

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: **Gary M. VerDouw**

51. Explain why the proposed DSIC lacks any provision to recognize expected cost savings.

Response:

In the near term the Company does not anticipate savings in O&M costs as the percentage of the Company's infrastructure with over 50 years of service continues to rise. However, over the long-term, the Company may with the DSIC in place and the accelerated levels of infrastructure replacement realize some reduction in energy usage and pumping costs and in the costs associated with lost and unaccounted for water, as well as reductions in expenses related to responding to main breaks (maintenance) and answering customer complaint/inquiry calls regarding water service or water quality. Such savings, as they accrue, will benefit customer rates as the savings are captured in base rates through future base rate case filings.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

Witness: Cheryl D. Norton/Keith Cartier/Linda C. Bridwell

52. Provide Kentucky-American's projected annual construction budget for water main replacements for the next ten calendar years if the Commission authorizes Kentucky-American's requested DSIC.

Response:

If the PSC was authorizes a DSIC program for KAW to replace aging infrastructure, KAW would anticipate spending between \$5 million and \$7 million per year over the next 10 years.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: Cheryl D. Norton/Keith Cartier/Linda C. Bridwell

53. Provide Kentucky-American's projected annual construction budget for water main replacements for the next ten calendar years if the Commission denies Kentucky-American's requested DSIC.

Response:

If the PSC denies the requested DSIC program for KAW to replace aging infrastructure, KAW would anticipate spending between \$2 million and \$4 million per year over the next 10 years.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

Witness: Cheryl D. Norton/Gary M. VerDouw

54. Provide all correspondence, internal memoranda, electronic mail messages, and all other documents in which Kentucky-American officers and employees discuss the use and development of a DISC.

Response:

Please see attached. KAW has made an effort to review its files for information that is responsive to this request and has attached the responsive documents. The attachment is redacted for communications implicating the attorney-client privilege, and other documents that were entirely protected by the attorney-client privilege have not been produced.

State/Program	Applicability	Timing/Frequency	Recovery Cap	Included Plant
Indiana Distribution System Improvement Charge (DSIC)	Water	Not > once every 12 month period; not in year of rate case being filed prior to DSIC filing.	5% of revenue between rate cases	Replacement & reinforcement mains, hydrants, services and meters and not included in last rate case.
Illinois Qualifying Infrastructure Plant Surcharge (QIPS)	Water & Wastewater	Annually (prospective plant) Quarterly (historic plant)	5% of revenue between rate cases	<u>Water</u> : Mains, services, meters, hydrants, and relocations and looping dead ends. <u>Sewer</u> : Force and gravity collection, mains, services, and manholes.
Missouri (St Louis Cnty) Infrastructure System Replacement Surcharge (ISRS)	Water	Semi-annually Depreciation and property tax, all others have pre-tax ROR	Not in excess of 10% of previously approved revenue	Mains, valves, hydrants, main cleaning and re-lining and facility relocations.
Ohio System Infrastructure Charge (SIC)	Water & Wastewater	Once every 12 month period	3% per year for maximum of 3 years; limit of 3 surcharges in effect; can be reduced if it causes the company to earn an excessive rate of return on its valuation	<u>Water</u> : Replacement mains, valves, service lines, hydrants, main extensions, main cleaning or re-lining, unreimbursed relocation expenditures, required by a governmental agency, land or land rights related to qualifying plant. <u>Sewer</u> : Replacement mains and lift stations, main extensions, main cleaning, I&I elimination or re-lining, unreimbursed facilities relocation expenditures, land or land rights needed related to qualifying plant.
Pennsylvania Distribution System Improvement Charge (DSIC)	Water	Quarterly	7.5% of total revenue, applicable for period between base rate cases, at which time total DSIC is folded into base rates, SSIC restarts and is set to -0-. Can be capped at a lower level if Company is earning in excess of authorized.	Replacement mains, valves, service lines, hydrants and meters.

