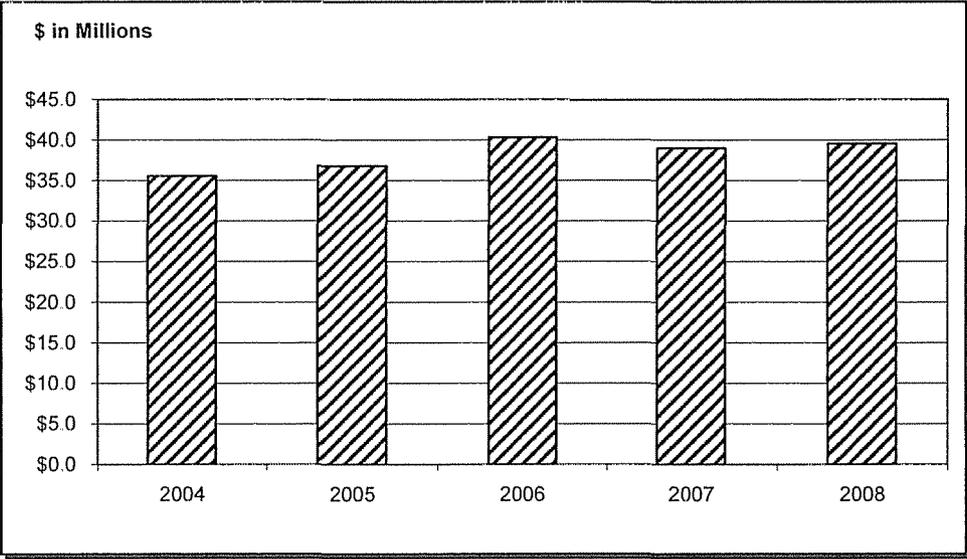
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\* All 2007 and 2008 values reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

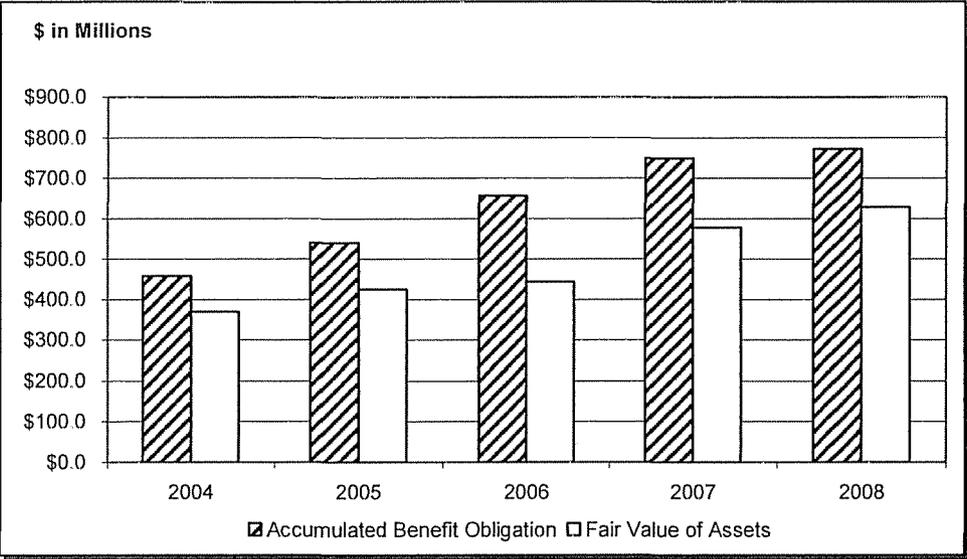
### History of Pension Cost and Funded Position

The following charts show the history of the plan's pension cost and ABO funded position:

**History of Pension Cost\***



**History of the Accumulated Benefit Obligation and Fair Value of Assets\***



\* All 2007 and 2008 values reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

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## **Employer Contributions and ERISA Funded Position**

American Water's funding policy is to contribute an amount equal to the minimum required contribution under ERISA. American Water may increase its contribution above the minimum if appropriate to its tax and cash position and the plan's funded position. For 2007, the minimum required contribution is \$75,996,105, or 25.8% of covered pay. The maximum deductible contribution under the Internal Revenue Code is \$673,880,639, or 228.5% of covered pay.

The funded position, on a contribution basis, is measured by comparing the actuarial value of assets with the actuarial accrued liability (AAL). The actuarial value of assets is a smoothed value that recognizes investment gains and losses over time. The AAL is the funding target, under ERISA, on which the employer contribution limits are based. As the funded percentage for a plan approaches or exceeds 100%, contributions to the plan may be restricted.

The plan's funded percentage (actuarial value of assets divided by AAL) is 86.1% as of July 1, 2007. This percentage is based on an actuarial value of assets of \$591,972,484 and an AAL of \$687,475,512.

### **Change in Contribution Requirements and Funded Position**

The minimum required contribution increased from \$0 for 2006 to \$75,996,105 for 2007.

### **Current Liability**

An alternative measure of funded position compares the actuarial value of assets with the plan's current liability. The current liability is the present value of benefits accrued to the valuation date reflecting IRS restrictions on interest and mortality assumptions.

The Pension Protection Act of 2006 (PPA) extended interest rate relief through the 2007 plan year. The PPA also raised the maximum deductible contribution level to 150% of the current liability funding target for the 2006 and 2007 plan years.

Current liability for minimum funding requirements is measured in two ways. The first measure is used to determine whether quarterly contribution requirements apply and to determine the amount of any applicable Additional Funding Requirements. The second measure is used to determine whether Additional Funding Requirements apply.

### **Timing of Contributions**

If the current liability funded percentage measured using the selected interest rate is below 100%, quarterly contributions may be required in the following plan year. The plan's current liability funded percentage on this basis is 73.9% as of July 1, 2007. This percentage is based on an actuarial value of assets of \$592.0 million and a current liability of \$801.4 million. Quarterly contributions may be required for the 2008 plan year based on this year's valuation results and current understanding of applicable legislation.

**Additional Funding Requirements**

If the current liability funded percentage measured using the highest allowable interest rate is below 90%, additional funding requirements may be triggered. The plan's current liability funded percentage on this basis is 73.9% as of July 1, 2007.

## Actuarial Certification, Reliances and Distribution

American Water Works Company, Inc. retained Towers Perrin to perform a valuation of its pension plan for the purpose of determining (1) the value of benefit obligations and its pension cost in accordance with FAS 87 and (2) the minimum required and maximum tax-deductible contributions in accordance with ERISA and allowed by the Internal Revenue code. This valuation has been conducted in accordance with generally accepted actuarial principles and practices.

The consulting actuaries are members of the Society of Actuaries and other professional actuarial organizations and meet their "General Qualification Standard for Prescribed Statements of Actuarial Opinions" relating to pension plans.

In preparing the results presented in this report, we have relied upon information provided to us regarding plan provisions, plan participants, and plan assets. We have reviewed this information for overall reasonableness and consistency, but have neither audited nor independently verified this information. The accuracy of the results presented in this report is dependent upon the accuracy and completeness of the underlying information.

The actuarial assumptions and the accounting policies and methods employed in the development of the pension cost have been selected by the plan sponsor, with the concurrence of Towers Perrin. FAS 87 requires that each significant assumption "individually represent the best estimate of a particular future event."

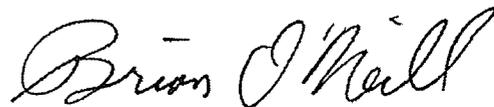
The actuarial assumptions and methods employed in the development of the contribution limits have been selected by Towers Perrin, with the concurrence of the plan sponsor. The Internal Revenue Code requires the use of assumptions "each of which is reasonable (taking into account the experience of the plan and reasonable expectations)" and "which, in combination, offer the actuary's best estimate of anticipated experience under the plan."

The results shown in this report have been developed based on actuarial assumptions that are considered to be reasonable and within the "best-estimate range" as described by the Actuarial Standards of Practice. Other actuarial assumptions could also be considered to be reasonable and within the best-estimate range. Thus, reasonable results differing from those presented in this report could have been developed by selecting different points within the best-estimate ranges for various assumptions.

The information contained in this report was prepared for the internal use of American Water Works Company, Inc. and its auditors in connection with our actuarial valuation of the pension plan. It is neither intended nor necessarily suitable for other purposes. American Water Works Company, Inc. may also distribute this actuarial valuation report to the appropriate authorities who have the legal right to require American Water Works Company, Inc. to provide them this report, in which case American Water Works Company, Inc. will use best efforts to notify Towers Perrin in advance of this distribution. Further distribution to, or use by, other parties of all or part of this report is expressly prohibited without Towers Perrin's prior written consent.



Roy Costa, FSA, EA



Brian J. O'Neill, FSA, EA

Towers Perrin  
February 2008

## *Supplemental Information*

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## Asset Values

### Asset Values for Calculating Pension Cost

Fair value, excluding  
contributions receivable:

▶ As of January 1, 2007	\$ 578,280,462
▶ Contributions	50,787,850
▶ Disbursements	(28,331,669)
▶ Investment return	<u>27,252,035</u>
▶ As of January 1, 2008	\$ 627,988,678
▶ Rate of return	4.7%

Market-related value:

▶ As of January 1, 2007	\$ 578,280,462
▶ As of January 1, 2008	627,988,678
▶ Rate of return	4.7%

### Asset Values for Calculating Employer Contributions

Market value, including  
contributions receivable:

▶ As of July 1, 2006	\$ 511,588,284
▶ Contributions	956,000
▶ Disbursements	(29,659,522)
▶ Investment return	74,586,134
▶ Elizabethtown transfer (asset values as of December 31, 2006)	<u>55,831,168</u>
▶ As of July 1, 2007	\$ 613,302,064
▶ Rate of return	14.2%

Actuarial value:

▶ As of July 1, 2006	\$ 518,247,375
▶ As of July 1, 2007	591,972,484
▶ Rate of return	8.9%
▶ Rate of return (assuming mid-year cash flow) for Schedule B of Form 5500	8.8%

SI-2

## Basic Results for Pension Cost

	January 1, 2008 <sup>(1)</sup>	January 1, 2007 <sup>(1)</sup>
<b>Service Cost</b>	\$ 25,892,330	\$ 25,214,558
<b>Obligations</b>		
Accumulated benefit obligation [ABO]:		
▶ Participants currently receiving benefits	\$ 305,427,668	\$ 295,371,687
▶ Deferred inactive participants	77,443,963	79,720,120
▶ Active participants	<u>389,671,261</u>	<u>374,219,932</u>
Total ABO	\$ 772,542,892	\$ 749,311,739
Obligation due to future salary increases	<u>120,580,851</u>	<u>114,781,487</u>
Projected benefit obligation [PBO]	\$ 893,123,743	\$ 864,093,226
<b>Assets</b>		
Fair value [FV]	\$ 627,988,678	\$ 578,280,462
Unrecognized investment losses (gains)	<u>0</u>	<u>0</u>
Market-related value	\$ 627,988,678	\$ 578,280,462
<b>Funded Position</b>		
Unfunded PBO	\$ 265,135,065	\$ 285,812,764
Minimum liability [ABO – FV, minimum zero] <sup>(2)</sup>	144,554,214	171,031,277
<b>Key Economic Assumptions</b>		
Discount rate	6.27%	5.90%
Rate of return on assets	7.90%	8.00%
Salary increase rate	Age-graded scale averaging 4.25%	Age-graded scale averaging 4.25%

(1) All values reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

(2) Does not reflect FAS 158.

**Fiscal 2007****Development of Prepaid (Accrued)  
Pension Cost as of January 1, 2008**

Prepaid (accrued) pension cost, as of January 1, 2007	\$ (102,302,391)
Change during fiscal 2006	
‣ Income (cost) recognized	(38,968,697)
‣ Employer contributions	50,787,850
‣ Effect of curtailments, settlements, and termination benefits	0
‣ Adjustment	<u>0</u>
Prepaid (accrued) pension cost as of January 1, 2008 (before FAS 158)	\$ (90,483,238)

**January 1, 2008<sup>(1)</sup>****January 1, 2007<sup>(1)</sup>****Reconciliation of Funded Status**

Funded status [FV – PBO]	\$ (265,135,065)	\$ (285,812,764)
Unrecognized net actuarial loss (gain)	171,339,010	180,409,625
Unrecognized prior service cost (credit)	3,312,817	3,100,748
Unrecognized transition obligation (asset)	<u>0</u>	<u>0</u>
Prepaid (accrued) pension cost	\$ (90,483,238)	\$ (102,302,391)

**Balance Sheet Effects**

Prepaid pension cost	\$ 0	\$ 0
Accrued pension cost	(90,483,238)	(102,302,391)
Additional minimum liability	(54,070,976)	(68,728,886)
Intangible asset	3,312,817	3,100,748
Accumulated other comprehensive income	<u>50,758,159</u>	<u>65,628,138</u>
Balance sheet effect	\$ (90,483,238)	\$ (102,302,391)

(1) All values reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

The results above do not reflect FAS 158. The accumulated other comprehensive income was developed based on FAS 87 prior to FAS 158 and has not been tax effected. Any tax effect should be separately recognized.

