

SCHEDULES RJH-1 – RJH-26

**KENTUCKY-AMERICAN WATER COMPANY
 REVENUE REQUIREMENT**

	<u>KAWC</u> (1)	<u>Adjustments</u>	<u>AG</u>	
1. Rate Base	\$ 305,544,471	\$ (1,785,101)	\$ 303,759,370	Sch. RJH-3
2. Rate of Return	<u>8.54%</u>		<u>7.548%</u>	Sch. RJH-2
3. Income Requirement	26,093,498		22,928,136	
4. Pro Forma Income	<u>14,898,191</u>	5,685,396	<u>20,583,587</u>	Sch. RJH-8
5. Income Deficiency	11,195,307		2,344,549	
6. Revenue Conversion Factor	<u>1.6519988</u>		<u>1.6519988</u>	
7. Overall Revenue Deficiency	<u>\$ 18,494,634</u>	<u>\$ (14,621,443)</u>	<u>\$ 3,873,191</u>	

(1) Exh. 37 - Schedule A

**KENTUCKY-AMERICAN WATER COMPANY
 OVERALL RATE OF RETURN**

<u>KAWC PROPOSED:</u>	<u>Capitalization Ratios</u> (1)	<u>Cost Rates</u> (1)	<u>Weighted Cost Rates</u> (1)
1. Short Term Debt	10.34%	3.85%	0.40%
2. Long Term Debt	45.41%	6.87%	3.12%
3. Preferred Stock	1.95%	7.75%	0.15%
4. Common Equity	<u>42.31%</u>	11.50%	<u>4.87%</u>
5. Total	<u><u>100.00%</u></u>		<u><u>8.54%</u></u>

<u>AG RECOMMENDED:</u>	<u>Capitalization Ratios</u> (2)	<u>Cost Rates</u> (2)	<u>Weighted Cost Rates</u> (2)
6. Short Term Debt	10.337%	2.500%	0.258%
7. Long Term Debt	45.408%	6.870%	3.11953%
8. Preferred Stock	1.946%	7.750%	0.151%
9. Common Equity	<u>42.309%</u>	9.500%	<u>4.019%</u>
10. Total	<u><u>100.000%</u></u>		<u><u>7.548%</u></u>

(1) Exh. 37 - Schedule J-1.1/J-1.2

(2) Testimony of Mr. Hill, Exhibit SGH-1, Schedule 11

**KENTUCKY-AMERICAN WATER COMPANY
 RATE BASE**

	<u>KAWC</u>	<u>Adjustments</u>	<u>AG</u>	
	(1)			
1. Utility Plant in Service	\$ 387,567,724		\$ 387,567,724	
2. Utility Plant Acquisition Adj	18,488		18,488	
3. Accumulated Depreciation	<u>(98,516,471)</u>		<u>(98,516,471)</u>	
4. Net Utility Plant in Service	<u>289,069,741</u>		<u>289,069,741</u>	
5. Construction Work in Progress	102,817,344		102,817,344	
6. Cash Working Capital	4,271,000	(1,682,505)	2,588,495	Sch. RJH-4
7. Other Working Capital	575,573		575,573	
8. Contributions in Aid of Constr.	(45,274,826)		(45,274,826)	
9. Customer Advances	(15,618,202)		(15,618,202)	
10. Deferred Income Taxes	(33,911,117)	(30,690)	(33,941,807)	Sch. RJH-5
11. Deferred Investment Tax Credits	(83,326)	(3,828)	(87,154)	(2)
12. Deferred Maintenance	2,951,785	(49,590)	2,902,195	Sch. RJH-6
13. Deferred Debits	1,958,946	(18,488)	1,940,458	Sch. RJH-7
14. Other Rate Base Elements	<u>(1,212,447)</u>		<u>(1,212,447)</u>	
15. Net Rate Base	<u>\$ 305,544,471</u>	<u>\$ (1,785,101)</u>	<u>\$ 303,759,370</u>	

(1) Exhibit 37 - Schedule B.1, page 2

(2) Correct forecasted period average balance should be \$87,154 as conceded by KAWC in response to AG-1-50