* Programs are reconciled annually

STATE	DSIC MAX (% of revenues)	Typical Average Monthly Residential Bill	MAX DSIC Surcharge Per Month	Current Surcharge %	Current Surcharge Per Month
Illinois	5%	\$40.33 (Peoria)	\$2.02	0	\$0.00
Indiana	5%	\$30.53	\$1.53	2.49%	\$0.76
Ohio	3% / yr / 3 yrs	\$35.07 (Franklin Co)	\$1.05 (each yr for 3 yrs)	0.00%	\$0.00
Missouri	10%	\$21.50	\$2.15	2.10%	\$0.45
New York	X	X	X	X	X
Pennsylvania	7.50%	\$42.64	\$3.20	2.44%	\$1.04

State DSIC Related Capital Investments

(as of November, 2008)

Illinois QIP (2005 - 2008)	\$ 34,568,337
Indiana (2003 - 2008)	\$ 68,289,680
Missouri (2003 - 2008)	\$ 143,576,508
Ohio (2005 - 2008)	\$ 3,350,057
Total	\$ 249,784,582
Pennsylvania (1997 - 2007)	\$ 557,000,000
TOTAL	\$ 806,784,582



**Fw: Regulatory Initiatives for Kentucky and Tennessee - Due back to me on
Tuesday, January 3**
Cheryl D Norton to: Gary M VerDouw

01/03/2012 08:44 PM

Let me know if this is OK or if you need something additional.

Thanks,

Cheryl

Cheryl D. Norton
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Kentucky American Water
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From: John-Mark B Hack/KAWC/AWWSC
To: Cheryl D Norton/KAWC/AWWSC@AWW
Cc: Ellen U Williams/KAWC/AWWSC@AWW, Erin G O'Leary/KAWC/AWWSC@AWW
Date: 01/03/2012 12:13 PM
Subject: Fw: Regulatory Initiatives for Kentucky and Tennessee - Due back to me on Tuesday, January 3

Please find attached G. VerDouw's original document and what I suggest we send him today. He had requested these by COB today. Please call with questions, as I will be in Frankfort for the remainder of the day. Thanks.



Regulatory-legislative action summary for Verdouw.doc

John-Mark Hack
Director of Governmental Affairs
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Gary M
VerDouw/SERVCO/AWWSC
12/20/2011 01:20 PM

To Cheryl D Norton/KAWC/AWWSC@AWW, Deron E
Allen/TAWC/AWWSC@AWW
cc Kino D Becton/TAWC/AWWSC@AWW, John-Mark B
Hack/KAWC/AWWSC@AWW
Subject Regulatory Initiatives for Kentucky and Tennessee - Due
back to me on Tuesday, January 3

Hi Cheryl and Deron,

Nick Rowe has asked me to compile a regulatory initiative narrative for all of the Central Division states that list current regulatory initiatives as well as those planned for 2012. Nick intends to share the results with Walter Lynch and Paul Foran.

I have enclosed below the narrative that was prepared for the Eastern Division states in March of 2011 as an example and a starting point. Can you please provide me a narrative in similar format for both Kentucky and Tennessee for my inclusion in the final report to Nick? Please return your narrative back to me by end of day Tuesday, January 3.

Please let me know if you have any questions or if there is any assistance I can provide to you in completing this. I will be on vacation starting on Thursday, December 22 through the end of the year, but I will be available via email or Blackberry.

Thanks again for your assistance. Merry Christmas!

Regards,

Gary

Gary M. VerDouw
Director of Rates - Central Division
American Water Company
727 Craig Road
Saint Louis, MO 63141
314-996-2398 (Office); 314-304-8251 (Blackberry); Internal VoIP: 7-400-2398
Gary.VerDouw@amwater.com



ED Regulatory Initiatives Mar-11.docx

Kentucky

Kentucky American Water is actively engaged in several legislative and regulatory initiatives:

- **Discounted tariff for low income customers**
 - Several meetings have occurred with key stakeholders, including the Community Action Council and the state Attorney General's office. The group's current focus is on legislative and regulatory changes required for a low-income tariff to be filed.
- **Monitoring EPA and Kentucky Division of Water requirements on Chromium 6**
 - KAW Water Quality and Governmental Affairs personnel are engaging in preliminary discussions state drinking water regulators to develop the soundest responses to recent public concerns with the levels of chromium 6 in drinking water supplies.
- **DSIC initiative being explored for next rate case**
 - KAW legal counsel [REDACTED - PRIVILEGED] and company leaders are determining whether or not to include a DSIC initiative in the next rate case filing.
- **Fair Market Value Acquisition of Small Systems**
 - Efforts are under way to educate legislators and regulators about the strategic advantages offered to Kentucky communities by larger water utilities, and the unique challenges faced by larger systems in efforts to acquire small systems, specifically in the form of restrictions on recoverable investments. Currently, state law and the state Public Service Commission only allows recovery of acquisition investments based on rate base and not including contributed property.
- **Prescription Pill and Drug Disposal Program (P2D2)**
 - Efforts are underway in the current state legislative session to implement a P2D2-like program in Kentucky to ensure proper disposal of prescription pharmaceutical products. KAW has made significant headway to get a P2D2 initiative included in the House Speaker's legislative package focused on prescription drug abuse in Kentucky.