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## Pension Cost

	Fiscal 2008 <sup>(1)</sup>	Fiscal 2007 <sup>(1)</sup>
<b>Pension Cost</b>		
Service cost	\$ 25,892,330	\$ 25,214,558
Interest cost	56,675,301	51,613,587
Expected return on assets	(51,701,245)	(47,052,194)
Amortization:		
▶ Transition obligation (asset)	0	0
▶ Prior service cost (credit)	707,521	637,931
▶ Net loss (gain)	<u>8,052,089</u>	<u>8,554,815</u>
Pension cost	\$ 39,625,996	\$ 38,968,697
Percent of covered pay <sup>(2)</sup>	13.4%	13.5%
Per active participant <sup>(3)</sup>	\$ 7,842	\$ 7,700

### Change in Pension Cost

Pension cost for fiscal 2007	\$ 38,968,697
Change from fiscal 2007 to fiscal 2008:	
▶ Expected based on prior valuation	(2,555,740)
▶ Loss (gain) from noninvestment experience	6,511,120
▶ Loss (gain) from asset experience	3,105,575
▶ Assumption changes	(6,565,802)
▶ Plan amendments	<u>162,146</u>
Pension cost for fiscal 2008	\$ 39,625,996

(1) All values reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

(2) For Fiscal 2007, covered pay is based on the most recent valuation data received from the client (Elizabethtown covered compensation of \$22,483,921 as of January 1, 2006 and American Water covered compensation of \$266,216,479 as of July 1, 2006).

(3) For Fiscal 2007, the number of active participants is based on the most recent valuation data received from the client (Elizabethtown had 316 active participants as of January 1, 2006 and American Water had 4,745 active participants as of July 1, 2006).

## Present Value of Accumulated Plan Benefits for FAS 35

	July 1, 2007	July 1, 2006 <sup>(1)</sup>
<b>Actuarial Present Value of Accumulated Plan Benefits</b>		
Vested benefits:		
▶ Participants currently receiving benefits	\$ 311,969,354	\$ 220,940,005
▶ Other participants	<u>287,334,674</u>	<u>262,001,205</u>
▶ Total vested benefits	\$ 599,304,028	\$ 482,941,210
Nonvested benefits	<u>5,011,162</u>	<u>12,220,390</u>
Total accumulated benefits	\$ 604,315,190	\$ 495,161,600
Market value of assets	613,302,064	511,588,284

### Key Assumptions

Interest rate	8.00%	8.25%
Average retirement age	62	62
Mortality	RP-2000	RP-2000

### Change in Actuarial Present Value of Accumulated Plan Benefits

Actuarial present value of accumulated plan benefits as of July 1, 2006	\$ 495,161,600
Change from 2006 to 2007:	
▶ Additional benefits accumulated (including the effect of noninvestment experience)	27,449,357
▶ Interest due to decrease in the discount period	39,808,355
▶ Benefits paid	(25,783,090)
▶ Assumption changes	17,087,825
▶ Plan amendments	0
▶ Merger of Elizabethtown Water	<u>50,591,143</u>
Actuarial present value of accumulated plan benefits as of July 1, 2007	\$ 604,315,190

(1) The assets and liabilities as of July 1, 2006 shown above are before the Elizabethtown Water Company Pension Plan merger and include only the American Water Pension Plan.

## Basic Results for Employer Contributions

	July 1, 2007	July 1, 2006 <sup>(1)</sup>
<b>Normal Cost and Liabilities</b>		
Normal cost	\$ 18,351,357	\$ 14,614,358
Actuarial accrued liability [AAL]	687,475,512	556,822,415
Current liability [CL]:		
▶ Selected interest rate	801,432,166	647,682,990
▶ Highest allowable interest rate	801,432,166	647,682,990
<b>Assets</b>		
Market value	\$ 613,302,064	\$ 511,588,284
Unrecognized investment losses (gains)	<u>(21,329,580)</u>	<u>6,659,091</u>
Actuarial value [AV]	\$ 591,972,484	\$ 518,247,375
<b>Funded Position</b>		
Unfunded actuarial accrued liability [AAL – AV]	\$ 95,503,028	\$ 38,575,040
AAL funded percentage [AV ÷ AAL]	86.1%	93.1%
CL funded percentage:		
▶ Selected interest rate	73.9%	80.0%
▶ Highest allowable interest rate	73.9%	80.0%
<b>Key Economic Assumptions</b>		
Discount rate for normal cost and actuarial accrued liability	8.00%	8.25%
Current liability interest rate:		
▶ Selected	5.83%	5.77%
▶ Highest allowable	5.83%	5.77%
Salary increase rate	Age-graded scale averaging 4.25%	Age-graded scale averaging 4.25%

(1) The assets and liabilities as of July 1, 2006 shown above are before the Elizabethtown Water Company Pension Plan merger and include only the American Water Pension Plan.

The results reflect extension of current liability interest rate relief.

## Minimum Required Employer Contribution

	July 1, 2007	July 1, 2006 <sup>(1)(2)</sup>
<b>Minimum Required Employer Contribution</b>		
Normal cost	\$ 18,351,357	\$ 15,252,843
Amortization amounts	25,938,181	19,393,438
Interest adjustments	3,543,162	2,831,734
Additional funding charge	53,265,597	
Credit balance with interest	<u>(25,102,192)</u>	<u>(60,702,787)</u>
Minimum required contribution before full funding limit	\$ 75,996,105	\$ 0
Minimum required contribution after full funding limit	75,996,105	0

(1) Contribution amounts reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

(2) Amounts reflect Final Funding Standard Account adjustments due to merger of Elizabethtown Water Company Pension Plan.

Additional details regarding the calculation of the minimum required employer contribution may be obtained from the Form 5500 Schedule B filings and attachments.

## Maximum Deductible Employer Contribution

	July 1, 2007 <sup>(1)</sup>	July 1, 2006 <sup>(1)</sup>
<b>Maximum Deductible Employer Contribution</b>		
Maximum deductible contribution before adjustments	\$ 33,430,023	\$ 22,418,851
Allowable deduction, the greatest of:		
▶ Maximum deductible contribution after full funding limit	33,430,023	22,418,851
▶ Contribution necessary to satisfy minimum funding standards	0	0
▶ Contribution necessary to fund maximum allowable percentage of current liability <sup>(2)</sup>	673,880,639	539,127,891
Maximum deductible contribution	673,880,639	539,127,891

(1) Contribution amounts reflect the merger of Elizabethtown Water Company Pension Plan as of December 31, 2006.

(2) Contribution necessary to fund 150% of current liability.

Deductibility of contributions to a defined contribution plan maintained for the same employees may be affected by the 25% of pay limitation for defined benefit and defined contribution plans combined.

Note that there is some uncertainty regarding how the 25% of pay combined deductible limit for DB and DC plans is to be applied when the plan year and tax year differ.

## Actuarial Assumptions and Methods

	Pension Cost	Contributions
<b>Economic Assumptions</b>		
Discount rate	6.27%	8.00%
Return on assets	7.90%	N/A
Current liability interest rates:		
▶ Selected	N/A	5.83%
▶ Highest allowable	N/A	5.83%
Lump sum conversion interest rate	5.27%	6.00%*
* 5.83% for current liability		
Annual rates of increase in:		
▶ Compensation		
	Sample rates:	
	<i>Age</i>	<i>% Increase</i>
	25	5.85%
	35	4.45%
	40	4.15%
	45	3.95%
	55	3.65%
	Average rate	4.25%
▶ Future Social Security wage bases	3.75%	3.75%
▶ Indexed limits on compensation and benefits	3.25%	N/A

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**Demographic Assumptions**

Mortality

- ▶ Pension cost For healthy participants, sex-distinct RP-2000 table projected to 2015 using scale AA with phase-out without any collar adjustment.
- ▶ Contributions For healthy participants, sex-distinct RP-2000 table projected to 2015 using scale AA with phase-out without any collar adjustment.  
For disabled participants, select and ultimate mortality rates from the PBGC disabled mortality for Social Security recipients.  
For current liability purposes, the separate IRS non-annuitant and annuitant mortality tables were used.

Termination

Rates varying by age

Sample rates:

Age	<u>Service</u>			Ultimate
	0-4	5-9	10-14	
25	0.100	0.090	0.080	0.060
35	0.070	0.065	0.060	0.040
40	0.065	0.055	0.050	0.040
45	0.060	0.050	0.040	0.030
55	0.000	0.000	0.000	0.000

Sample termination rates for Alton and Pensacola Call Center Employees:

Age	<u>Service</u>						Ultimate
	0-1	2	3	4-5	6-7	8-9	
25	0.35	0.30	0.25	0.20	0.15	0.10	0.05
35	0.35	0.30	0.25	0.20	0.15	0.10	0.05
40	0.35	0.30	0.25	0.20	0.15	0.10	0.05
45	0.35	0.30	0.25	0.20	0.15	0.10	0.05
55	0.00	0.00	0.00	0.00	0.00	0.00	0.00

Disability

50% of 1987 CGDT (shown below)

Sample annual rates of disablement:

Age	Male	Female
25	.0005	.0006
35	.0007	.0012
40	.0010	.0015
45	.0018	.0023
55	.0059	.0053

None for Elizabethtown

## Retirement

Rates varying by age averaging 61; terminated vested participants, age 65

<i>Age</i>	<i>Rate</i>	<i>Age</i>	<i>Rate</i>
55	.10	61	.10
56	.07	62	.60
57	.07	63	.40
58	.07	64	.40
59	.10	65	.45
60	.10	66	1.00

Elizabethtown:

Rates varying by age averaging 63; terminated vested participants, age 65

Sample rates:

<i>Age</i>	<i>Rate</i>
55-59	.025
60-61	.075
62	.35
63	.30
64	.20
65	.60
66-69	.20
70	1.00

## Form of payment

Life annuity. Normal cost and actuarial accrued liability have been increased by .2% for the two-year "pop-up" provision.

## Administrative expense

\$300,000 is added to the plan's normal cost

## Percent married

100% males and 100% females are assumed married.

## Spouse age

Wife three years younger than husband

## Valuation pay

Annualized target pay rate plus bonus.

Annual rates of pay are increased 3% for those without a bonus to approximate total company overtime.

## Maximum benefit

For contribution purposes: \$180,000 for 2007, payable at age 62.

For accounting purposes: \$180,000 for 2007, increasing with inflation.

## Maximum pensionable earnings

For contribution purposes: \$225,000 for 2007

For accounting purposes: \$225,000 for 2007, increasing with inflation.

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**Methods**

## Pension cost:

- ▶ Measurement date                      January 1, 2008 based on July 1, 2007 participant data
- ▶ Service cost and projected benefit obligation      Projected unit credit
- ▶ Market-related value of assets                      Fair value
- ▶ Amortization of unrecognized amounts:
  - Prior service cost (credit)                      Increase in PBO resulting from a plan amendment is amortized on a straight-line basis over the expected average remaining service of active participants.
  - Net loss (gain)                                      Net loss (gain) in excess of 10% of the greater of the PBO or the market-related value of assets is amortized on a straight-line basis over the expected average remaining service of active participants.

## Contributions:

- ▶ Valuation date                                      July 1, 2007
- ▶ Normal cost and actuarial accrued liability      Projected unit credit
- ▶ Actuarial value of assets                      A preliminary actuarial value of assets as of the valuation date is determined as the market value of assets as of the valuation date less the following percentage applied to investment gains (losses) from previous years:
  - 80% for the year ending on the valuation date
  - 60% for the previous year
  - 40% for the second previous year
  - 20% for the third previous year

The preliminary actuarial value is then adjusted to be within a corridor of 80% to 120% of the market value.
- ▶ Funding policy                                      The company's funding policy is to contribute an amount at least equal to the minimum required contribution under ERISA. American Water Works may increase its contribution above the minimum, if appropriate to its tax and cash position and the plan's funded status.

**Benefits Not Valued**

All benefits described in the Plan Provisions section of this report were valued. Towers Perrin has reviewed documentation provided by American Water Works and is not aware of any significant benefits that were not valued.

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**Change in Assumptions and Methods Since Prior Valuation**

Pension cost	<p>The discount rate for benefit obligations was changed from 5.90% to 6.27%.</p> <p>The lump sum conversion interest rate changed from 4.90% to 5.27%.</p> <p>The Elizabethtown termination rates were changed to the AW termination rates.</p>
Contributions	<p>The current liability interest rate was changed from 5.77% to 5.83%, which is within the permissible range.</p> <p>The discount rate was changed from 8.25% to 8.00%.</p> <p>The lump sum conversion interest rate was changed from 6.25% to 6.00% (it was changed from 5.77% to 5.83% for current liability).</p> <p>The mortality tables for current liability were changed as described above.</p> <p>The Elizabethtown termination rates were changed to the AW termination rates.</p>

**Data Sources**

Towers Perrin used asset data supplied by the trustee. American Water Works furnished participant data as of July 1, 2007. In addition, accrued pension costs were furnished as of December 31, 2007. Data were reviewed for reasonableness and consistency. Towers Perrin is not aware of any errors or omissions in the data that would have a significant effect on the results of our calculations.