**KENTUCKY-AMERICAN WATER COMPANY
 RECOMMENDED CASH WORKING CAPITAL**

	A	B	C	D
	LL Days	Amount	Source for col. B	Dollar Days
				[AxB]
1. Payroll	12.00	\$ 6,475,396	Schedule RJH-4A	\$ 77,704,752
2. Fuel & Power	26.96	3,598,619	KAWC Proposed	97,018,768
3. Chemicals	30.49 (1)	2,745,061	KAWC Proposed	83,696,910
4. Service Co. Fees	0.40	6,480,414	Schedule RJH-4A	2,592,165
5. Grp Insurance	(6.81)	1,249,992	KAWC Proposed	(8,512,446)
6. OPEB	23.13	560,278	KAWC Proposed	12,959,230
7. Pensions	- (2)	- (2)	Included in Line 18	-
8. Insurance o/t Group	(44.70)	694,598	KAWC Proposed	(31,048,531)
9. Transportation	13.56	540,127	Schedule RJH-4A	7,324,126
10. Rents	18.39	31,968	KAWC Proposed	587,892
11. Telephone	10.31	227,514	KAWC Proposed	2,345,669
12. Postage	23.47	569,610	KAWC Proposed	13,368,747
13. Stock E	28.03	100,242	KAWC Proposed	2,809,783
14. Maintence excl. Amort	18.54	825,846	Schedule RJH-4A	15,311,185
15. Amortization	0.00	365,759	KAWC Proposed	-
16. Uncollectibles	0.00	431,442	KAWC Proposed	-
17. Waste Disposal	25.97	297,231	KAWC Proposed	7,719,089
18. Other Operating Exp	24.44	4,171,402	Schedule RJH-4A	101,949,065
19. Total O&M Expense		29,365,499		385,826,405
20. Depreciation	0.00	7,901,661	KAWC Proposed	-
21. Amortization	0.00	496,589	KAWC Proposed	-
22. Payroll Taxes- FUTA	69.86	5,507	KAWC Proposed	384,719
23. Payroll Taxes - SUTA	75.14	5,210	KAWC Proposed	391,479
24. Payroll Taxes - FICA	15.00	530,568	KAWC Proposed	7,958,520
25. Other	70.95	3,211,258	KAWC Proposed	227,838,755
26. Current Inc Tax - SIT	52.75	1,031,030	Schedule RJH-4A	54,386,842
27. Current Inc Tax - FIT	30.13	4,298,593	Schedule RJH-4A	129,516,595
28. Deferred Inc. Taxes	0.00	1,315,462	KAWC Proposed	-
29. Interest - LTD	119.64	9,475,863	RJH-1,L1 x RJH-2, L7	1,133,692,306
30. Interest - STD	14.60	784,990	RJH-1,L1 x RJH-2, L6	11,460,856
31. Preferred Dividends	46.40	458,115	RJH-1,L1 x RJH-2, L8	21,256,522
32. Net Income	0.00	12,209,167	RJH-1,L1 x RJH-2, L9	-
33. Net Operating Funds	27.75	\$ 71,089,512		1,972,712,998
		365		
34. Daily Requirement		194,766		
35. Revenue Lag		41.04 (3)		
36. Expense Lag		27.75		
37. Net Lag		13.29		
38. CWC Requirement [L34 x L37]		\$ 2,588,495		

(1) Chemical expense payment lag approved by PSC in Case No. 2004-00103, as confirmed by KAWC in response to AG-1-20

(2) Consistent with treatment in Case No. 2004-00103, pension expense has been reflected in Other Operating Expense with a payment lag of 24.44 day - see KAWC response to AG-2-21

(3) Correctly calculated revenue lag, as confirmed by KAWC in response to AG-1-18

**KENTUCKY-AMERICAN WATER COMPANY
 SUPPORT FOR SCHEDULE RJH-4, COLUMN B**

	<u>KAWC</u>	<u>Adjustments</u>	<u>AG</u>
	(1)		
1. Payroll	\$ 7,062,548	\$ (587,152) (2)	\$ 6,475,396
2. M&S Fees	7,612,592	(1,132,178) (3)	6,480,414
3. Transportation	722,490	(182,363) (4)	540,127
4. Maintenance Exp.	1,026,359	(200,513) (5)	825,846
5. Other Oper. Exp.	3,882,765	288,637 (6)	4,171,402
6. State Income Tax	1,426,377	(395,347) (7)	1,031,030
7. Federal Income Tax	7,821,298	(3,522,705) (8)	4,298,593

(1) Exhibit 37, Schedule B-5.2, p. 5

(2) Schedule RJH-18

(3) Schedule RJH-19

(4) Schedule RJH-23

(5) Schedule RJH-22, lines 1 and 2

(6) Add: Pension expenses

\$ 581,701

Regulatory expense adjustment

(161,582)

Sch. RJH-20

Janitorial and Institutional adv. exp. adj.

(82,513)

Sch. RJH-8, footnotes (2) and (3)

Miscellaneous expense adjustments

(48,969)

Sch. RJH-24

Total

\$ 288,637

(7) State income tax adjustments from Sch. RJH-8

\$ 473,795

CWC Workpaper

State income tax adjustment - rate increase difference

(869,142)

Calculated from Sch. RJH-1

Total net state income tax adjustment

\$ (395,347)

(8) Federal income tax adjustments from Sch. RJH-8

\$ 1,243,088

CWC Workpaper

Federal income tax adjustment - rate increase difference

(4,765,793)

Calculated from Sch. RJH-1

Total net state income tax adjustment

\$ (3,522,705)