**Iowa American Rate Case - Testimony of Paul Foran**

Amanda Groaning to: Cheryl D Norton

10/24/2012 03:23 PM

Cc: John J Reichart

Good Afternoon,

Per your discussion with John, please find attached the Testimony of Paul Foran which was filed in the Iowa American 2011 Rate Case. If you would like to further discuss this matter with John, please advise and we can schedule a meeting for the to of you to converse.

Thank you.



Testimony - Rebuttal - Foran (01097829-8).DOC



Exhibits - Rebuttal - Foran Exhibit 1 (01098937).PDF



Exhibits - Rebuttal - Foran Exhibit 2 Revised.pdf

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**STATE OF IOWA
DEPARTMENT OF COMMERCE
BEFORE THE IOWA UTILITIES BOARD**

6 **IN RE:** : **DOCKET NO. RPU-2011-0001**
7 :
8 **IOWA-AMERICAN WATER COMPANY** :
9 **APPLICATION FOR REVISION OF** :
10 **RATES** :
11 :

12
13
14

REBUTTAL TESTIMONY OF

PAUL G. FORAN

15 **Q. PLEASE STATE YOUR NAME, EMPLOYER AND BUSINESS ADDRESS.**

16 A. My name is Paul G. Foran, and I am employed by American Water Works Service
17 Company (the "Service Company"), a subsidiary of American Water Works Company,
18 Inc. ("AWW"). My business address is 1025 Laurel Oak Road, Voorhees New Jersey
19 08043.

20 **Q. HAVE YOU PREVIOUSLY PROVIDED DIRECT TESTIMONY IN THIS**
21 **PROCEEDING?**

22 A. No, I have not.

23 **Q. WHAT IS YOUR POSITION AT THE SERVICE COMPANY?**

24 A. I am Vice President and Counsel, Regulatory Programs.

25 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL AND PROFESSIONAL**
26 **BACKGROUND.**

27 A. I received a Bachelor of Science degree from the University of Illinois in 1973. In 1976,
28 I received a Juris Doctorate, also from the University of Illinois. I was admitted to the
29 practice of law shortly thereafter. Prior to joining the AWWC organization, I was a
30 partner in an Illinois law firm where I represented telecommunications companies,

1 municipalities and large industrial energy and water users and was active in restructuring
2 the electric industry in Illinois. From 1986 to mid-1993, I served as a Commissioner of
3 the Illinois Commerce Commission and as chair of the Commission's Water Policy
4 Committee during that time. During my tenure, at various times I was also chair of the
5 Commission's Economic Development, Telecommunications, and Electric Policy
6 Committees. I was Chair of the NARUC Water Committee and Director of the Annual
7 NARUC Water Committee Rate Schools, and currently serve on the faculty of the Rate
8 Schools. By USEPA appointment, I served as a member of the National Drinking Water
9 Advisory Council and the negotiating committee for development of the disinfection and
10 disinfection byproducts rulemaking pursuant to the Safe Drinking Water Act, the Federal
11 Negotiated Rulemaking Act and the Federal Advisory Committee Act. I was also a
12 member of the Public Council on Water Supply Research of the American Water Works
13 Association Research Foundation. I currently serve on the Advisory Boards of the
14 Institute for Public Utilities at Michigan State University, and Center for Public Utilities
15 at New Mexico State University. I have served as chair of the Regulatory Law
16 Committee and currently serve as Vice-Chair of the Rates and Regulatory Law
17 Committee of the National Association of Water Companies, I have also served as a
18 lecturer and advisor to representatives of foreign governmental regulatory bodies in
19 South America, Europe, and Africa with regard to regulation of essential public utility
20 services. Through the years, I have also authored numerous articles and presentations for
21 regulatory and educational programs.

22 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

1 A. In the Direct Testimony of Company Witness Bill Jones, Mr. Jones discussed several
2 mechanisms utilized to mitigate the negative impact of regulatory lag. These
3 mechanisms included; Post in Service AFUDC, Deferred Depreciation, Rate Adjustment
4 Clause (“RAC”), and the Qualified Infrastructure Plant (“QIP”) surcharge. Mr. Jones left
5 the employ of Iowa-American following the filing of this rate case. I am therefore
6 adopting his testimony as it relates to QIP and RAC and issues related to regulatory lag.
7 Mr. Akmentins will adopt testimony on Post-In-Service AFUDC and Deferred
8 Depreciation. In addition, I will respond to the testimony of Office of Consumer
9 Advocate (“OCA”) Witness Brian W. Turner as it relates to regulatory lag.