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## Participant Data

	July 1, 2007	July 1, 2006 <sup>(1)</sup>
<b>Active</b>		
Number	5,053	4,745
Average age	46.1	45.8
Average past service	13.6	14.5
Average future service	10.2	11.0
Covered pay:		
▶ Total	\$ 294,901,541	\$ 266,216,479
▶ Average	58,362	56,105
<b>Deferred Inactive</b>		
Number	1,957	1,801
Average age	49.3	48.8
Annual benefits:		
▶ Total	\$ 17,141,403	\$ 15,344,148
▶ Average	8,759	8,520
<b>Currently Receiving Benefits</b>		
Number	1,803	1,495
Average age	68.2	67.3
Annual benefits:		
▶ Total	\$ 28,473,534	\$ 23,363,331
▶ Average	15,792	15,628
<b>Total Participants Included in Valuation</b>		
Number	8,813	8,041

(1) The July 1, 2006 Participant Data does not reflect the Elizabethtown plan merger as of December 31, 2006. As of January 1, 2006, the Elizabethtown Pension Plan had 316 active participants, 117 deferred inactive participants and 196 participants currently receiving benefits.

**Analysis of Inactive Participant Data****Deferred Inactive**

<i>Age last birthday</i>	<i>Number</i>	<i>Annual benefit</i>	<i>Average annual benefit</i>
< 40	205	\$ 1,146,388	\$ 5,592
40 – 49	813	6,606,771	8,126
50 – 54	441	4,870,275	11,044
55 – 59	289	3,124,332	10,811
60 – 64	154	1,088,198	7,066
> 64	<u>55</u>	<u>305,439</u>	5,553
Total	1,957	\$ 17,141,403	\$ 8,759

**Currently Receiving Benefits**

<i>Age last birthday</i>	<i>Number</i>	<i>Annual benefit</i>	<i>Average annual benefit</i>
< 55	45	\$ 488,229	\$ 10,850
55 – 59	208	3,385,711	16,277
60 – 64	444	8,290,767	18,673
65 – 69	484	8,697,445	17,970
70 – 74	218	3,474,539	15,938
75 – 79	143	2,066,318	14,450
> 79	<u>261</u>	<u>2,070,525</u>	7,933
Total	1,803	\$ 28,473,534	\$ 15,792

ANALYSIS OF ACTIVE PARTICIPANT DATA BY AGE, SERVICE AND EARNINGS AS OF 07/01/2007

Age Nearest Birthday	Completed Years of Service								Total	
	0 to 4	5 to 9	10 to 14	15 to 19	20 to 24	25 to 29	30 to 34	Over 34		
15 to 24	Count	56	1	0	0	0	0	0	0	57
	Total Earnings	2,020,953	60,051	0	0	0	0	0	0	2,081,004
	Average Earnings	36,088	60,051	0	0	0	0	0	0	36,509
25 to 29	Count	208	44	0	0	0	0	0	0	252
	Total Earnings	8,487,883	2,112,590	0	0	0	0	0	0	10,600,472
	Average Earnings	40,807	48,013	0	0	0	0	0	0	42,065
30 to 34	Count	227	142	14	1	0	0	0	0	384
	Total Earnings	10,272,323	7,504,235	736,615	46,747	0	0	0	0	18,559,920
	Average Earnings	45,253	52,847	52,615	46,747	0	0	0	0	48,333
35 to 39	Count	235	183	89	35	1	0	0	0	543
	Total Earnings	12,729,249	10,679,723	5,105,595	2,092,946	53,346	0	0	0	30,660,859
	Average Earnings	54,167	58,359	57,366	59,798	53,346	0	0	0	56,466
40 to 44	Count	209	183	145	163	73	4	0	0	777
	Total Earnings	11,075,483	10,874,913	8,261,866	10,469,388	4,540,666	254,116	0	0	45,476,432
	Average Earnings	52,993	59,426	56,978	64,229	62,201	63,529	0	0	58,528
45 to 49	Count	155	171	152	190	188	111	13	0	980
	Total Earnings	8,932,549	9,760,532	9,495,225	11,708,328	12,868,827	7,154,849	819,144	0	60,739,453
	Average Earnings	57,629	57,079	62,469	61,623	68,451	64,458	63,011	0	61,979
50 to 54	Count	122	142	128	157	162	236	80	9	1,036
	Total Earnings	8,081,586	8,233,160	7,597,556	9,705,455	10,061,324	15,835,710	4,960,927	471,939	64,947,657
	Average Earnings	66,243	57,980	59,356	61,818	62,107	67,100	62,012	52,438	62,691
55 to 59	Count	86	88	81	71	78	130	89	81	704
	Total Earnings	5,788,912	5,434,635	4,469,547	4,026,327	4,325,870	7,959,476	5,654,100	5,374,983	43,033,851
	Average Earnings	67,313	61,757	55,180	56,709	55,460	61,227	63,529	66,358	61,128
60 to 64	Count	28	50	30	23	23	29	32	66	281
	Total Earnings	1,659,758	2,817,977	1,549,725	1,403,290	1,325,831	1,632,677	1,791,501	4,357,735	16,538,493
	Average Earnings	59,277	56,360	51,658	61,013	57,645	56,299	55,984	66,026	58,856
65 to 69	Count	5	9	2	1	0	8	0	5	30
	Total Earnings	431,148	547,903	103,092	52,478	0	416,697	0	273,392	1,824,710
	Average Earnings	86,230	60,878	51,546	52,478	0	52,087	0	54,678	60,824
Over 69	Count	0	4	0	0	0	0	1	4	9
	Total Earnings	0	153,880	0	0	0	0	44,883	239,927	438,691
	Average Earnings	0	38,470	0	0	0	0	44,883	59,982	48,743
Total	Count	1,331	1,017	641	641	525	518	215	165	5,053
	Total Earnings	69,479,842	58,179,600	37,319,220	39,504,960	33,175,864	33,253,525	13,270,554	10,717,976	294,901,541
	Average Earnings	52,201	57,207	58,220	61,630	63,192	64,196	61,724	64,957	58,362

Average Age: 46.1

Average Service: 13.6

**Reconciliation of Participant Data**

	<i>Active</i>	<i>Deferred inactive</i>	<i>Currently receiving benefits</i>	<i>Total</i>
Included in July 1, 2006 valuation	4,745	1,801	1,495	8,041
Elizabethtown Merger (counts as of January 1, 2006)	316	117	196	629
Change due to:				
▶ New hire and rehire	285	0	0	285
▶ Nonvested termination	(103)	0	0	(103)
▶ Vested termination	(98)	98	0	0
▶ Retirement	(62)	(47)	109	0
▶ Disability	(11)	0	11	0
▶ Death without beneficiary	(1)	0	(13)	(14)
▶ Death with beneficiary	(9)	2	7	0
▶ Cashout	(1)	(1)	0	(2)
▶ Miscellaneous	(8)	(13)	(2)	(23)
▶ Net change	308	156	308	772
Included in July 1, 2007 valuation	5,053	1,957	1,803	8,813

## Plan Provisions

### Plan Provisions as of July 1, 2007

1. Effective Date: July 1, 1952. Most recent amendment/restatement effective January 1, 2007.
2. Definitions:
  - (a) Average Social Security Wage Base: Average of the maximum amounts subject to Social Security taxation for the year of retirement or termination and the nine preceding years.
  - (b) Earnings: Total compensation for services paid as an annual salary or as an hourly wage (including overtime and shift differentials) plus annual incentive awards paid in cash during the period, plus amounts paid under the company's business development incentive plan, plus amounts deferred under Sections 401(k), 125 or 132(f)(4) of the Internal Revenue Code. Earnings are subject to a maximum amount as set forth in Section 401(a)(17)(B) of the Internal Revenue Code.
  - (c) Final Average Earnings: The highest average monthly Earnings during the 60 consecutive months of the final 120 months (or lesser period of employment) preceding termination from employment or retirement.
  - (d) Year of Service:
    - (i) For periods prior to the first anniversary of employment after July 1, 1975: A Year of Service is credited for each year of continuous service during which the employee's customary employment was for more than 1,000 hours per year, subject to the following exceptions:
      - (a) California-American Water Company: Only continuous service accrued beginning December 28, 1970 is credited for the purpose of determining the amount of benefits payable under the Plan (in addition to any prior plan benefits).
      - (b) West Virginia Water Company and Yardley Water Company: Only service accrued beginning December 1, 1970 is credited for the purpose of determining the amount of benefits accrued under the Plan (in addition to any prior plan benefits). Service for eligibility purposes and for the schedule of early retirement factors is measured from the original date of hire.

- (ii) For periods beginning on or after the first anniversary of employment after July 1, 1975: In general, a Year of Service is credited for each 12-month period commencing on the employee's anniversary date of employment during which the employee completes 1,000 hours of service. For the purpose of determining the amount of benefits of any participant (other than a part-time employee) who completes at least 1,000 but fewer than 2,080 hours of service in this 12-month period, the participant is credited with the fraction of a Year of Service determined by dividing his actual hours of service by 2,080. The following exceptions apply:
- (a) Hershey Water Company: Employees on April 19, 1977 who were vested in benefits accrued under the prior plan receive credit only for service beginning April 19, 1977.
  - (b) Pekin Water Company: Nonunion participants who were members of the prior plan get credit for all service less any prior plan benefit. Other nonunion employees get credit for periods of service beginning January 1, 1982. Union employees' service is credited for periods beginning April 1, 1982 for the purposes of determining the amount of benefits payable under the Plan (in addition to any prior plan benefits).
  - (c) Seymour Water Company: Only service accrued beginning March 16, 1982 is credited for the purpose of determining the amount of benefits payable under the Plan (in addition to any prior plan benefits).
  - (d) New Mexico-American: All service is credited, including periods before the August 1, 1986 acquisition. The prior plan benefit is a minimum.
  - (e) Indiana-American Terre Haute Plan: Only service accrued beginning May 11, 1987 is credited for the purpose of determining the amount of benefits payable under the Plan (in addition to any prior plan benefits).
  - (f) Brownsville Water Company: Only service accrued beginning July 1, 1990 is credited for the purpose of determining the amount of benefits payable under the Plan (in addition to any prior plan benefits).
  - (g) California Water Company: Only service accrued beginning July 1, 1990 is credited for the purpose of determining the amount of benefits payable under the Plan (in addition to any prior plan benefits).
  - (h) Avatar Utilities Inc.: Only service accrued beginning August 31, 1993 is credited for the purpose of determining the amount of benefits payable under the Plan (in addition to any prior plan benefits).

(i) PG Energy: Only service accrued beginning February 16, 1996 is credited for the purpose of determining the amount of benefits accrued under the Plan (in addition to any prior plan benefits). Service for eligibility and vesting purposes and for the schedule of early retirement factors is measured from the original date of hire.

(j) United Water Resources, Inc.: Dates of acquisition are shown below:

<u>Location</u>	<u>Date</u>
United Water of Indiana	February 1, 2000
United Water of West Lafayette	February 1, 2000
United Water of Virginia	February 29, 2000
United Water of Missouri	May 1, 2000
United Water of Illinois	May 31, 2000

(i) Nonunion employees: Service for eligibility purposes and for the schedule of early retirement factors is measured from the original date of hire. Service for benefit accrual is measured from the date of acquisition.

(ii) Union employees: Service for all purposes is measured from the original date of hire. All benefits are determined under the United Waterworks Plan formula in effect on the date of acquisition.

(k) City of Coatesville Authority: Only service accrued beginning March 23, 2001 is credited for the purpose of determining the amount of benefits accrued under the Plan. Service for eligibility to participate, vesting and early retirement eligibility is measured from the original date of hire.

(l) Citizens Utilities Companies: Only service accrued beginning January 15, 2002 is credited for the purpose of determining the amount of benefits payable under the Plan. Service for eligibility and vesting purpose and for the schedule of early retirement factors is measured from the original date of hire.

(m) Cessation of Years of Service for Benefit Accrual for Certain Employee Groups: Union participants hired or rehired on or after January 1, 2001 cease to be credited with years of service for benefit accrual after December 31, 2005. Likewise, all accrued benefits for those participants are frozen as of December 31, 2005.

The following union groups are excluded from this benefit freeze provision:

- ▶ Union employees at Sterling or Alton, Illinois
- ▶ Union employees at Pensacola, Florida
- ▶ Union employees as of January 15, 2002 who were included in the Citizens Utility acquisition
- ▶ Elizabethtown Water Company employees of Local 423 hired before April 1, 2006 or Local 68 hired before May 1, 2006

Note: Years of service for purposes of determining eligibility for benefits (vesting, disability, early retirement and preretirement death benefits) continue to accrue for all union participants whose benefits are frozen as of December 31, 2005.

- (n) Recent acquisitions — service credit from dates shown below:

<u>Location</u>	<u>Date</u>
Country Place Water	June 30, 1995
Hawaii American Water	July 1, 1998
City of Florissant, MO (nonunion employees)	November 1, 2001
Texas American Water	July 1, 2002
City of Webster Groves, MO	February 8, 2002
LP Water and Sewer Company (nonunion employees)	April 3, 2002

3. Eligibility for Participation: Each employee commences participation on the first day of the calendar month next following completion of one Year of Service. The following groups of employees are not eligible to participate in the plan:

- (a) Nonunion employees hired or rehired on or after January 1, 2006
- (b) Union employees hired or rehired on or after January 1, 2006 (April 1, or May 1, 2006 for employees of Elizabethtown Water unions 423 and 68 respectively)
- (c) Any employee who was not eligible to accrue a benefit as of January 1, 2006 (with noted exceptions for certain union groups).