**KENTUCKY-AMERICAN WATER COMPANY
ACCUMULATED DEFERRED INCOME TAXES**

1. Average Forecasted Period Deferred Income Taxes Proposed by KAWC	\$ 33,911,117	
2. Reduction in Deferred Income Taxes Associated with Recommended Deferred Maintenance Cost Adjustment	(19,291)	(1)
3. Reduction in Deferred Income Taxes Associated with Recommended Deferred Debit Adjustment	(7,192)	(2)
4. Correction in Average Forecasted Period Deferred Income Taxes as Confirmed by KWAC in Response to AG-2-5	<u>57,172</u>	
5. Average Forecasted Period Deferred Income Taxes Recommended by AG	<u>\$ 33,941,807</u>	

(1) \$ (49,590) Schedule RJH-3, line 12
38.90% Composite income tax rate
\$ (19,291)

(2) \$ (18,488) Schedule RJH-3, line 113
38.90% Composite income tax rate
\$ (7,192)

**KENTUCKY-AMERICAN WATER COMPANY
DEFERRED MAINTENANCE COSTS**

1. Average Forecasted Period Deferred Maintenance Costs Proposed by KAWC	\$ 2,951,785	
2. Portion of Deferred Costs in Line 1 Representing Internal Labor and Benefit Costs	<u>(49,590)</u>	(1)
3. Recommended Deferred Maintenance Cost Balance	<u><u>\$ 2,902,195</u></u>	

(1) Response to AG-1-47(b): $1.68\% \times \$2,951,785 = \$49,590$

**KENTUCKY-AMERICAN WATER COMPANY
DEFERRED DEBITS**

	<u>KAWC</u> (1)	<u>Adjustments</u>	<u>AG</u>	
1. Boonesboro Acquisition Balance	\$ 18,489	\$ (18,489)	\$ -	(2)
2. Deferred NRW and Water Conservation Study Costs	166,230		166,230	
3. Deferred Source of Supply Costs	<u>1,774,228</u>		<u>1,774,228</u>	
4. Total Deferred Debits	<u>\$ 1,958,947</u>	<u>\$ (18,489)</u>	<u>\$ 1,940,458</u>	

(1) WP1-11, pages 2 and 3 of 7

(2) Double-counted in rate base as confirmed by KAWC in response to AG-1-41

**KENTUCKY-AMERICAN WATER COMPANY
 PRO FORMA OPERATING INCOME**

	<u>Impact on Net Income</u>	
1. KAWC Proposed Pro Forma After-Tax Operating Income	\$ 14,898,191	Exh. 37 - Sch. C-1
 <u>AG-RECOMMENDED ADJUSTMENTS</u>		
2. Interest Synchronization Expense Adjustment	(192,287)	Sch. RJH-9
3. Consolidated Income Tax Adjustment	1,354,888	Sch. RJH-10
4. Industrial Sales Adjustment	(72,234)	Sch. RJH-11
5. OPA Sales Adjustment	42,515	Sch. RJH-12
6. OWU Sales Adjustment	35,562	Sch. RJH-13
7. Fire Service Revenue Adjustment	(4,497)	Sch. RJH-14
8. Other Operating Revenue Adjustment	142,822	Sch. RJH-15
9. Miscellaneous Sales Revenue Adjustment	13,091	Sch. RJH-16
10. Personnel Transfers Between KAWC and AWWSC	20,866	Sch. RJH-17
11. Other Labor Expense Adjustments	358,750	Sch. RJH-18
12. Management Fee Adjustments	691,761	Sch. RJH-19
13. Defined Contribution Plan Expense Adjustment	8,971	(1)
14. Regulatory Expense Adjustment	98,727	Sch. RJH-20
15. Insurance o/t Group Expense Adjustment	17,866	Sch. RJH-21
16. Maintenance Expense Adjustment	126,268	Sch. RJH-22
17. Gasoline Expense Adjustment	111,424	Sch. RJH-23
18. Janitorial Expense Adjustment	25,216	(2)
19. Institutional Advertising Expense Adjustment	25,199	(3)
20. Miscellaneous Expense Adjustment	29,920	Sch. RJH-24
21. AFUDC Adjustment	2,850,571	Sch. RJH-25
22. Total AG-Recommended Net Income Adjustments	<u>5,685,396</u>	
23. AG-Recommended After-Tax Operating Income: [L1+L23]	<u>\$ 20,583,587</u>	

(1) Response to AG-1-97: remove \$14,682 (for Owington and TV employees) x after-tax income factor of 61.10% = \$8,971
 (2) Response to AG-1-78(b): removes expense of \$41,270 (\$35,438 + \$5,832) x after-tax income factor of 61.10% = 25,216
 (3) Response to PSC-2-35: removes institutional advertising expense of \$41,243 x after-tax income factor of 61.10% = \$25,199