10 **Q. DO YOU AGREE WITH THE DEFINITION OF REGULATORY LAG AS IT**
11 **APPEARS IN MR. JONES TESTIMONY?**

12 A. Yes. Basically, regulatory lag is the time between when an investment in plant is placed
13 into service for the benefit of the customer and when the Company can begin earning a
14 return of and on the investment through the ratemaking process.

15 **Q. MR. TURNER, AT PAGE 3, LINES 6 THROUGH 17 OF HIS TESTIMONY,**
16 **TAKES THE POSITION THAT REGULATORY LAG IS NOT AN**
17 **UNDESIREABLE PHENOMENON AND THAT IT “PROVIDES AN**
18 **IMPORTANT INCENTIVE TO MANAGEMENT TO KEEP COSTS LOW AND**
19 **INCREASE EFFICIENCY WHICH BENEFITS BOTH CONSUMERS AND**
20 **SHAREHOLDERS.” IS REGULATORY LAG TO INCENT MORE EFFICIENT**
21 **OPERATIONS GOOD REGULATORY OR PUBLIC POLICY?**

1 A. No. At a time when significant capital investment in the water industry is needed to
2 replace aging transmission and distribution infrastructure nationally and in Iowa, to
3 affirmatively embrace regulatory lag as a positive regulatory policy would constitute an
4 inappropriate disincentive to investment in infrastructure needed to maintain high-quality
5 service to customers. It can also adversely impact operating efficiencies and delay
6 necessary investment, thereby increasing the costs due to the impacts of inflation and
7 other factors. An affirmative policy that can produce these negative impacts on service
8 quality or cost should not be viewed as positive from either a regulatory or public policy
9 perspective. This is especially true if such a policy is being advocated, as Mr. Turner
10 does, as a means to incent more efficient operations.

11 **Q. PLEASE EXPLAIN.**

12 A. Rather than encouraging operating efficiencies, such a policy provides an incentive to
13 reduce capital investment from what it might be in the absence of regulatory lag in order
14 to mitigate the permanent loss of a return of and on invested capital. This is true whether
15 the Board affirmatively views regulatory lag as a positive policy or whether significant
16 regulatory lag is simply tolerated as part of the process. However, the situation is worse
17 if this loss is due to a deliberate policy to induce a delay, through the regulatory process,
18 in the opportunity to begin earning a return of and on capital plant that is used and useful.
19 Rather than producing operating efficiencies, a policy of tolerating significant regulatory
20 lag is much more likely to induce operating inefficiencies precisely in those areas that can
21 have the most adverse impact on service and costs to customers – the Company’s capital
22 investment and construction program. It ensures that, to the extent it can, the utility will

1 try to time the replacement of infrastructure to avoid impairment of the allowed returns
2 on capital investment caused by artificial regulatory policies that tolerate or promote
3 regulatory lag, rather than on optimal construction cycles and scheduling and the
4 underlying operating needs of the utility.

5 A utility has many incentives to improve operating efficiencies, such as intensive rate
6 case reviews, the burden of proof the utility shoulders and cost of such proceedings,
7 attacks on the recoverability of such costs, the uncertainties of a litigated proceeding, as
8 well as maintenance and enhancement of quality, cost effective service in general which
9 enhances the relationship of the utility with its own customers, to name a few. There are
10 many other opportunities for cost disallowances in rate proceedings to provide the
11 incentives for operating efficiencies Mr. Turner favors. A deliberate regulatory policy to
12 delay the opportunity to earn the allowed return is neither necessary nor appropriate to
13 improve operating efficiencies. This is especially true at a time when the water industry
14 in general, the State of Iowa, and Iowa American Water Company all face such
15 significant infrastructure replacement needs.

16 **Q. WHAT IS THE NATURE OF THE INFRASTRUCTURE REPLACEMENT**
17 **NEEDS THE INDUSTRY FACES?**

18 A. Company Witnesses Mr. Kaiser and Mr. Kull address these needs in detail in their Direct
19 Testimony. Additionally, the most recent USEPA Drinking Water Infrastructure Needs
20 Survey and Assessment (Fourth Report to Congress) issued in February, 2009, based on
21 January 2007 dollars indicated a total national capital investment need for \$334.8 billion

1 over 20 years for water systems to continue to provide safe drinking water to the public.¹

2 In addition, the latest Survey compared the 2007 results (reported in 2009) to the three

3 previous assessments that have occurred since 1995. These national results appear below

4 (adjusted to account for inflation, in billions of January, 2007 dollars).