4. Benefits:

- (a) Normal Retirement Benefit:

- (i) Normal retirement date: The first day of the calendar month next following the participant's 65th birthday.
- (ii) Basic monthly benefit: The sum of (A) and (B) below. Union employees hired on or after January 1, 2001 have their accrued benefit frozen as of December 31, 2005.

(A1) For service before July 1, 2001 for American Water employees (other than former NEI plan participants), the larger of (1) or (2) below:

(1) The sum of (a) plus (b) plus (c):

- (a) 1.85% of Final Average Earnings not in excess of the Average Social Security Wage Base multiplied by Years of Service up to 25 years.
- (b) 2.10% of Final Average Earnings in excess of the Average Social Security Wage Base multiplied by Years of Service up to 25 years.
- (c) 0.70% of Final Average Earnings multiplied by Years of Service in excess of 25 years.

(2) The benefit accrued under the Plan formula as of June 30, 1989.

(A2) For former NEI participants and Elizabethtown Water nonunion participants, the benefit formula in effect under the provisions of the former respective NEI plans using the Final Average Earnings described in 2(c) above, and service (determined under the provisions of the former plan) prior to the dates described below:

<u>Nonbargaining participants of</u>	<u>service before</u>
▶ Northern Illinois	July 1, 2001
▶ Long Island	July 1, 2001
▶ Northwest Indiana	July 1, 2001
▶ St. Louis	July 1, 2001
▶ Elizabethtown Water	January 1, 2006

<u>Bargaining participants of</u>	<u>service before</u>
▶ Northwest Indiana	January 1, 2003
▶ St. Louis	January 1, 2004
▶ Northern Illinois	July 1, 2004
▶ Long Island	July 1, 2004*

- \* The applicable benefit formula is 1.75% of Final Average Earnings as of the earlier of December 31, 2007 or termination date times credited service through June 30, 2004.

(B) For service on or after July 1, 2001 for AW participants\*, and after dates described above for former NEI and Elizabethtown Water nonbargaining participants, sum of (1) + (2) + (3):

- (1) 1.6% of Final Average Earnings not in excess of the Average Social Security Wage Base multiplied by Years of Service up to 25 years.\*\*
- (2) 2.1% (1.6% for Union Associates, former NEI participants, former Elizabethtown Water participants and all participants hired after July 1, 2001) of Final Average Earnings in excess of the Average Social Security Wage Base multiplied by Years of Service up to 25 years.\*\*
- (3) 1.6% of Final Average Earnings multiplied by Years of Service in excess of 25 years\*\*

\* For participants hired on or after July 1, 2001, 1.6% of Final Average Earnings multiplied by Years of Service.

\*\* The threshold of 25 years of service is based on total service, including Years of Service credited prior to July 1, 2001.

The following groups represent variances from the above benefit formulas:

- ▶ IBEW Local 51 members employed at Sterling, Illinois — the former Northern Illinois plan's benefit provisions continued unchanged. The formula is 1.33% of Final 5-year Average Earnings (based on the highest five consecutive out of the last 10 plan years, where plan years are from April 1 to March 31) multiplied by Years of Service.
- ▶ United Water (acquired in 2000) union employees previously covered under the United Waterworks Plan — the former plan's benefit provisions continue unchanged.
- ▶ Union employees of Long Island — 1.60% multiplied by Years of Service from July 1, 2004 to January 1, 2008 multiplied by final 60-month average pay as of December 31, 2007. 1.60% for each Year of Service after December 31, 2007 multiplied by average pay from January 1, 2008 to date of retirement.
- ▶ Union employees of Elizabethtown Water Company hired before the effective date of the most recent bargaining agreement — the former Elizabethtown retirement plan's provisions continue unchanged. The formula is 1.6% of Final 4-year Average Base Earnings times Years of Service (maximum 40 years).

In addition to the above amounts, benefits are payable under prior plans that have been merged into this Plan: for the Pekin, Seymour, California-American, West Virginia Water Companies and the Indiana-American Terre Haute Plan, the Brownsville Water Company, California Water Company, Avatar Utilities Inc. and PG Energy. Also, any benefits payable through a purchased annuity are subtracted from the above amounts (under Metropolitan contracts #153 and #369).

(b) Early Retirement Benefit:

(i) Early retirement date:

- ▶ For American Water employees, former St. Louis County employees and Long Island employees, the first day of any month on which the employee elects to retire provided that:
  - (a) the participant has attained age 55, and
  - (b) the sum of the individual's age and Years of Service totals at least 70.
- ▶ For former non-bargaining employees of Northwest Indiana hired prior to July 1, 2001 and former bargaining employees of Northwest Indiana hired prior to January 1, 2003, the first day of any month on which the employee elects to retire provided that the participant has attained age 55 and completed five Years of Service.
- ▶ For former employees of Northern Illinois hired prior to July 1, 2001 and for all Local 51 union employees at Sterling, Illinois, the first day of any month on which the employee elects to retire provided that the employee has attained age 55.
- ▶ For former employees of Elizabethtown Water Company, the first day of any month on which an employee elects to retire after he has attained age 55 and completed 10 Years of Service.

- (ii) Basic monthly benefit: Except for those employees whose benefits continue to be determined under the provisions of their prior plan, the benefit as in (a)(ii) above based upon Earnings and Years of Service to the date of early retirement, multiplied by the appropriate factors from the Schedule of Early Retirement Factors contained in the American Water Plan document. For benefits attributable to service prior to the dates described below under the former NEI plans' provisions, the applicable early retirement factors are those set forth in the respective former plans, except for Long Island bargaining participants, whose entire benefit will be subject to the American Water early retirement factors..

<u>Nonbargaining participants of</u>	<u>service before</u>
▶ Northern Illinois	July 1, 2001
▶ Long Island	July 1, 2001
▶ Northwest Indiana	July 1, 2001
▶ St. Louis	July 1, 2001
 <u>Bargaining participants of</u>	 <u>service before</u>
▶ Northwest Indiana	January 1, 2003
▶ St. Louis	January 1, 2004
▶ Northern Illinois	July 1, 2004
▶ Long Island	July 1, 2004

Note: All benefits which continue to accrue under the provisions of a prior plan (e.g., United Waterworks, Elizabethtown Water, Sterling union at Northern Illinois) will be subject to the early retirement factors from those prior plans.

- (iii) Supplemental Early Retirement Income: For Long Island non-union employees hired prior to July 1, 2001 who retire and whose age plus service at retirement is at least 90 points, benefit is \$100 per month reduced by 5% for each point below 90. This benefit is available to the Long Island union employees only if they retired before July 1, 2004. This benefit is payable until age 65.
- (c) Late Retirement: Effective July 1, 2006 an active participant who works beyond age 65 shall receive a Suspension of Benefits notice. Benefits payable upon retirement will be determined based on actual earnings and service credited through the date of retirement.
- (d) Vested Benefit:
- (i) Eligibility: Completion of five Years of Service.
- (ii) Basic monthly benefit: The benefit as in (a)(ii), based upon Earnings and Years of Service to date of termination.
- (e) Disability Benefit:
- (i) Disability retirement date: The first day of the month following the submission of evidence that the employee qualifies for disability benefits from the Social Security Administration, provided that the employee has completed 10 Years of Service.
- (ii) Basic monthly benefit: The benefit in (a) below, plus any frozen benefit payable under the prior plans for former employees of Pekin Water Company, Seymour Water Company and West Virginia Water Company:
- (a) the benefit accrued under section (4)(a)(ii) based on Earnings and Years of Service at the date of disability without reduction for early commencement.

(f) Preretirement Death Benefit:

(i) Eligibility: Monthly benefits under (ii) depend on the status of the participant as follows:

- (a) All active and former employees eligible for early retirement as of the date of death, provided the employee is married or has designated a contingent annuitant.
- (b) All employees not eligible for early retirement with at least 10 Years of Service on the date of death, provided the employee is married or has designated a contingent annuitant.
- (c) All active employees not eligible for early retirement with at least five Years of Service but less than 10 on the date of death and all former employees who had completed at least five Years of Service but were not eligible for Early Retirement at termination and have not begun to receive retirement benefits, provided the employee is married or has designated a contingent annuitant.

(ii) Monthly benefit:

- (a) The benefit that would have been payable to the employee if the participant had retired early on the date of death and elected to receive a 100% contingent annuity (50% for Elizabethtown Water union employees).
- (b) An immediate benefit, based on the amount that would have been payable to the employee had the employee retired on the date of death and elected to receive a 100% contingent annuity. Such benefit will be based upon the Early Retirement Factor for the employee's age at death (or, if greater, age 55) and the number of Years of Service at death. Such benefit will also be based upon the 100% Contingent Annuity Factor for the employee's age at death (or, if greater, age 55) with a spouse's age that bears the same relation as to that at death. (This benefit is not applicable for Elizabethtown Water union employees.)
- (c) A benefit, equal to 50% of the amount that would have been payable to the participant had he survived to age 55 (if death is before age 55) and elected a 50% contingent annuity. Such benefit will be based upon the Early Retirement Factor and the 50% Contingent Annuity Factor for an employee age 55 (if death is before age 55), the number of Years of Service completed at death or termination, and the spouse's then attained age. Benefit is payable immediately or at the employee's age 55, if later.

(iii) Duration of benefit: Monthly benefits are payable during the lifetime of the survivor.

(g) Special Prior Plan Preretirement Death Benefits:

- (i) California-American Water Works: All former employees not eligible for early retirement on the date of death will receive the amount of their accumulated contributions with interest.
- (ii) West Virginia Water Works: All former employees not eligible for early retirement on the date of death will have the accrued frozen benefit without reduction payable for 10 years.

5. Form of Retirement and Disability Benefits:

(a) Normal Form:

- (i) Married participants: 50% contingent annuity (with two-year “pop-up”), with monthly payment equal to the actuarial equivalent of the basic benefit.
- (ii) Single participants: Life annuity, with monthly payment equal to the basic benefit.
- (iii) For former employees of Pekin Water Company, Seymour Water Company and West Virginia Water Company, 10 years certain and continuous annuities are payable with regard to amounts due from prior plan.

- (b) Optional Forms: Life annuity; 100%, 66 2/3% or 50% contingent annuity (with two-year “pop-up”); 5-year, 10-year, or 15 year certain and continuous annuity; and a lump sum\*.

6. Maximum Benefits: Maximum benefits payable conform to those set forth in the Employee Retirement Income Security Act of 1974 and the Tax Reform Act of 1986.

\* Effective January 1, 2006 for union employees hired on or after January 1, 2001. In addition, all Elizabethtown Water participants are eligible for a lump sum if the actuarially equivalent present value of the retirement benefit does not exceed \$15,000.

### **Changes in Plan Provisions Since Prior Year**

There were no changes in benefits valued since the prior year other than to reflect increases in the statutory limits on pay and benefits, including the elimination of the sunset provision for the IRS pay and benefit limits under the Pension Protection Act.

### **Future Plan Changes**

The Long Island union plan change, extending the final average pay formula to December 31, 2011, was reflected for FAS 87 but not for ERISA or FAS 35.

## Glossary of Selected Terms

Actuarial Accrued Liability — The cost allocated to years prior to the valuation date under the plan's funding method (contribution basis).

Accumulated Benefit Obligation (ABO) — The present value of benefits earned by participants prior to the measurement date. The benefits are based on compensation earned prior to the valuation date (pension cost basis).

Accrued/Prepaid Pension Cost — Cumulative employer contributions less than/in excess of pension cost (pension cost basis).

Actuarial Asset Value — A smoothed value of assets, used in calculating the plan's contributions (contribution basis).

Current Liability Rate — The interest rate used to calculate the current liability. The rate is determined by the IRS (contribution basis).

Current Liability — The value of accrued benefits calculated using the current liability rate (contribution basis).

Discount Rate — The interest rate used to adjust liabilities and obligations for the time value of money. It is used in calculating the service cost and benefit obligations (pension cost basis).

Expected Rate of Return — The assumption as to the rate of return on plan assets reflecting the average long-term rate of earnings expected on the funds invested (pension cost basis).

Full Funding Limitation — A plan contribution is not required, nor is it deductible, if either:

- (i) the plan's expected assets exceed the plan's expected actuarial accrued liability at the end of the year, or
- (ii) the plan's expected assets exceed 90% of the expected current liability at the end of the year.

Funded Status — A comparison of the plan's assets and liabilities at a particular point in time.

Gain or Loss — A change in the value of the projected benefit obligation, actuarial accrued liability or plan assets resulting from experience different from that assumed. On the pension cost basis, a change in these values arising from a change in actuarial assumptions is also considered a gain or loss.

Market Value of Assets — The value of assets reported by the trustee, adjusted for plan receivables and payables.

Market-Related Value of Assets — At the option of the plan sponsor, a smoothed value of assets may be used in calculating the expected return on plan assets component of pension cost.

Maximum Deductible Contribution — The largest amount the plan sponsor may contribute to the plan and deduct for tax purposes without incurring a penalty.