**KENTUCKY-AMERICAN WATER COMPANY
INTEREST SYNCHRONIZATION ADJUSTMENT**

	<u>KAWC</u>	<u>Adjustments</u>	<u>AG</u>	
1. Rate Base	(1) \$ 305,544,471		\$ 303,759,370	Sch. RJH-3
2. Weighted Cost of Debt	<u>3.52%</u>		<u>3.378%</u>	Sch. RJH-2
3. Pro Forma Interest Expense	10,755,165 (1)	\$ (494,312)	\$ 10,260,854	
4. Composite Income Tax Rate		<u>38.90%</u>		
5. Impact on After-Tax Income		<u>\$ (192,287)</u>		

(1) Exhibit 37 - Schedules E-1.3 and E - 1.4, line 15

**KENTUCKY-AMERICAN WATER COMPANY
 CONSOLIDATED INCOME TAX ADJUSTMENT**

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
	(1)	(1)	(1)	(1)	(1)
1. Positive Taxable Income	\$ 134,138,588	\$ 157,986,815	\$ 247,465,686	\$ 252,732,333	\$ 236,998,010
2. KAWC Taxable Income	2,123,369	-	3,896,807	7,944,883	5,443,743
3. % KAWC [L2 / L1]	1.5830%	0.0000%	1.5747%	3.1436%	2.2970%
4. Tax Losses	275,913,511	200,843,042	210,636,379	258,070,467	154,916,592
5. Tax Losses Allocated to KAWC [L3 x L4]	<u>\$ 4,367,619</u>	<u>\$ -</u>	<u>\$ 3,316,861</u>	<u>\$ 8,112,692</u>	<u>\$ 3,558,368</u>
6. Five-Year Average	\$ 3,871,108				
7. FIT Savings @ 35%	<u>\$ 1,354,888</u>				

**KENTUCKY-AMERICAN WATER COMPANY
 INDUSTRIAL SALES ADJUSTMENT**

	<u>KAWC</u> (1)	<u>Adjustments</u>	<u>AG</u>
1. Projected Tg Sales Based on Actual Sales For 12-Months Ended 7/31/08	683,004		
2. Projected Tg Sales Based on Actual Sales For Calendar Year 2008			619,381 (2)
3. Rate per Tg of Sales	<u>\$ 2.2855</u>		<u>\$ 2.2855</u>
4. Consumption Revenues	<u>\$ 1,561,016</u>	\$ (145,421)	<u>\$ 1,415,595</u>
5. Less: Associated Expense Decrease		(25,848) (3)	
6. Less: Associated Decreases in Uncollectibles and PSC Fees @ .92843% x Line 4		<u>(1,350)</u>	
7. Impact on Net Revenue Before Income Tax		\$ (118,223)	
8. After-Tax Income Factor		<u>61.10%</u>	
9. Impact on Net Income		<u>\$ (72,234)</u>	

(1) Exhibit 37, Schedule M-3.2, page 3

(2) Response to AG-2-15

(3) Fuel & Power	\$ 3,598,619	Exh. 37, Sch. C-2
Chemicals	2,745,061	Exh. 37, Sch. C-2
Wast Disposal	297,231	Exh. 37, Sch. C-2
Total Variable Costs	<u>\$ 6,640,911</u>	
Total Tg of Water Treated	<u>16,346,371.00</u>	AG-1-40(a)
Variable Expenses per Tg	\$ 0.4063	
MG Sales Decrease	<u>(63,623)</u>	Line 2 - Line 1
Expense Decrease	<u>\$ (25,848)</u>	

**KENTUCKY-AMERICAN WATER COMPANY
 OTHER PUBLIC AUTHORITY (OPA) SALES ADJUSTMENT**

	<u>KAWC</u> (1)	<u>Adjustments</u>	<u>AG</u>
1. Projected Forecasted Period Tg Sales	1,514,700	31,226	1,545,926 (2)
2. Rate per Tg of Sales	<u>\$ 2.6600</u>		<u>\$ 2.6600</u>
4. Consumption Revenues	<u>\$ 4,029,124</u>	\$ 83,039	<u>\$ 4,112,163</u>
5. Less: Associated Expense Increase		12,686 (3)	
6. Less: Associated Increases in Uncollectibles and PSC Fees @ .92843% x Line 4		<u>771</u>	
7. Impact on Net Revenue Before Income Tax		\$ 69,582	
8. After-Tax Income Factor		<u>61.10%</u>	
9. Impact on Net Income		<u>\$ 42,515</u>	

(1) Exhibit 37, Schedule M-3.2, page 4 and WP2-1, page 22 of 29

	<u>Actual Tg Sales</u>	
2005	1,530,265	WP2-1, page 22 of 29
2006	1,436,818	WP2-1, page 22 of 29
2007	1,571,213	WP2-1, page 22 of 29
2008	1,629,748	Response to AG-2-14[c]
3-Yr Avg. 05-07	1,512,765	
3-Yr Avg. 06-08	<u>1,545,926</u>	