1995	1999	2003	2007
\$200.4	\$198.2	\$331.4	\$334.8

5
6 **Q. DID THE LATEST SURVEY ESTIMATE THE INFRASTRUCTURE NEEDS**
7 **FOR IOWA?**

8 A. Yes. The Survey estimated the 20-year need for Iowa to be approximately \$6 billion. In

9 addition, the latest Survey compared the 2007 results for Iowa (reported in 2009) to the

10 three previous assessments that have occurred since 1995. These results appear below

11 (adjusted to account for inflation, in billions of January, 2007 dollars)².

12

1995	1999	2003	2007
\$3.2	\$3.7	\$4.1	\$6.1

13

1 "Drinking Water Infrastructure Needs Survey and Assessment," Fourth Report to Congress,
<http://water.epa.gov/infrastructure/drinkingwater/dwns/index.cfm>, p. i.

2 Id., at p. 23.

1 **Q. DO THESE RESULTS INDICATE THAT ANY PROGRESS HAS BEEN MADE**
2 **WITH REGARD TO THE TOTAL ESTIMATED COSTS OF STATE**
3 **INFRASTRUCTURE REPLACEMENT NEEDS IN IOWA?**

4 A. The results indicate that no progress has been made, either nationally or in Iowa, and that
5 the costs of infrastructure replacement needs have in fact increased substantially. For
6 example, for Iowa, since 1995, the estimated costs have almost doubled, and since 2003,
7 they have increased by about 50%.

8 **Q. ARE YOU AWARE OF OTHER ORGANIZATIONS THAT HAVE MADE**
9 **OBSERVATIONS ON THE GENERAL STATE OF WATER**
10 **INFRASTRUCTURE IN THE UNITED STATES?**

11 A. Yes. As Mr. Kaiser notes in his Direct Testimony, in 2009 the American Society of Civil
12 Engineering issued an "infrastructure report card" that rated the state of water
13 infrastructure in the U.S. a "D-" rating. Notably, this assessment is down from the "D"
14 rating the organization issued in an earlier 2001 report.

15 **Q. DOES IOWA-AMERICAN FACE SIGNIFICANT INFRASTRUCTURE**
16 **REPLACEMENT NEEDS AS WELL?**

17 A. Yes. Mr. Kaiser and Mr. Kull address these needs in detail in their testimony.

18 **Q. MR. TURNER APPARENTLY BELIEVES REGULATORY LAG OFFERS**
19 **OPPORTUNITIES FOR BOTH CONSUMERS AND SHAREHOLDERS**
20 **BECAUSE WHERE GROWTH, PRODUCTIVITY AND TECHNOLOGY**
21 **IMPROVEMENTS OR COST DECREASES ARE OCCURRING, THE UTILITY**
22 **CAN KEEP THE SAVINGS BETWEEN RATE CASES, BUT IS FORCED TO**

1 **INCREASE EFFICIENCIES WHERE THIS IS NOT OCCURRING. DO YOU**
2 **AGREE?**

3 A. No. Mr. Turner's position appears to be based on the implicit assumption that since both
4 the utility and the customers *could* benefit from regulatory lag, that makes it good policy.
5 This is not the case. First, it should be noted that Iowa American has experienced less
6 than 0.5% in customer growth over the last five years and capita water consumption has
7 actually decreased by an average of 1.68% annually over the last ten years. (See Rebuttal
8 Testimony of Gary Naumick at page 5). As a practical matter, therefore, Iowa-American
9 has not benefitted from regulatory lag because of growth. Moreover, while the utility or
10 the customers *could* benefit, depending on the situation, they are likely to do so
11 randomly, based on circumstances over which neither the utility nor its customers may
12 exercise any significant control. There is little the utility can do, for example, to control
13 growth. Similarly, there are significant cost areas not covered by either the QIP or RAC
14 where the utility has little or no immediate control, such as employee medical and post-
15 retirement benefits (based largely on actuarial studies and market conditions), property
16 taxes, and other Federal or State mandates.