Measurement Date — The date as of which assets and obligations are measured in determining pension cost.

Minimum Required Contribution — The smallest amount the plan sponsor may contribute to the plan without incurring a penalty.

Normal Cost — The cost allocated to the current year by the plan's funding method (contribution basis).

Pension Cost — The annual accounting cost recognized in the plan sponsor's financial statements as the cost of the pension plan. The pension cost is determined in accordance with Financial Accounting Standard No. 87.

Projected Benefit Obligation (PBO) — The present value of benefits earned by participants prior to the measurement date. The benefits are based on the employee's projected compensation (pension cost basis).

Service Cost — The present value of benefits earned by employees during the year covered by this valuation. The benefits are based on the employee's projected compensation (pension cost basis).

Valuation Date — The date as of which assets and liabilities are measured.

10% Corridor — Gains or losses that, in the aggregate, are less than 10% of the greater of the projected benefit obligation or the plan's market-related value of assets may be excluded from the determination of pension cost.

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2008-00427  
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

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**Witness:** Michael A. Miller

27. In Case No. 2004-00103, Kentucky-American's total forecasted rate case cost was \$622,409. In that case, the Commission found that, "in its next rate application, Kentucky-American should demonstrate fully its efforts to contain these expenses." In the current case, Kentucky-American's forecasted rate case costs are \$592,000,<sup>1</sup> a \$77,501, or 12.46 percent, increase. Describe Kentucky-American's efforts to contain rate case expenses.

**Response:**

Please note that the question above indicates the estimated cost of the current rate case represents an *increase* from the cost of the 2004 rate case. The estimated cost of the 2008 rate case is actually lower than or a decrease from the cost of the 2004 rate case.

The following information recaps the Company's rate case expense for the 2004 rate case, the 2007 rate case expense included in the Company filing in the settled case, and the rate case expense from the current case. As shown on the attached schedule, the estimated cost of the current case is down 19.46% from the inflation adjusted 2007 rate case cost estimates and down 13.53% from the inflation adjusted 2004 rate case cost estimates.

The cost of a rate case depends on many factors, including, but not limited to: i) the number of issues in the case, ii) the number of outside witnesses needed in the case, iii) the number of interveners in the case, iv) the number of discovery requests issued in the case, and v) whether the case is ultimately settled or it goes to hearing. Many of the drivers of the cost to process the rate case are not controlled by the Company, but are driven by the actions of the other parties to the case.

There are a number of factors that impact the rate case cost that can be influenced by the Company. The following are key areas that have led to lower rate case costs for the Company in this case as compared to the estimated costs of the 2007 and 2004 rate cases.

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<sup>1</sup> This amount includes the \$25,000 estimated cost of the Cost-of-Service study.

1. The approval of single tariff pricing in the Company's 2007 has resulted in a significant decrease in the time and expense of preparing the rate case, just as the Company indicated in the testimony in the 2007 rate case. The preparation of one cost of service and tariff has greatly simplified the Company's filing from prior rate cases where up to four separate costs of service and tariff calculations were required. This has led to lower AWWSC and outside consulting costs.
2. The Company has utilized more in-house legal services for portions of the case resulting in lower overall legal costs to process the case.
3. The Company has utilized more in-house accounting/finance services resulting in less outside consulting and miscellaneous expenses.

For the electronic version, refer to KAW\_R\_PSCDR2#27\_0809.pdf.

**Kentucky American Water Company  
Case Number 2008-00427  
Rate Case Expense**

**Response to PSCDR2#27**

	<b><u>Case no. 2008-00427</u></b>	<b><u>Case no. 2007-00143</u></b>	<b><u>Case no. 2004-00103</u></b>
<b><u>Costs to Prepare Present Rate Case:</u></b>			
AWWSC Charges	75,000	150,000	156,940
Legal Fees	300,000	325,000	280,000
Cost of Capital Witness	40,000	27,000	26,350
Cost of Service Witness	25,000	25,000	
AWWSC Cost Witness	30,000	28,000	20,000
Weather Normalization Witness	27,000	25,000	17,119
Lead/Lag Study			20,000
Outside Consultant for preparing case			50,000
Security Cost Witness			15,000
Customer Notification	45,000	45,000	
Other Miscellaneous	<u>50,000</u>	<u>75,000</u>	<u>37,000</u>
	592,000	700,000	622,409
Inflation @ est. 2.5% per year		<u>5.00%</u>	<u>10.00%</u>
Inflation adjusted costs		<u>735,000</u>	<u>684,650</u>
Savings embedded in 2008 rate case costs		143,000	92,650
<b>Pecent savings in current case after inflation adjustment to 2007&amp; 2004 rate case costs</b>		<b>19.46%</b>	<b>13.53%</b>

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2008-00427**  
**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

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**Witness: Sheila Miller**

28. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-9, at 1-5 and the Direct Testimony of Shelia Miller at 7.
- a. Provide all documentation Kentucky-American relies on to project the projected premium increases in 2009 and 2010 for each insurance other than group coverage listed on the schedule. Include the percentage increases for each coverage listed.
  - b. Provide the actual 2007 premium amounts for each insurance other than group coverage listed on the schedule.
  - c. State the workers' compensation capitalization rate.
  - d. The annual insurance other than group insurance listed at 3 is \$736,447 while the amount listed in Ms. Miller's direct testimony is \$694,598. Provide a detailed explanation for the discrepancy.

**Response:**

- a. See the attached Summary of Percentage Changes.
- b. See attached.
- c. The worker's compensation capitalization rate is 2.28%. The worker's compensation capitalization rate is determined by applying the effective rate for workers compensation to the capital labor costs to determine the deduction in arriving at workers compensation expense applicable to O&M expense.
- d. The difference of \$41,849 is the auto insurance which is part of the property insurance total. However, auto insurance is not included in the insurance other than group line but rather detailed in the miscellaneous expense line.

For the electronic version, refer to KAW\_R\_PSCDR2#28\_010809.pdf.

American Water Works Company, Inc.  
Summary of Percentage Changes

<u>Coverage</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>
<b>Property Insurance *</b>	1.300	1.050	1.050	1.050	1.050
<b>Workers Compensation</b>					
<b>Assessments</b>	1.050	1.050	1.050	1.060	1.060
<b>Loss</b>	1.050	1.075	1.075	1.050	1.050
<b>General Liability</b>	1.050	1.100	1.100	1.050	1.050
<b>Auto Liability</b>	1.100	1.100	1.100	1.050	1.050
<b>Umbrella/Excess Liability *</b>	1.100	1.125	1.125	1.100	1.100
<b>Execuctive Risk Coverages</b>	1.100	1.100	1.100	1.100	1.100
<b>Directors &amp; Officers Liability *</b>	1.050	1.050	1.050	1.050	1.050
<b>Errors &amp; Omissions Liability *</b>	1.100	1.100	1.100	1.100	1.100
<b>Marsh Consultation Fee</b>	1.030	1.030	1.030	1.030	1.030
<b>Pollution Liability</b>	1.10	1.10	1.10	1.10	1.10
<b>Employed Lawyers Liability</b>	1.05	1.05	1.05	1.05	1.05
<b>Information Technology Insurance</b>	1	1.05	1.05	1.05	1.05

<b>American Water Works Company, Inc.</b>						
<b>Summary of Forecasted Premiums</b>						
	<b>2008 A</b>	<b>2,009</b>	<b>2,010</b>	<b>2,011</b>	<b>2,012</b>	<b>2,013</b>
<b>Coverage</b>						
<b>Property</b>	5,218,797	6,784,436	7,123,658	7,479,841	7,853,833	8,246,525
<b>WC</b>	11,009,031	11,559,483	12,426,444	13,358,427	14,026,348	14,727,665
<b>WC Taxes</b>	480,268	504,281	529,495	555,970	589,328	624,688
<b>GL/PR</b>	16,835,048	17,676,800	19,444,480	21,388,928	22,458,374	23,581,293
<b>AL</b>	1,844,420	2,028,862	2,231,748	2,454,923	2,577,669	2,706,552
<b>Excess Casualty</b>	5,410,291	5,951,320	6,695,235	7,532,139	8,285,353	9,113,888
<b>Executive Risk</b>	515,072	566,579	623,237	685,561	754,117	829,529
<b>Consultation Fee</b>	288,000	296,640	305,539	314,705	324,146	333,870
<b>D&amp;O</b>	1,511,186	1,586,745	1,666,082	1,749,386	1,836,855	1,928,698
<b>Errors &amp; Omissions</b>	124,158	136,574	150,231	165,254	181,779	199,957
<b>Pollution</b>	239,787	263,766	290,143	319,157	351,073	386,180
<b>Employed Lawyers</b>	33,000	34,650	36,383	38,202	40,112	42,118
<b>Information Technology</b>	62,500	250,000	262,500	275,625	289,406	303,876
<b>Retro</b>	(2,000,000)	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
<b>Total</b>	<b>41,571,558</b>	<b>49,640,136</b>	<b>53,785,175</b>	<b>58,318,118</b>	<b>61,568,393</b>	<b>65,024,839</b>
YOY Increase		19.41%	8.35%	8.43%	5.57%	5.61%

**KENTUCKY-AMERICAN WATER COMPANY**  
**FOR THE TWELVE MONTHS ENDED: May 2010**  
**INSURANCE OTHER THAN GROUP**  
**PSCDR2#28 b**  
**CASE NO: 2008-00427**

ACCOUNT 120119	2007 premium
REAL & PERSONAL PROPERTY	107,863
FIDUCIARY LIABILITY	2,885
DIRECTORS & OFFICERS LIABILITY	1,120
KIDNAP & RANSOM	277
EMPLOYMENT PRACTICES	4,059
CRIME	1,450
AUTO	32,566
SURETY MISC BONDS	771
559000.16 ALL RISK PROPERTY INS. PREMIUMS	<u>150,992</u>
WORKERS' COMP. PREMIUM	181,245
TOTAL CREDITS-WORKERS' COMP.	<u>(26,627)</u>
558000.16 NET WORKERS' COMP. PREMIUM	<u>154,618</u>
PRIMARY GENERAL LIABILITY	240,153
EXCESS LIABILITY >1,000,000	106,703
CONSULTATION FEES	7,086
557000.16 GENERAL LIABILITY INSURANCE PREMIUMS	<u>353,943</u>
<b>2007 Insurance Other than Group</b>	<u><u>659,552</u></u>

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2008-00427**  
**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

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**Witness:**     **Michael A. Miller**

29.     Refer to Application, Exhibit 37, Schedule H. Kentucky-American lists uncollectibles as .76330 percent. In Cases No. 2000-00120<sup>1</sup> and No. 2004-00103, the Commission employed a percentage of .45620 and .50683, respectively.
- a.     State the reasons for the increase in uncollectibles.
  - b.     Explain why it is appropriate and reasonable for the Commission to use an uncollectibles rate in this case that is significantly higher than those used to review prior Kentucky-American rate applications.

**Response:**

- a.     Please see the attached schedule which includes the basis for the rate case uncollectible ratios used in case numbers 2000-120, 2004-00103, 2007-00143 and 2008-00427. The Company has historically used a three-year average of the net charge-offs to billed revenue to determine the uncollectible expense for rate filings. A three year average has been used because net charge-offs fluctuate from year to year depending on many factors, including: i) the economic climate, ii) rate increases, iii) available personnel, and iv) the level of revenue in a particular year due to weather.

The Company's process for collections has not changed in any material way over the periods of the four rate cases. There was a problem with the customer notice process in 2004 that impacted the Company's ability to terminate service which did impact uncollectible expense for that year. That problem was corrected in early 2005. The Company continues to pursue collection of bills actively with its notice process, payment plans when appropriate, working with agencies such as the Community Action Counsel to help the needy, and termination of service when appropriate. The wide range of uncollectible ratios from year to year can be seen in the three years used as the basis for uncollectible expense in this case. Despite no change in the process, 2007 uncollectible expense exceeded 2006 (bills were higher in 2007 due to the drought conditions), but for the 12 months ended July 2008 the ratio dropped to the lowest level in the last six years.

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<sup>1</sup> Case No. 2000-00120, Application of Kentucky-American Water Company to Increase Its Rates (Ky. PSC Nov. 27, 2000).

- b. The Commission should approve the three-year average uncollectible ratio proposed by the Company because it reflects the most recent actual experience of the Company. The question above does not include the three-year average used in the Company's 2007 rate case, and the current case reflects a substantial reduction from that three year average. The Company's efforts in collections have not changed, it continues to actively pursue collections of all accounts in the framework of the Commission's rules. The Company's customer make-up continues to change including the acquisition of other service areas, and the use of the three year average ratio proposed by the Company takes into account the impact of varying economic conditions and sales levels and provides the best basis for what will be the most likely expense level in the forecasted test-year.

Also please refer to the response to PSCDR2#30. As shown on that response, the Company has the seventh lowest ratio of uncollectible expense to total water revenues of the twenty-one AWW subsidiaries shown on that schedule. In addition, when the very small subsidiaries in Maryland (5,700 customers), Michigan (5,000 customers), Virginia-Eastern (2,500 customers), and Bluefield Valley (110 customers) are eliminated, KAWC has the fourth lowest uncollectible expense ratio of all the larger AWW subsidiaries. The low uncollectible ratio at KAWC indicates the hard work and dedication of the KAWC employees responsible for the collections process.