(3) Fuel & Power	\$ 3,598,619	Exh. 37, Sch. C-2
Chemicals	2,745,061	Exh. 37, Sch. C-2
Wast Disposal	297,231	Exh. 37, Sch. C-2
Total Variable Costs	<u>\$ 6,640,911</u>	
Total Tg of Water Treated	16,346,371.00	AG-1-40(a)
Variable Expenses per Tg	\$ 0.4063	
MG Sales Increase	31,226	Line 2 - Line 1
Expense Increase	<u>\$ 12,686</u>	

**KENTUCKY-AMERICAN WATER COMPANY
 OTHER WATER UTILITY (OWU) SALES ADJUSTMENT**

	<u>KAWC</u>	<u>Adjustments</u>	<u>AG</u>
	(1)		
1. Projected Tg Sales Based on Actual Sales For 12-Months Ended 7/31/08	492,676		
2. Projected Tg Sales Based on Actual Sales For Calendar Year 2008			518,502 (2)
3. Rate per Tg of Sales	<u>\$ 2.6839</u>		<u>\$ 2.6839</u>
4. Consumption Revenues	<u>\$ 1,322,252</u>	\$ 69,338	<u>\$ 1,391,590</u>
5. Less: Associated Expense Increase		10,492 (3)	
6. Less: Associated Increases in Uncollectibles and PSC Fees @ .92843% x Line 4		<u>644</u>	
7. Impact on Net Revenue Before Income Tax		\$ 58,203	
8. After-Tax Income Factor		<u>61.10%</u>	
9. Impact on Net Income		<u>\$ 35,562</u>	

(1) Exhibit 37, Schedule M-3.2, page 3

(2) Response to AG-2-11

(3) Fuel & Power	\$ 3,598,619	Exh. 37, Sch. C-2
Chemicals	2,745,061	Exh. 37, Sch. C-2
Wast Disposal	297,231	Exh. 37, Sch. C-2
Total Variable Costs	<u>\$ 6,640,911</u>	
Total Tg of Water Treated	16,346,371.00	AG-1-40(a)
Variable Expenses per Tg	\$ 0.4063	
MG Sales Increase	25,826	Line 2 - Line 1
Expense Increase	<u>\$ 10,492</u>	

**KENTUCKY-AMERICAN WATER COMPANY
FIRE SERVICE REVENUE ADJUSTMENT**

1. Revenue Correction for Overstated Public Fire Hydrants	\$ (37,128)	(1)
2. Revenue Correction for Understated Private Fire Hydrants	<u>29,699</u>	(2)
3. Total Net Fire Service Revenue Adjustment	(7,429)	
4. Less: Associated Decreases in Uncollectibles and PSC Fees @ .92843% x Line 3	<u>(69)</u>	
5. Impact on Net Revenue Before Income Tax	\$ (7,360)	
6. After-Tax Income Factor	<u>61.10%</u>	
7. Impact on Net Income	<u>\$ (4,497)</u>	

(1) Per response to AG-1-60: 7,458 vs. 7,582 = (114) hydrants x current rate of \$325.68 = (\$37,128)

(2) Calculated from the response to AG-2-10

**KENTUCKY-AMERICAN WATER COMPANY
 OTHER OPERATING REVENUE ADJUSTMENT**

	<u>KAWC</u> (1)	<u>Adjustments</u>	<u>AG</u>
1. Forecasted Period Other Operating Revenues Excluding AFUDC	<u>\$ 2,289,756</u>	\$ 235,942	<u>\$ 2,525,698</u> (2)
2. Less: Associated Increases in Uncollectibles and PSC Fees @ .92843% x Line 1		<u>2,191</u>	
3. Impact on Net Revenue Before Income Tax		\$ 233,751	
4. After-Tax Income Factor		<u>61.10%</u>	
5. Impact on Net Income		<u>\$ 142,822</u>	

(1) Exhibit 37, Schedule M-3, page 2

(2) Actual Rev.

2005	\$ 1,735,954	Response to AG-1-52
2006	1,912,432	Response to AG-1-52
2007	2,221,671	Response to AG-1-52
2008	2,525,698	Response to AG-2-9

**KENTUCKY-AMERICAN WATER COMPANY
 MISCELLANEOUS SALES REVENUE ADJUSTMENT**

1. Recommended Projected Miscellaneous Sales Revenues	\$	21,626	(1)
2. Less: Associated Decreases in Uncollectibles and PSC Fees @ .92843% x Line 1		201	
3. Impact on Net Revenue Before Income Tax	\$	21,426	
4. After-Tax Income Factor		61.10%	
5. Impact on Net Income	\$	13,091	

(1) Per responses to AG-1-37(c) and AG-2-8:

		<u>Actual Revenues</u>	
1995	\$	21,061	
1996		13,264	
1997		22,582	
1998		16,845	
1999		44,170	
2000		18,769	
2001		15,908	
2002		29,482	
2003		16,503	
2004		9,780	
2005		5,768	
2006		19,513	
2007		18,789	
2008		26,577	
Average 1995 - 2008		19,929	
Average 2006 through 2008		\$ 21,626	