17 It is not good regulatory policy to deliberately make important decisions affecting capital
18 planning, construction and operations, which could impact service and the utility's
19 financial health, significantly dependant on such random factors. Appropriate regulatory
20 policy would look for ways to better match the rates to the costs that are likely to be
21 incurred during the period the rates are expected to be effective. Regulatory lag,
22 especially deliberate regulatory lag, is the antithesis of such policies. Mr. Turner's theory

1 could be equally applied to the impacts of weather on the utility's financial condition.
2 For example, during a hot, dry summer, the utility may reap the benefits of increased
3 sales, but where wet, cool, conditions apply, it could suffer significant adverse financial
4 effects. Under Mr. Turner's theory, the utility would be incented to produce operating
5 efficiencies in cool, wet years, but less so in dry, hot years – and all of that is good
6 policy. While it is possible that this may be occurring in some limited cases, it does not
7 constitute optimal, or even good, policy. Finally, even if Mr. Turner's theory that
8 regulatory lag incents operating efficiencies is true (which it is not), it would only do so
9 when the utility is already suffering financially because of factors over which it may have
10 little control. This again provides an incentive to eliminate or delay capital investment,
11 resulting in inefficiencies, because they are costs over which utilities may have more
12 control.

13 **Q. IS MR. TURNER'S ADVOCACY OF REGULATORY LAG AS A POSITIVE**
14 **POLICY TO INDUCE OPERATING EFFICIENCIES CONSISTENT WITH THE**
15 **OPERATION OF THE OCA?**

16 A. No. My understanding is that the costs incurred by the OCA in rate proceedings must be
17 paid by the utility promptly when billed, and then the utility is allowed to recover these
18 costs fully from customers. There is no review of the prudence or reasonableness of
19 these costs in the rate proceeding, as there is with regard to all of the utility's proposed
20 costs. Yet the costs of the Office of Consumer Advocate must be paid by the utility on
21 time and without delay. Under Mr. Turner's theory, it would be good regulatory and
22 public policy for the Board to require an additional one year delay in the time the utility

1 is required to reimburse the OCA, in order to induce the OCA to pursue operating
2 efficiencies.

3 **Q. ARE THERE OTHER REASONS WHY A DELIBERATE POLICY TO**
4 **EMBRACE REGULATORY LAG AS A MEANS TO INCENT OPERATING**
5 **EFFICIENCIES IS INAPPROPRIATE?**

6 A. Yes. While Mr. Turner may view regulatory lag positively, the investors who supply the
7 capital needed to meet the infrastructure replacement requirements described above
8 clearly do not. While recognizing that some degree of lag may be inherent in the
9 regulatory system, it is viewed as a flaw in the process and an impairment of the
10 opportunity of the utility to earn its allowed return.

11 **Q. DO YOU HAVE ANY EXAMPLES INDICATING THE VIEWS OF INVESTORS**
12 **WITH REGARD TO REGULATORY LAG?**

13 A. Yes. In March, 2010, Standard and Poor's issued a report assessing the U.S. regulatory
14 environment. Standard and Poor's is one of the three major entities that rates the credit
15 worthiness of business utilities for investment purposes. With regard to ratemaking
16 practices and procedures, Standard and Poor's states:

17 "The main, and often the most contentious, task of a regulator is to set the
18 rates a utility may charge its customers. We analyze specific rate
19 decisions as part of the surveillance of each utility. Our regulatory
20 assessments focus on the jurisdiction's overall approach to setting rates
21 and the process it uses to conduct and manage base rate filings. Practices
22 pertaining to separate tariff clauses for large expense items are examined

1 in the third category of the analysis (see below). In this part of the
2 assessment, we concentrate on whether established base rates fairly reflect
3 the cost structure of a utility and allow management an opportunity to earn
4 a compensatory return that provides bondholders with a financial cushion
5 that promotes credit quality. Notably, the analysis does not revolve
6 around "authorized" returns, but rather on actual earned returns. We note
7 the many examples of utilities with healthy authorized returns that, we
8 believe, have no meaningful expectation of actually earning that return
9 because of rate case lag, expense disallowances, etc.

10 ...

11 A regulatory approach that allows utilities the opportunity to consistently
12 earn a reasonable return is a positive factor in our view of credit quality.

13 ...

14 We analyze the issue of "regulatory lag" in a comprehensive manner and
15 not just as a matter of the efficiency of the regulator in completing rate
16 cases. As part of this analysis, we evaluate the timeliness of rate decisions,
17 coupled with an evaluation of the test year. In addition, we take into
18 account the timing of interim rates, and other practices that affect the
19 appropriateness of rates periodically established by the regulator. We do
20 not view the issue of regulatory lag as an intermittent concern,
21 consequential only during times of acute inflation or rising capital
22 spending, but as a consistent part of our credit analysis. Accordingly, in

1 our regulatory assessments we focus on whether the regulator efficiently
2 prosecutes rate requests and bases its decisions with respect to rate setting
3 on the most current information.”³ (emphasis supplied).