For the electronic version, refer to KAW\_R\_PSCDR2#29\_010809.pdf.

**Kentucky American Water Company  
Analysis of Uncollectibles**

**Response to PSCDR2#29**

	<u>Billed Revenues</u>	<u>Net Charge-offs</u>	<u>Uncollectible %</u>	<u>3-Yr. Avg.</u>	<u>Uncollectible % per Rate Case</u>
1997	34408086	167445	0.4900%		
1998	36975837	176214	0.4800%		
1999	38087589	154397	0.4100%	0.4600%	
Case Number 2000-120					4.5620% From Budget
2001	40413668	197913	0.4900%		
2002	42468765	248729	0.5900%		
2003	40113344	180650	0.4500%	0.5100%	
Case Number 2004-00103					0.5068% From Budget
2004	40603264	376473	0.9300%		
2005	47982801	398108	0.8300%		
2006	48668813	384318	0.7900%	0.8500%	
Case Number 2007-00143					0.8808% From Budget
2006	48668813	384318	0.7900%		
2007	50164648	425829	0.8500%		
12 Mo. 7-08	53335841	345898	0.6500%	0.7633%	
Case Number 2008-00427					0.7633%

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2008-00427**  
**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

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**Witness: Michael A. Miller**

30. For each AWWC subsidiary that provides water service, provide the amount of its uncollectibles and its total water sales, and its uncollectibles stated as a percentage of total water sales for the calendar year ended December 31, 2007.

**Response:**

<u>American Water Subsidiary</u>	<u>Total Water</u> <u>Sales</u>	<u>Uncollectibles</u> <u>Expense</u>	<u>%</u>
Arizona-American Water Co.	\$60,283,694	\$516,704	0.86%
Bluefield Valley Water Works	\$274,956	\$152	0.06%
California-American Water Co.	\$119,893,009	\$609,752	0.51%
Hawaii-American Water Co.	\$9,564,316	\$385,312	4.03%
Illinois-American Water Co.	\$176,159,027	\$2,189,695	1.24%
Indiana-American Water Co.	\$144,057,092	\$1,140,947	0.79%
Iowa-American Water Company	\$23,081,652	\$258,469	1.12%
Kentucky-American Water Co.	\$50,504,769	\$383,957	0.76%
Long Island Water Company	\$41,724,754	\$371,052	0.89%
Maryland-American Water Co.	\$3,429,695	\$6,655	0.19%
Michigan-American Water Co.	\$1,486,407	\$9,747	0.66%
Missouri-American Water Co.	\$175,799,403	\$1,386,957	0.79%
New Jersey-American Water Co.	\$505,580,432	\$1,875,621	0.37%
New Mexico-American Water Co.	\$9,049,518	\$111,258	1.23%
Ohio-American Water Co.	\$31,023,325	\$687,081	2.21%
Pennsylvania-American Water Co	\$405,683,577	\$5,844,733	1.44%
Tennessee-American Water Co.	\$36,023,261	\$431,681	1.20%
Texas American Water Company	\$2,679,354	\$85,397	3.19%
Virginia American Eastern Dist	\$1,076,801	\$6,566	0.61%
Virginia-American Water Co.	\$38,898,213	\$412,294	1.06%
West Virginia-American Water	\$101,614,933	\$933,943	0.92%

For the electronic version, refer to KAW\_R\_PSCDR2#30\_010809.pdf.

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2008-00427  
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

**Witness: Nick O. Rowe/Keith L. Cartier**

31. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-12, at 4. Kentucky-American includes in its general office forecast, dues and membership costs of \$25,416. For each dues or membership included in the forecast, identify the organization or group to which Kentucky-American will pay the dues or membership fee and the employee(s) for whom the fee is being paid.

**Response:**

<u>Dues/Membership</u>	<u>Amount</u>	<u>Employee(s)</u>
Rotary Club	465.00	A.W. Turner
NSPE Webpage	250.00	L. Bridwell
American Society of Civil Engineers	225.00	S. Walker
American Society of Civil Engineers	225.00	L. Bridwell
American Society of Civil Engineers	225.00	L. Williams
Lexington Forum	225.00	J-M Hack
Lexington Forum	225.00	G. Tomko
Commerce Lexington	5,000.00	Corporate Membership
KY City Judge Executive Association	200.00	J-M Hack
KY Bar Association	240.00	A.W. Turner
KY Chamber of Commerce	5,000.00	Corporate Membership
Woodford County Chamber	1,100.00	Corporate Membership
Lexington Bluegrass Association of Realtors	300.00	Corporate Membership
Paris-Bourbon County	500.00	Corporate Membership
Downtown Lexington Corporate Foundation	750.00	Corporate Membership
Bluegrass Tomorrow	1,000.00	Corporate Membership
Lexington Apartment Association	330.00	Corporate Membership
Jessamine County Chamber of Commerce	435.00	Corporate Membership
Cynthiana Harrison County	350.00	Corporate Membership
Owen County Chamber of Commerce	500.00	Corporate Membership
PRSA Thoroughbred	16.00	B. Wright
KY Rural Water	325.00	Corporate Membership
Winchester Clark Country	500.00	Corporate Membership
Better Business Bureau	715.00	Corporate Membership
Scott Country Home Bureau Association	350.00	Corporate Membership
Home Builders Association of Lexington	450.00	Corporate Membership
American Water Works Association	15.00	Corporate Membership
Georgetown Scott County	500.00	Corporate Membership
KY League of Cities	5,000.00	Corporate Membership
Total	25,416.00	

For the electronic version, refer to KAW\_R\_PSCDR2#31\_010809.pdf.

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2008-00427  
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

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**Witness: Keith L. Cartier**

32. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-113, at 4. Provide a detailed explanation of the forecasted expense of \$28,175 in account "Wtr & Waste Wtr Exp SS."

**Response:**

This is the amount which KAW pays to LFUCG for monthly discharges from the KAW facilities on Richmond Road, Lexington Kentucky to the LFUCG sanitary sewer system.

For the electronic version, refer to KAW\_R\_PSCDR2#32\_010809.pdf.

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2008-00427  
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

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**Witness: Nick O. Rowe/Keith L. Cartier/Sheila A. Miller**

33. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3-13 at 1-4.
- a. Explain "Other Welfare Operations."
  - b. Describe the expenses that are included in the account entitled "Employee Awards."
  - c. Describe the expenses that are included in the account entitled "Safety Incentive."
  - d. Describe each of the services forecasted for "Contract Services – Accounting" in the amount of \$72,000 and "Contract Services – Legal" in the amount of \$78,600.
  - e. Account No. 575130.16 – Brochures & Handouts totals \$34,429. At Exhibit 37, Schedule F, page 10 of its Application, however, Kentucky-American lists the amount for brochures & handouts as \$37,532. Reconcile this difference.

**Response:**

- a. Other welfare operations include expenses for employee recognition events and other expense related to employee health and attendance.
- b. Included in employee awards are expenses that specifically recognize years of service and retirement.
- c. Safety incentive expenses include recognition to employees for achieving or maintaining benchmarked safety criteria.
- d. Contract Services –Accounting: Annual audit fees from external auditors.  
Contract Services –Legal: Professional legal services as needed to address various litigation issues.
- e. The amount on Schedule F is actually \$37,832 (Sales – the line above is \$37,532). This amount includes \$6,845 for conservation which is not included in Brochures & Handouts account 575130.16, but is included in the Water Res. Conservation account 568010.16. The remaining \$30,987 consists of the following:

\$5,062	Doorhangers
\$23,825	Consumer Confidence Report
\$650	Lobby Phone Bank Forms
\$1,450	Spanish Translation
-----	
\$30,987	

The difference between the \$30,987 and \$34,429 is \$3,442 which is for Public Education Materials that were inadvertently omitted in this line on Schedule F, but were included in 575130.16.

For the electronic version, refer to KAW\_R\_PSCDR2#33\_010809.pdf.

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2008-00427  
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

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**Witness: Michael A. Miller/Sheila A. Miller**

34. Refer to Kentucky-American's Application, Exhibit 37, Schedule F. For each forecasted amount listed in this Schedule, identify the account on page 7 of Exhibit 37, Schedule C, in which Kentucky-American has recorded the amount.

**Response:**

The forecasted social and service club dues listed on Schedule F-1 are applied to account 575280 on the general office line of Schedule C.

All charitable contributions listed on Schedule F-2.1 pages 1 thru 4 are charged below the line and are not included in any account on Exhibit 37, Schedule C.

The forecasted employee recognition events and service awards on Schedule F2.3 are applied to accounts 504500 and 504610 on the miscellaneous line of Schedule C. All other items listed on Schedule F-2.3 page 1 of 1 are below the line items.

The forecasted advertising expenses listed on Schedule F-4 under the column Conservation Advertising are charged to account 568010 on the miscellaneous line on Schedule C. Under the Institutional Column the advertising is charged to accounts 575000, 575030, 575130, and 575220 on the miscellaneous line of Schedule C.

The rate case expense on Schedule F-5 is charged to the deferred account and does not appear on Schedule C. The annual audit expense is charged to account 532000 on the miscellaneous line of Schedule C. The Other professional service fees is for legal expense and is charged to account 533000 on the miscellaneous line of Schedule C.

The forecasted amortization of the rate case expense shown on Schedule F-6 is charged to account 566100 on the regulatory expense line of Schedule C. The difference in the amount on Schedule C and Schedule F-6 is the amortization of the depreciation study which does not appear on Schedule F-6.

Schedule F-7 summarizes the donations which are charged below the line.

For the electronic version, refer to KAW\_R\_PSCDR2#34\_010809.pdf.

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2008-00427  
COMMISSION STAFF’S SECOND REQUEST FOR INFORMATION**

**Witness: Nick O. Rowe/Keith L. Cartier**

- 35. Refer to Kentucky-American’s Application, Exhibit 37, Schedule F, page 10 of 13.
  - a. Provide the conservation advertisements whose cost Kentucky-American proposes for the forecasted period.
  - b. Kentucky-American includes in the forecasted advertising expense institutional advertising of \$131,403. Administrative Regulation 807 KAR 5:016 prohibits the recovery of institutional advertising in rates. Explain why the cost of the proposed institutional advertising may lawfully be recovered through rates. Kentucky-American’s response should include examples of the proposed advertisements or other forms of advertising.
  - c. Provide a detailed description for each item included in the forecasted column entitled “Conservation Advertising.”

**Response:**

- a. See attached copies of conservation advertising.
- b. Pursuant to 807 KAR 5:016, advertising costs associated conservation and customer education are permitted for rate recovery.

Included in the total institutional advertising of \$131,403 are costs primarily associated with advertising for conservation and customer education. Since the Company was ordered by the Commission to provide conservation and customer education information, the items listed below provide the information that materially benefits the ratepayers. Please see the following charts:

Description	Sch F	Justification
Drinking Water Week	2,057	During this week, KAW provided students with water conservation tips for residential customers.
Water Quality Day	2,057	Day to educate the public about watershed protection.
LAA Full Page AD Membership Dir.	360	Conservation tips to apartment dwellers.
Hydrant Flushing Ad	4,114	Educate water consumers regarding the need for flushing hydrants and to reduce the potential of negative impacts.

Description	Sch F	Justification
Reforest/Earth Day	2,057	Customer education about watershed protection importance.
Ripple Effect School winners	1,033	Encourages high school students in service area to understand the value of conservation and environmental stewardship.
Science Fair winners/Lex Champs	1,029	Encourages students to consider careers in the water industry.
Public Education Materials	18,479	Printed materials to provide information such as cold weather tips, leak detection in the home, conservation, etc.
Door hangers/Danglers	4,629	Printed to provide information on service interruptions, safety measures, or emergency conditions.
Consumer Confidence Report	21,781	Mandated annual report regarding water quality testing results.
Lobby phone bank forms	591	Assists customers in water bill payment.
Spanish Translation	1,306	Assists non-English speaking customers in understanding service issues, safety measures, emergency conditions and/or billing processes.
Country Science Fair	13,875	Advertising which furnishes factual and objective data programs to educational institutions.
Central KY Reg Science Fair	5,143	Public education designed to foster interest in conservation and environmental stewardship.
Explorium of Lexington/Science Fair	2,057	Collateral material to support the educational component.
Customer Service Council	1,234	Public education and focus group to inform utility about service quality issues and/or explains the use or availability of new or existing utility equipment.
Drinking Water Week	1,078	During this week, KAW provided students with water conservation tips for residential customers.
Miscellaneous	7,279	Monthly estimate for conservation and other customer education not captured in individual line items and to cover any inflationary increases in expenses for recoverable projects.
Total	90,160	

The following table includes institutional advertising included in the rate filing that does not represent advertising permitted under 807 KAR 5:016.

Description	Amount	Justification
Commerce Lex Ad 2008 Guide	1,234	Institutional
Miscellaneous Ads	2,644	Institutional
Connections	7,776	Institutional
Miscellaneous Expenses:	12,448	Institutional

Description	Amount	Justification
Community Events		Institutional
Framing for certificates, etc.		Institutional
Event signage		Institutional
AV equipment under \$500		Institutional
KY Excel/Environmental Projects		Institutional
Duck Derby/Big Bros Big Sisters	5,143	Institutional
Community Relations Items	7,066	Institutional
Commerce Lexington Trip	4,931	Institutional
Total	41,243	

c. See attached schedule.