**KENTUCKY-AMERICAN WATER COMPANY
PERSONNEL TRANSFERS BETWEEN KAWC AND AWWSC**

1. Forecasted Period Net O&M Expense Impact from Nick Rowe's Transfer to AWWSC	\$ (78,000)	(1)
2. Forecasted Period Net O&M Expense Impact from Transfer of Two AWWSC Employees to KAWC	<u>43,850</u>	(2)
3. Net O&M Expense Impact	(34,150)	
4. After-Tax Income Factor	<u>61.10%</u>	
5. Impact on Net Income	<u>\$ 20,866</u>	

(1) Per response to AG-2-46(c): revenue requirement reduction of \$78,709 / 1.652 (rev. conversion factor) /61.10% (after-tax income factor) = \$78,000

(1) Per response to AG-2-52: revenue requirement reduction of \$44,260 / 1.652 (rev. conversion factor) /61.10% (after-tax income factor) = \$43,850

**KENTUCKY-AMERICAN WATER COMPANY
 OTHER LABOR EXPENSE ADJUSTMENTS**

1. Remove Incentive Compensation Included in KAWC's Payroll:		
a. AIP Incentive Compensation	\$ (358,066)	(1)
b. LTIP Incentive Compensation	(15,645)	(1)
c. Total Incentive Compensation	<u>(373,711)</u>	(1)
2. Remove Vacant Treatment Plant Operator Position	(62,100)	(2)
3. Remove Vacant Administrative Assistant Position	(49,341)	(3)
4. Remove Lobbying Portion of Total Compensation of KAWC's Director of Government Affairs	(102,000)	(4)
5. Total Labor Expense Adjustment	<u>(587,152)</u>	
6. After-Tax Income Factor	<u>61.10%</u>	
7. Impact on Net Income	<u>\$ 358,750</u>	

(1) WP3-1, page 2 and response to AG-1-106

(2) Per responses to PSC-2-10 and PSC-3-7: \$78,667 x O&M expense ratio of 78.94% = \$62,100

(3) Per responses to PSC-2-10 and PSC-3-7: \$62,505 x O&M expense ratio of 78.94% = \$49,341

(4) Total labor-related O&M expense associated with Director of GA	\$ 171,366	Response to AG-2-48
Less: estimated expenses allocated to sewer	<u>(1,366)</u>	
Net total water O&M expense	170,000	
Estimated portion of time spent on lobbying, and regulatory/ legislative advocacy	60%	Response to PSC-2-9,
Estimated lobbying expense	<u>\$ 102,000</u>	pp. 72 - 76

**KENTUCKY-AMERICAN WATER COMPANY
 MANAGEMENT FEE ADJUSTMENTS**

1. Forecasted Period Management Fees As Proposed by KAWC	<u>\$ 7,612,592</u>	Exh. 37, Sch. C-2
<u>Adjustments Recommended by AG:</u>		
2. Remove Incentive Compensation:		
a. AIP Incentive Compensation	\$ (395,971)	(1)
b. LTIP Incentive Compensation	<u>(118,778)</u>	(1)
c. Total Incentive Compensation	(514,749)	(1)
3. Remove Business Development Expenses	(125,016)	(2)
4. Remove Government/External Affairs Expenses	(211,941)	(3)
5. Reflect Reduction from Revised Management Fee Budget	(167,344)	(4)
6. Remove Charitable Contributions	(9,106)	(5)
7. Remove Community Relations Expenses	(5,051)	(6)
8. Remove Advertising and Promotion Expenses	(26,267)	(7)
9. Remove Certain Dues & Membership Expenses	(6,604)	(8)
10. Remove Other Welfare Expenses	(24,200)	(9)
11. Remove Employee Awards	(17,400)	(9)
12. Remove Non-Deductible Meals & Travel	<u>(24,500)</u>	(9)
13. Total AG-Recommended Adjustments	<u>(1,132,178)</u>	
14. Forecasted Period Management Fees Recommended by AG	<u>\$ 6,480,414</u>	
15. Total AG-Recommended Adjustments [Line 13]	\$ (1,132,178)	
16. After-Tax Income Factor	<u>61.10%</u>	
17. Impact on Net Income	<u>\$ 691,761</u>	

(1) Response to AG-1-107(a)	
(2) PSC-3-5: \$226,147 less \$33,814 for incentive comp expenses separately removed in line 2	\$ 192,333
Less: expenses directly charged [based on 35% avg. 2005-2008 from response to PSC-3-5(a)]	<u>(67,317)</u>
Allocated expenses to be removed	<u>\$ 125,016</u>
(3) PSC-3-6: \$244,515 less \$32,574 for incentive comp expenses separately removed in line 2	<u>\$ 211,941</u>
(4) Response to AG-2-47	
(5) Response to AG-1-113	
(6) Response to AG-2-34	
(7) Total advertising and promotional expenses of \$30,294 (AG-1-173, p.2) less allowable advertising expense of \$4,027 [AG-2-34(a)]	
(8) Response to AG-2-34[c]: disallow \$1,338 (Mayors Council), \$381 National Council, \$669, Philadelphia Chamber of Commerce, \$50 (PRSA), \$3,331 (US Chamber of Commerce), \$334 (CERES), \$167 (Boston College) and \$334 (BSR)	
(9) Response to AG-2-36, page 3 of 8	