4 This Standard & Poor’s report ranks Iowa as one of the more credit-supportive states.
5 Given Standard & Poor’s concern about regulatory lag, it is reasonable to assume that
6 this favorable rating is in no small measure the result of innovative approaches the Iowa
7 Board has implemented for other utility industries that help address issues of regulatory
8 lag, approaches that are not available to the Company. For example, it is my
9 understanding that the Board has authorized the use of automatic adjustment riders for
10 purchased gas costs, purchased energy costs, transmission costs and certain nuclear
11 facility operating costs.

12 **Q. DO YOU HAVE ANY OTHER EXAMPLES?**

13 A. Yes. In May, 2011, Fitch Ratings upgraded Westar Energy, Inc. and Kansas Gas &
14 Electric Company’s ratings, noting as part of the reason for the upgrade the existence of
15 positive regulatory policies that help mitigate the impacts of regulatory lag. Fitch is
16 another of the three ratings agencies that rate the credit quality of utilities. The upgrade
17 announcement states:

18 “Credit quality has improved as a result of a constructive regulatory
19 environment in Kansas

³ Standard & Poor’s, Ratings Direct on the Global Credit Portal, *Assessing U.S. Utility Regulatory Environment*, March 11, 2010, <http://www2.standardandpoors.com/spf/pdf/events/util2010art1.pdf>

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...

Cost Recovery Mechanisms:

The Kansas Corporation Commission (KCC) and the Federal Energy Regulatory Commission (FERC) allow Westar to use cost recovery mechanisms for certain expenditures that lessen regulatory lag and provided stability to the financial profile. Of particular importance are cost recovery riders for environmental and transmission capital expenditures, items that are expected to account for roughly 41% and 22% , respectively, during 2011-2013. Other cost recovery mechanisms authorized by the KCC include an energy cost adjustment (RECA) and a pension and other post employment benefits expense tracker.”⁴ (emphasis supplied).

Three months later, in August 2011, Fitch Ratings affirmed the ratings of PEPCO Holdings Inc., Potomac Electric Power Company, Delmarva Power and Light, and Atlantic City Electric Company, specifically noting concerns about regulatory lag and its pernicious effects.

The announcement stated⁵:

⁴ Business Wire Article entitled, *Fitch Upgrades Westar's & KGE's Ratings; Outlook Stable*, May 31, 2011) <http://www.businesswire.com/news/home/20110531006811/en/Fitch-Upgrades-Westars-KGEs-Ratings-Outlook-Stable>

⁵ Business Wire article entitled, *Fitch Affirms PEPCO Holdings, PEPCO, Delmarva Power & Light, & Atlantic City Electric*, August 3, 2011) <http://www.businesswire.com/news/home/20110803006495/en/Fitch-Affirms-PEPCO-Holdings-PEPCO-Delmarva-Power>

1 “Rating concerns include persistent regulatory lag at the three utility
2 subsidiaries that causes them to file frequent rate cases and carry short
3 term debt balances, uncertainty regarding the timing of MAPP capex, and
4 consequently, the financing plans of PEPCO and DPL...”

5 Similarly, in remarks to the New Jersey Board of Public Utilities in March, 2011, utility
6 industry analyst Janney, Montgomery Scott, LLC noted that addressing issues of
7 regulatory lag are critical for the utility to have an opportunity to actually earn allowed
8 returns⁶:

9 “Infrastructure surcharge mechanisms such as the one being considered by
10 the NJ BPU are critical in our view, because they help to minimize the
11 impact of so-called “**regulatory lag**” on realized equity returns. In effect,
12 “DSIC-like” regulatory mechanisms ensure that realized returns on equity
13 capital don’t fall meaningfully short of granted returns.”

14 **Q. DO YOU HAVE OTHER EXAMPLES OF THE ATTITUDE OF THE BROADER**
15 **REGULATORY COMMUNITY ON THE ISSUE OF WHETHER REGULATORY**
16 **LAG IS A POSITIVE POLICY?**

17 **A.** Yes. The National Association of Regulatory Utility Commissioners clearly does not
18 regard regulatory lag as positive phenomenon in the face of massive capital investment
19 requirements, as reflected by the two Resolutions noted by Mr. Kaiser in his Direct
20 Testimony. These Resolutions identify and urge consideration of infrastructure

⁶ Remarks of Ryan M. Connors, Director – Water/Infrastructure, Janney Montgomery Scott LLC before the New Jersey Board of Public Utilities, March 16, 2011) <http://www.nj.gov/bpu/pdf/water/connorsjanney.pdf>