For the electronic version, refer to KAW\_R\_PSCDR2#35\_010809.pdf.



## Every Drop Counts!

Water is a resource that we depend on every day. From drinking and cooking to bathing, gardening and recreation. Using water wisely ensures that there is plenty of water available now and in the future. Help preserve and protect one of the Earth's most precious resources – water. Start using water wisely today by following these simple tips in your home.

### INSIDE YOUR HOME

- Install water-saving showerheads and faucet aerators in your sinks.
- Shorten showers to 7-10 minutes.
- Turn off the water while brushing your teeth.
- Run only full loads in the dishwasher and washing machine.
- Rinse produce in a basin rather than under running water.

### OUTSIDE YOUR HOME

- Use a broom, not a hose, for cleaning patios, sidewalks and driveways.
  - Water your lawn and plants only when they need it.
  - Plant appropriate plants for the climate.
- Check with local nurseries about non-invasive, drought-tolerant plants
- Don't leave the water running when washing your car.
- Use a hose sprayer attachment to easily turn the water on and off.

To learn more about water conservation,  
visit us at [www.kentuckyamwater.com](http://www.kentuckyamwater.com).



KENTUCKY  
AMERICAN WATER

IN KENTUCKY FOOTBALL RUNS ON IT...



KENTUCKY  
AMERICAN WATER

CONSERVE IT!

[www.kentuckyamwater.com](http://www.kentuckyamwater.com)

# HOME OR AWAY USE WATER WISELY

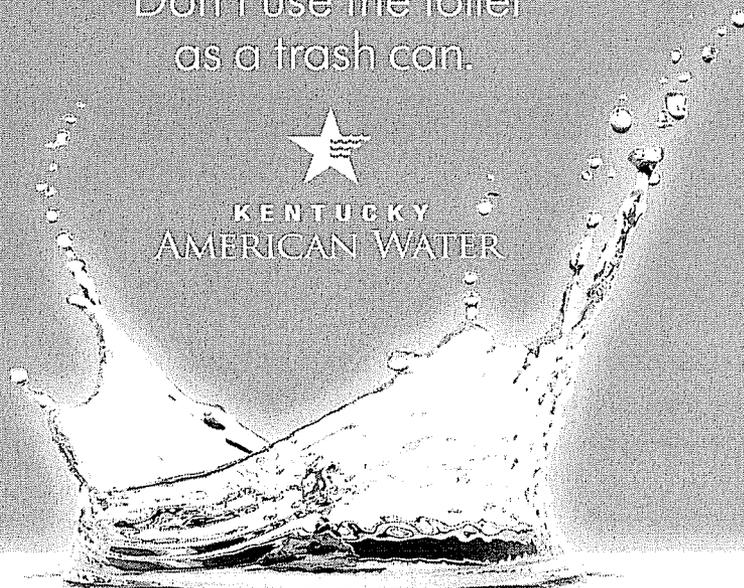
Wash your hands, then turn  
off the faucet completely.

Fix leaky faucets  
and toilets.

Don't use the toilet  
as a trash can.



KENTUCKY  
AMERICAN WATER



CONSERVE IT!

## **1. Here's a cold weather tip from Kentucky American Water**

**Don't get caught in the cold this winter. Protect your water pipes by wrapping exposed pipes with insulation. Even newspaper or fabric will do the job.**

**We care about water. It's what we do.**

## **2. Here's another cold weather tip from Kentucky American Water**

**When temperatures fall below zero, allow a small trickle of water to run overnight to keep pipes from freezing. The cost of extra water is low, compared to the cost of repairing a broken pipe.**

**We care about water. It's what we do.**

### **3. Here's a cold weather tip from Kentucky American Water**

**Know the location of your water main shut off valve. If a pipe freezes or breaks, shut the water off immediately.**

**We care about water. It's what we do.**

### **4. Here's a cold weather tip from Kentucky American Water.**

**If a pipe freezes, apply heat by warming the air around it, or by applying heat directly to the pipe with a hair dryer.**

**We care about water. It's what we do.**

**5. Here's a cold weather tip from Kentucky American Water.**

**If you're away from home for an extended period of time, have a neighbor check to make sure your heat is working and your pipes aren't frozen.**

**We care about water. It's what we do.**

**6. Here's a cold weather tip from Kentucky American Water.**

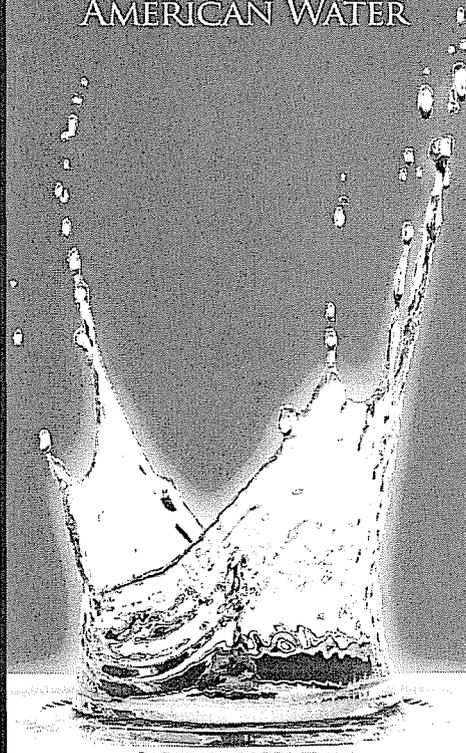
**When the temperature falls below zero, open cabinet doors to expose the pipes to warmer temperatures.**

**We care about water. It's what we do.**

IN KENTUCKY  
**EVERYONE**  
RUNS ON IT...



KENTUCKY  
AMERICAN WATER



CONSERVE **IT!**

[www.amwater.com](http://www.amwater.com)

## Water Main Flushing Notice

### Fayette, Scott and Clark County

April 27 to May 9, 2008

Flushing hours: 7:30 p.m. to 4 a.m.

Each year, Kentucky American flushes its water distribution system to ensure that our customers continue to receive high-quality water service.

The company will temporarily switch from using chloramine to chlorine in its treatment process from April 24 through May 12. During this time you may notice a more significant smell of chlorine in your water and possibly a slight discoloration of water. These do not pose safety concerns.

When crews are in the area, customers may notice a drop in water pressure or discolored water. If this happens, simply let your water run until it is clear. Customers are also encouraged to check for discolored water before doing laundry or washing dishes.

**For more information, please contact  
Kentucky American Water at 1-800-678-6301.**



**CONSERVATION ADVERTISEMENT ELEMENTS**

Drinking Water Week
Water Quality Day
LAA Full Page Ad Mbrship Dir
Reforest/Earth Day
Public Education Materials (conservation kits, tips sheet, school presentation materials)
Outdoor billboards (face production & lease)
Rupp Arena Signage
Cold Weather Television Tips
Conservation Bill Inserts
Service Area newspaper conservation advertisements
Service Area community events programs conservation advertisements
Flushing Advertisements

During this week, KAW provided students with Water Conservation tips for residential Customers.  
 Day to educate the public about water conservation and protection.  
 Water conservation ad in Lexington Apartment Association magazine.  
 Customer education about watershed protection importance and water conservation.  
 Water conservation handouts and giveaways to conserve water and protect water quality.  
 Billboards that promote water conservation.  
 Water conservation signage in Ru s  
 Television spots with cold weather tips  
 Bill inserts promoting water conservation to be placed in customer bill mailings.  
 Water conservation advertisements placed in service area newspapers.  
 Water conservation advertisements placed in community event programs.  
 These advertisements appeared in service area newspapers to alert customers of upcoming flushing

**KENTUCKY-AMERICAN WATER COMPANY  
CASE NO. 2008-00427  
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

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**Witness: Michael A. Miller**

36. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 107 of 118. Provide a detailed explanation for the level of forecasted maintenance expense allocations to the Owenton and Boonesboro Sewer operations.

**Response:**

The maintenance expense is allocated to Owenton and Boonesboro Sewer operations based on customer count. The maintenance materials and supplies account is the only account allocated to sewer operations because maintenance expenses for contract services, amortizations of deferred maintenance, and paving are charged directly to the Owenton and Boonesboro sewer business units. Materials and supplies are often purchased in bulk and can be used by both water and sewer operations. No sewer related expenses in this account are being sought in this case.

For the electronic version, refer to KAW\_R\_PSCDR2#36\_010809.pdf.

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2008-00427**  
**COMMISSION STAFF'S FIRST REQUEST FOR INFORMATION**

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**Witness: Keith L. Cartier**

37. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Request, Item 1(a), W/P3-14 at 2. Kentucky-American incurred actual paving/backfill expense of \$94,616 in 2007, but proposes to increase the level of this expense to \$249,285 in the forecasted period. State the reasons why Kentucky-American anticipates such an increase in paving/backfill in the forecasted period.

**Response:**

The 2009/2010 budget for paving/backfill expense was prepared based on the misunderstanding that the Company's capitalization of a portion of those expenditures would no longer be permitted. Because of this misunderstanding, our budgeted numbers were overstated.

It is now understood that we will capitalize paving work associated with capital installations and retirements. Based on a historical three year review of paving expenses, we now believe that the appropriate figure for this expense should be \$120,772, which includes an adjustment of 5% for rising paving material cost. Paving is obtained through competitive bidding administered by American Water's Supply Chain on behalf of the Company. Supply Chain is forecasting an increase in paving costs of 4% - 7% based on recent contracts and discussions with the paving contractors.

This account will be adjusted in our revised filing.

For the electronic version, refer to KAW\_R\_PSCDR2#37\_010809.pdf.

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2008-00427**  
**COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

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**Witness: Sheila Miller**

38. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 4-1 2-9.
- a. Identify each asset listed on these schedules that is used to provide service to Kentucky-American's non-regulated or sewer operations.
  - b. Refer to Kentucky-American's Application, Exhibit 37, Schedule B-1 page 2 of 2, Rate Base Summary as of November 30, 2008. The Contributions In Aid of Construction ("CIAC") balance contained in the workpapers is \$68,083,809 while the amount listed on Schedule B-1 is \$45,274,826. Reconcile the difference of CIAC balances.

**Response:**

- a. All assets listed on the referenced schedules relate to providing water service.
- b. The working papers filed in response to PSC DR1 Question 1 detail the 13-month average CIAC balance that agrees to Exhibit 37, Schedule B-1 page 2 of 2. Please refer to the attached working papers. The average balance of \$45,274,826 on w/p KAW\_R\_PSCDR1#1a\_WP1-7\_111408 page 1 of 19 agrees to Exhibit 37, Schedule B-1. That balance is further detailed on pages KAW\_R\_PSCDR1#a1\_WP1-7\_111408 pages 14 thru 16.

For the electronic version, refer to KAW\_R\_PSCDR2#38\_010809.pdf.

KENTUCKY-AMERICAN WATER COMPANY					
CIAC BALANCE TO BE DEDUCTED IN CALCULATING DEPRECIATION					
		Balance		Balance	
		May-10	Jan-09	Avg Balance	
271110	CIAC - NT - MAINS	\$ 17,264,408	\$ 15,964,408	\$ 16,314,408	
271120	CIAC - NT - EXT DEP	\$ 11,120,555	10,545,555	10,922,478	
271200	CIAC - NT - SERVICES	\$ 14,848,465	14,848,465	14,848,465	
271300	CIAC - NT - METERS	\$ 545,639	545,639	545,639	
271400	CIAC - NT - HYDRANTS	\$ 1,326,164	1,326,164	1,326,164	
271500	CIAC - NT - OTHER	\$ 3,497,457	3,497,457	3,497,457	
271711	CIAC - TAXABLE - MAINS	1,998,493	1,998,493	1,998,493	
271711	CIAC - TAXABLE - MAINS	766,586	766,586	766,586	
271711	CIAC - TAXABLE - MAINS 88-89	-	0	0	
271210	CIAC - TX - SERVICES	8,325,474	6,981,074	7,832,520	
271310	CIAC - TX - METERS	3,299	3,299	3,299	
271470	CIAC - TX - HYDRATXS	487,487	487,487	487,487	
271570	CIAC - TX - OTHER	440,903	440,903	440,903	
272100	DEPRECIATION CONTR. PROPERTY	(14,389,153)	(12,608,813)	(13,709,073)	
		\$ 46,235,776	\$ 44,796,716	\$ 45,274,826	
		\$ 60,624,929	\$ 57,405,529	\$ 58,983,899	
	<b>Check Total</b>	\$ -	\$ -	\$ -	

