**KENTUCKY-AMERICAN WATER COMPANY
 REGULATORY EXPENSE ADJUSTMENT**

	<u>KAWC</u>	<u>Adjustments</u>	<u>AG</u>
	(1)		
1. Current Rate Case Expense w/o COS Study	\$ 567,000		\$ 567,000
2. Amortization Period (Yrs)	<u>3</u>		<u>3</u>
3. Annual Amortization	<u>189,000</u>		<u>189,000</u>
4. Current COS Study	25,000		25,000
5. Amortization Period (Yrs)	<u>5</u>		<u>5</u>
6. Annual Amortization	<u>5,000</u>		<u>5,000</u>
7. Case 2007-00143 Rate Case Exp. Amortization	149,319	(149,319)	-
8. Case 2007-00143 Depreciation Study Amortization	6,001	(6,001)	-
9. Case 2007-00143 COS Study Amortization	6,262	(6,262)	-
10. Total Regulatory Expense [L3+L6+L7+L8+L9]	<u>\$ 355,582</u>	<u>(161,582)</u>	<u>\$ 194,000</u>
11. After-Tax Income Factor		<u>61.10%</u>	
12. Impact on Net Income		<u>\$ 98,727</u>	

(1) WP3-8, page 1

**KENTUCKY-AMERICAN WATER COMPANY
INSURANCE EXPENSE ADJUSTMENT**

	<u>KAWC</u>	<u>Adjustments</u>	<u>AG</u>
	(1)		
1. Property Insurance	\$ 155,642		\$ 155,642
2. Workers Comp	152,830		152,830
3. a. General Liability Insurance (Net of Sewer Allocation)	356,885		356,885
b. Estimated Retro Adjustment	<u>29,240</u>	<u>(29,240)</u>	<u>-</u>
c. Total GL Insurance	<u>386,125</u>	<u>(29,240)</u>	<u>356,885</u>
4. Total Insurance o/t Group [L1+L2+L3c]	<u>\$ 694,597</u>	<u>(29,240)</u>	<u>\$ 665,357</u>
5. After-Tax Income Factor		<u>61.10%</u>	
6. Impact on Net Income		<u>\$ 17,866</u>	

(1) WP3-9, page 1 and response to AG-1-87(a), (b) and [c]

**KENTUCKY-AMERICAN WATER COMPANY
 MAINTENANCE EXPENSE ADJUSTMENT**

1. Required Correction to Maintenance Account 675000	\$ (72,000)	(1)
2. Required Correction to Maintenance Account 675650 (Paving/Backfill)	(128,513)	(2)
3. Reduction in Deferred Maintenance Expense Amortization	<u>(6,145)</u>	(3)
4. Total Maintenance Expense Adjustment	(206,658)	
5. After-Tax Income Factor	<u>61.10%</u>	
6. Impact on Net Income	<u><u>\$ 126,268</u></u>	

(1) Conceded by KAWC in responses to AG-1-77 and AG-2-40

(2) Conceded by KAWC in response to PSC-1-37:

- As filed paving/backfill expense	\$ 249,285
- Corrected paving/backfill expense	<u>120,772</u>
- Expense adjustment	<u><u>\$ (128,513)</u></u>

(3) Total forecasted period amortization of deferred maintenance

% of amortization associated with internal labor	\$ 365,759	WP3-14, page 2
Amortization expense adjustment	<u>1.68%</u>	Response to AG-1-47(b)
	<u><u>\$ (6,145)</u></u>	

[See Schedule RJH-6 for associated rate base adjustment]

**KENTUCKY-AMERICAN WATER COMPANY
 GASOLINE EXPENSE ADJUSTMENT**

	<u>Volume</u> (1)	<u>Average Unit Cost</u>			<u>Expense Adjustment</u>
		<u>KAWC</u> (1)	<u>Current</u> (2)	<u>Adjustment</u>	
1. Diesel	11,750.3	\$ 3.97	\$ 2.46	\$ (1.51)	\$ (17,743)
2. Gasohol	35,326.0	3.40	1.80	(1.60)	(56,522)
3. Unleaded Plus	923.9	3.47	1.77	(1.70)	(1,571)
4. Unleaded Regular	64,179.4	3.37	1.72	(1.65)	(105,896)
5. Unleaded Super	373.7	3.61	1.92	(1.69)	<u>(632)</u>
6. Total					\$ (182,363)
7. After-Tax Income Factor					<u>61.10%</u>
8. Impact on Net Income					<u>\$ 111,424</u>