KENTUCKY-AMERICAN WATER COMPANY												
SCHEDULE OF CUSTOMER ADVANCES AND CONTRIBUTIONS												
FORECASTED T.Y.:												
BASE TEST YEAR:												
JDE Account	Account	AWWW Account	DESCRIPTION	Balance @ Jul-2008	Balance @ Aug-2008	Balance @ Sep-2008	Balance @ Oct-2008	Balance @ Nov-2008	Balance @ Dec-2008	Balance @ Jan-2009	Balance @ Feb-2009	Balance @ Mar-2009
252120	252110		ADV FOR CONST - NT EXT	\$ 13,972,666	\$ 13,877,375	\$ 13,915,169	\$ 13,892,308	\$ 13,795,944	\$ 13,863,618	\$ 14,014,914	\$ 14,410,888	\$ 14,510,624
252130	252200		ADV FOR CONST - NT SERVICES	-	0	0	0	0	0	0	0	0
252140	252400		ADV FOR CONST - NT METERS	-	0	0	0	0	0	0	0	0
252150	252300		ADV FOR CONST - NT HYDRANTS	6,063	6,063	6,063	6,063	6,063	6,063	6,063	6,063	6,063
252160	252500		ADV FOR CONST - NT OTHER	-	0	0	0	0	0	0	0	0
252220			ADV FOR CONST - TAX EXT	-	0	0	0	0	0	0	0	0
252205.15	252500		ADVANCE FOR CONSTRUCTION - 88-89	-								
252205.20	252710		ADVANCE FOR CONSTRUCTION - 90-92	-								
252205.25	252720		ADVANCE FOR CONSTRUCTION - 93-96	-								
252225	252710		ADVANCE FOR CONSTRUCTION - TAXABLE SERV	-								
252230	252710		ADVANCE FOR CONSTRUCTION - TAXABLE HYD	-								
252240	252370		ADVANCE FOR CONSTRUCTION - TAXABLE METERS	-								
			TOTAL CUSTOMER ADVANCES	\$ 13,978,729	\$ 13,883,438	\$ 13,921,232	\$ 13,898,371	\$ 13,802,007	\$ 13,869,681	\$ 14,020,977	\$ 14,416,951	\$ 14,516,687
271110	271110		CIAC - NT - MAINS	15,964,408	15,964,408	15,964,408	15,964,408	15,964,408	15,964,408	15,964,408	15,964,408	15,964,408
271120	271120		CIAC - NT - EXT DEP	10,545,555	10,545,555	10,545,555	10,545,555	10,545,555	10,545,555	10,545,555	10,545,555	10,645,555
271130	271200		CIAC - NT - SERVICES	14,848,465	14,848,465	14,848,465	14,848,465	14,848,465	14,848,465	14,848,465	14,848,465	14,848,465
271140	271300		CIAC - NT - METERS	545,639	545,639	545,639	545,639	545,639	545,639	545,639	545,639	545,639
271150	271400		CIAC - NT - HYDRANTS	1,326,164	1,326,164	1,326,164	1,326,164	1,326,164	1,326,164	1,326,164	1,326,164	1,326,164
271160	271500		CIAC - NT - OTHER	3,497,457	3,497,457	3,497,457	3,497,457	3,497,457	3,497,457	3,497,457	3,497,457	3,497,457
				0	0	0	0	0	0	0	0	0
				0	0	0	0	0	0	0	0	0
271210	271711		CIAC - TAX - MAINS	1,998,493	1,998,493	1,998,493	1,998,493	1,998,493	1,998,493	1,998,493	1,998,493	1,998,493
271220	271711		CIAC - TAX - EXT DEP	766,586	766,586	766,586	766,586	766,586	766,586	766,586	766,586	766,586
271230	271210		CIAC - TAX - SERVICES	6,434,874	6,569,374	6,663,974	6,760,274	6,831,674	6,910,874	6,981,074	7,036,074	7,127,574
271240	271310		CIAC - TAX - METERS	3,299	3,299	3,299	3,299	3,299	3,299	3,299	3,299	3,299
271250	271470		CIAC - TAX - HYDRATXS	487,487	487,487	487,487	487,487	487,487	487,487	487,487	487,487	487,487
271260	271570		CIAC - TAX - OTHER	440,903	440,903	440,903	440,903	440,903	440,903	440,903	440,903	440,903
				0	0	0	0	0	0	0	0	0
				0	0	0	0	0	0	0	0	0
				0	0	0	0	0	0	0	0	0
272000	272100		DEPRECIATION CONTR. PROPERTY	(11,968,606)	(12,074,810)	(12,181,216)	(12,287,886)	(12,394,648)	(12,501,666)	(12,608,813)	(12,715,985)	(12,824,372)
				0	0	0	0	0	0	0	0	0
			TOTAL CIAC	\$ 44,890,723	\$ 44,919,019	\$ 44,907,213	\$ 44,896,843	\$ 44,861,481	\$ 44,833,663	\$ 44,796,716	\$ 44,744,544	\$ 44,827,657

KENTUCKY-AMERICAN WATER COMPANY												
SCHEDULE OF CUSTOMER ADVANCES AND CONTRIBUTIONS												
FORECASTED T.Y.:												
BASE TEST YEAR:												
JDE Account	Account	AWWW Account	DESCRIPTION	Balance @ Apr-2009	Balance @ May-2009	Balance @ Jun-2009	Balance @ Jul-2009	Balance @ Aug-2009	Balance @ Sep-2009	Balance @ Oct-2009	Balance @ Nov-2009	Balance @ Dec-2009
252120	252110		ADV FOR CONST - NT EXT	\$ 14,615,832	\$ 15,046,782	\$ 15,258,318	\$ 15,121,912	\$ 15,104,262	\$ 15,194,236	\$ 15,156,420	\$ 15,256,618	\$ 15,588,616
252130	252200		ADV FOR CONST - NT SERVICES	0	0	0	0	0	0	0	0	0
252140	252400		ADV FOR CONST - NT METERS	0	0	0	0	0	0	0	0	0
252150	252300		ADV FOR CONST - NT HYDRANTS	6,063	6,063	6,063	6,063	6,063	6,063	6,063	6,063	6,063
252160	252500		ADV FOR CONST - NT OTHER	0	0	0	0	0	0	0	0	0
252220			ADV FOR CONST - TAX EXT	0	0	0	0	0	0	0	0	0
252205.15	252500		ADVANCE FOR CONSTRUCTION - 88-89									
252205.20	252710		ADVANCE FOR CONSTRUCTION - 90-92									
252205.25	252720		ADVANCE FOR CONSTRUCTION - 93-96									
252225	252710		ADVANCE FOR CONSTRUCTION - TAXABLE SERV									
252230	252710		ADVANCE FOR CONSTRUCTION - TAXABLE HYD									
252240	252370		ADVANCE FOR CONSTRUCTION - TAXABLE METERS									
			TOTAL CUSTOMER ADVANCES	\$ 14,621,895	\$ 15,052,845	\$ 15,264,381	\$ 15,127,975	\$ 15,110,325	\$ 15,200,299	\$ 15,162,483	\$ 15,262,681	\$ 15,594,679
271110	271110		CIAC - NT - MAINS	\$ 15,964,408	\$ 15,964,408	\$ 15,964,408	\$ 15,964,408	\$ 15,964,408	\$ 15,964,408	\$ 15,964,408	\$ 15,964,408	\$ 16,614,408
271120	271120		CIAC - NT - EXT DEP	10,645,555	10,645,555	10,745,555	10,745,555	10,745,555	10,895,555	10,895,555	10,895,555	11,020,555
271130	271200		CIAC - NT - SERVICES	14,848,465	14,848,465	14,848,465	14,848,465	14,848,465	14,848,465	14,848,465	14,848,465	14,848,465
271140	271300		CIAC - NT - METERS	545,639	545,639	545,639	545,639	545,639	545,639	545,639	545,639	545,639
271150	271400		CIAC - NT - HYDRANTS	1,326,164	1,326,164	1,326,164	1,326,164	1,326,164	1,326,164	1,326,164	1,326,164	1,326,164
271160	271500		CIAC - NT - OTHER	3,497,457	3,497,457	3,497,457	3,497,457	3,497,457	3,497,457	3,497,457	3,497,457	3,497,457
				0	0	0	0	0	0	0	0	0
				0	0	0	0	0	0	0	0	0
				0	0	0	0	0	0	0	0	0
271210	271711		CIAC - TAX - MAINS	1,998,493	1,998,493	1,998,493	1,998,493	1,998,493	1,998,493	1,998,493	1,998,493	1,998,493
271220	271711		CIAC - TAX - EXT DEP	766,586	766,586	766,586	766,586	766,586	766,586	766,586	766,586	766,586
271230	271210		CIAC - TAX - SERVICES	7,230,974	7,323,174	7,417,674	7,505,874	7,620,974	7,701,874	7,784,274	7,845,374	7,913,174
271240	271310		CIAC - TAX - METERS	3,299	3,299	3,299	3,299	3,299	3,299	3,299	3,299	3,299
271250	271470		CIAC - TAX - HYDRATXS	487,487	487,487	487,487	487,487	487,487	487,487	487,487	487,487	487,487
271260	271570		CIAC - TAX - OTHER	440,903	440,903	440,903	440,903	440,903	440,903	440,903	440,903	440,903
				0	0	0	0	0	0	0	0	0
				0	0	0	0	0	0	0	0	0
				0	0	0	0	0	0	0	0	0
				0	0	0	0	0	0	0	0	0
272000	272100		DEPRECIATION CONTR. PROPERTY	(12,932,613)	(13,040,967)	(13,150,437)	(13,260,783)	(13,371,440)	(13,482,580)	(13,593,738)	(13,704,975)	(13,819,648)
			TOTAL CIAC	\$ 44,822,816	\$ 44,806,662	\$ 44,891,692	\$ 44,869,546	\$ 44,873,989	\$ 44,993,749	\$ 44,964,991	\$ 44,914,854	\$ 45,642,981

KENTUCKY-AMERICAN WATER COMPANY											
SCHEDULE OF CUSTOMER ADVANCES AND CONTRIBUTIONS											
FORECASTED T.Y.:											
BASE TEST YEAR:											
January-09											
JDE Account	AWW Account	DESCRIPTION	Balance @ Jan-2010	Balance @ Feb-2010	Balance @ Mar-2010	Balance @ Apr-2010	Balance @ May-2010	Average Balance			
252120	252110	ADV FOR CONST - NT EXT	\$ 15,740,233	\$ 16,136,840	\$ 16,236,959	\$ 16,342,429	\$ 16,774,184	\$ 15,612,139			
252130	252200	ADV FOR CONST - NT SERVICES	0	0	0	0	0	0			
252140	252400	ADV FOR CONST - NT METERS	0	0	0	0	0	0			
252150	252300	ADV FOR CONST - NT HYDRANTS	6,063	6,063	6,063	6,063	6,063	6,063			
252160	252500	ADV FOR CONST - NT OTHER	0	0	0	0	0	0			
252220		ADV FOR CONST - TAX EXT	0	0	0	0	0	0			
252205.15		ADVANCE FOR CONSTRUCTION - 88-89									
252205.20		ADVANCE FOR CONSTRUCTION - 90-92									
252205.25		ADVANCE FOR CONSTRUCTION - 93-96									
252225		ADVANCE FOR CONSTRUCTION - TAXABLE SERV									
252230		ADVANCE FOR CONSTRUCTION - TAXABLE HYD									
252240		ADVANCE FOR CONSTRUCTION - TAXABLE METERS									
TOTAL CUSTOMER ADVANCES			\$ 15,746,296	\$ 16,142,903	\$ 16,243,022	\$ 16,348,492	\$ 16,780,247	\$ 15,618,202			
271110	271110	CIAC - NT - MAINS	\$ 16,614,408	\$ 16,614,408	\$ 16,614,408	\$ 16,614,408	\$ 17,264,408	\$ 16,314,408			
271120	271120	CIAC - NT - EXT DEP	11,020,555	11,020,555	11,120,555	11,120,555	11,120,555	10,922,478			
271130	271200	CIAC - NT - SERVICES	14,848,465	14,848,465	14,848,465	14,848,465	14,848,465	14,848,465			
271140	271300	CIAC - NT - METERS	545,639	545,639	545,639	545,639	545,639	545,639			
271150	271400	CIAC - NT - HYDRANTS	1,326,164	1,326,164	1,326,164	1,326,164	1,326,164	1,326,164			
271160	271500	CIAC - NT - OTHER	3,497,457	3,497,457	3,497,457	3,497,457	3,497,457	3,497,457			
271210	271711	CIAC - TAX - MAINS	1,998,493	1,998,493	1,998,493	1,998,493	1,998,493	1,998,493			
271220	271711	CIAC - TAX - EXT DEP	766,586	766,586	766,586	766,586	766,586	766,586			
271230	271210	CIAC - TAX - SERVICES	7,983,374	8,038,374	8,129,874	8,233,274	8,325,474	7,832,520			
271240	271310	CIAC - TAX - METERS	3,299	3,299	3,299	3,299	3,299	3,299			
271250	271470	CIAC - TAX - HYDRANTS	487,487	487,487	487,487	487,487	487,487	487,487			
271260	271570	CIAC - TAX - OTHER	440,903	440,903	440,903	440,903	440,903	440,903			
272000	272100	DEPRECIATION CONTR - PROPERTY	(13,931,847)	(14,044,071)	(14,157,509)	(14,270,802)	(14,389,153)	(13,709,073)			
TOTAL CIAC			\$ 45,600,982	\$ 45,543,758	\$ 45,621,820	\$ 45,611,927	\$ 46,235,776	\$ 45,274,826			