(1) Response to AG-1-94, page 2 of 4
 (2) Response to AG-2-22

**KENTUCKY-AMERICAN WATER COMPANY
MISCELLANEOUS EXPENSE ADJUSTMENTS**

1. Remove Employee Awards		\$	(8,500)	(1)
2. Remove Employee Dinner and Employee Gift Cards			(7,854)	(1)
3. Remove Other Employee Welfare Expenses:				
a. Award Banquet	\$	(15,000)		
b. Company Picnic		(7,000)		
c. United Way Function		(3,500)		
d. Holiday Luncheon		<u>(1,200)</u>		
e. Total			(26,700)	(2)
4. Remove Certain Dues & Membership Expenses			<u>(5,915)</u>	(3)
5. Total Miscellaneous Expense Adjustments			(48,969)	
6. After-Tax Income Factor			<u>61.10%</u>	
7. Impact on Net Income		\$	<u>29,920</u>	

(1) Response to AG-1-74

(2) Response to AG-2-43

(3) Response to AG-2-25, page 2: Rotary Club (\$465); Lexington Forum (\$450); Commerce Lexington (\$5,000)

**KENTUCKY-AMERICAN WATER COMPANY
 ALLOWANCE FOR FUNDS USED DURING CONSTRUCTION (AFUDC) ADJUSTMENT**

AVERAGE FORECASTED PERIOD CWIP

1. AFUDC-Accruing Average Forecasted Period CWIP Balance	\$ 36,240,000 (1)
2. KRS II Average Forecasted Period CWIP Balance Not Accruing AFUDC - Per KAWC Proposal	<u>66,569,975 (2)</u>
3. Total Average Forecasted Period CWIP	<u><u>\$ 102,809,975 (3)</u></u>

<u>FORECASTED PERIOD AFUDC</u>	<u>KAWC</u> (1)	<u>Adjustments</u>	<u>AG</u>
4. AFUDC-Accruing Average Forecasted Period CWIP Balance	\$ 36,240,000		\$ 36,240,000
5. Overall Rate of Return [Sch. RJH-2]	8.54%		7.548%
6. AFUDC	<u>\$ 3,094,804</u>	\$ (359,364)	<u>\$ 2,735,440</u>
7. KRS II Average Forecasted Period CWIP	\$ 66,569,945		\$ 66,569,945
8. Overall Rate of Return [Sch. RJH-2]	-		7.548%
9. AFUDC	<u>\$ -</u>	<u>\$ 5,024,782</u>	<u>\$ 5,024,782</u>
10. Total Forecasted Period AFUDC [L6+L9]	<u><u>\$ 3,094,804</u></u>	\$ 4,665,419	<u><u>\$ 7,760,223</u></u>
6. After-Tax Income Factor		<u>61.10%</u>	
7. Impact on Net Income		<u><u>\$ 2,850,571</u></u>	

(1) Exh. 37, Schedule D-1, pages 1 and 24 and response to AG-2-6(a)

(2) MAM testimony page 32, line 21 and WP1-4, page 61, month of May 2009 total CWIP in account 12020607

(3) Per response to AG-2-6(b): difference of \$7,369 between total CWIP balance of \$102,809,975 on line 3 and total CWIP balance of \$102,817,344 claimed in rate base is due to rounding

**KENTUCKY-AMERICAN WATER COMPANY
REVENUE REQUIREMENT IMPACT OF ADJUSTMENTS**

	<u>Revenue Requirement Impact</u>
1. KAWC Requested Rate Increase	\$ 18,494,634
 <u>AG-RECOMMENDED ADJUSTMENTS:</u>	
2. ROE @ 9.50% vs. 11.50%	(4,302,193)
3. ST Debt @ 2.50% vs. 3.85%	(425,481)
4. Cash Working Capital	(173,277)
5. Deferred Taxes	(6,282)
6. Deferred Maintenance	(3,120)
7. Deferred Debits	(1,164)
8. Consolidated Income Tax Benefits	(2,238,272)
9. Industrial Sales Revenues	119,331
10. OPA Sales Revenues	(70,235)
11. OWU Sales Revenues	(58,749)
12. Fire Service Revenues	7,430
13. Other Operating Revenues	(235,942)
14. Miscellaneous Sales Revenues	(21,627)
15. Personnel Transfer - KAWC/AWWSC	(34,470)
16. Other Labor Expense	(592,655)
17. Management Fees	(1,142,787)
18. Defined Contribution Plan Expense	(14,820)
19. Regulatory Expense	(163,097)
20. Insurance Expense	(29,515)
21. Maintenance Expense	(208,594)
22. Gasoline Expense	(184,073)
23. Janitorial Expense	(41,656)
24. Institutional Advertising Expense	(41,629)
25. Miscellaneous Expenses	(49,427)
26. AFUDC Income	<u>(4,709,139)</u>
27. AG-Recommended Rate Increase	<u>\$ 3,873,191</u>