1 replacement surcharge programs as a “best practice” for the water industry. More
2 recently, however, the Chairman of the Pennsylvania Public Utility Commission testified
3 before the Pennsylvania House of Representatives, Consumer Affairs Committee, in
4 support of legislation that would allow use of additional mechanisms to reduce regulatory
5 lag and incent capital investment in Pennsylvania to help meet the huge infrastructure
6 investment needs utilities in that state face. These methods include use of fully projected
7 test years, expanded infrastructure replacement programs and other mechanisms. This
8 testimony is significant because Pennsylvania was the first state to implement an
9 infrastructure replacement surcharge program in 1997 and therefore has the most
10 experience with these kinds of programs. The Chairman notes the many benefits the
11 program, known in Pennsylvania as the Distribution System Improvement Charge
12 (“DSIC”), has produced for ratepayers and utilities of that state. The Testimony notes the
13 following:

- 14 - The need to replace ageing infrastructure is a massive and expensive challenge in
15 Pennsylvania and across the nation. (page 2)
- 16 - The current ratemaking model does not adequately address these challenges (page
17 2)
- 18 - The mechanisms addressed in the legislation, including expanded infrastructure
19 replacement surcharge programs are necessary to continued safety and reliability
20 of utility systems. The legislation will do this, “...by allowing the PUC to
21 consider new ratemaking methods that will better address the challenges the
22 utility industry faces today. By reducing regulatory lag and incenting investment

- 1 in infrastructure, this legislation will ensure that the utility infrastructure ... will
2 be updated in an expeditious manner, resulting in a safer and more reliable utility
3 system.” (page 3)
- 4 - The test year Pennsylvania currently uses (historic with certain known
5 adjustments) “almost always” results in regulatory lag, but that the mechanisms
6 the legislation proposes, “...will significantly reduce regulatory lag and will
7 encourage less frequent base rate case filings, saving utilities and customers
8 millions in rate case expenses.” (page 4)
- 9 - DSIC surcharges ensure the least possible rate impact on customers by spreading
10 out over time the cost of replacing and enhancing Pennsylvania’s utility
11 infrastructure. (page 4)
- 12 - “The DSIC is one of the most important regulatory tools of the past decade...”
13 (page 5)
- 14 - Pennsylvania was the first state in the nation to enact and use the DSIC (1997),
15 and since that time, “...it has become a national ‘best practice’” (page 5)
- 16 - Prior to DSIC, the largest water company in the state, Pennsylvania American
17 Water Co., projected it would take about 225 years to replace its distribution
18 system. With DSIC, the projected time to upgrade the distribution system is now
19 about 117 years, “...a timeframe that more closely matches the expected service
20 life.” (page 5)
- 21 - DSIC has been so successful it should be expanded to other sectors of the utility
22 industry. (page 5)

- 1 - The DSIC and Collection System Infrastructure Charge (CSIC) for the wastewater
2 industry will, by replacing ageing infrastructure at an accelerated rate, provide
3 ratepayers with improved service quality through fewer main breaks, less frequent
4 service interruptions, increased safety, and lower levels of uncounted for natural
5 gas and wastewater. (page 6)
- 6 - DSIC also provides for greater rate stability and lower costs by properly incenting
7 capital investment to replace ageing infrastructure. (page 6)
- 8 - Many ratepayer protections exist with regard to a DSIC programs to ensure it is
9 properly implemented. (page 7)

10 The full text of Chairman Powelson's testimony is filed with my Rebuttal Testimony as
11 Foran Exhibit 1.

12 **Q. ON PAGE 2 OF HIS TESTIMONY, MR. TURNER OPINES THAT**
13 **RATEMAKING IN IOWA IS NOT DESIGNED TO MAKE A UTILITY**
14 **"WHOLE", THAT IT IS DESIGNED TO ALLOW THE UTILITY THE**
15 **OPPORTUNITY TO RECOVER REASONABLE COSTS AND EARN A FAIR**
16 **RETURN, AND THAT RATES SHOULD NOT BE DESIGNED TO**
17 **"GUARANTEE" RECOVERY OF ALL OR ANY COSTS. WOULD YOU**
18 **PLEASE COMMENT?**

19 **A.** Yes. Mr. Turner is correct that ratemaking in Iowa should be designed to allow the
20 utility the opportunity to recover reasonable costs and a fair return as determined by the
21 Board. To represent the proposed QIP or RAC as "guarantees" that the utility will earn
22 its allowed return on invested capital or its overall allowed return is incorrect and

1 misleading. Neither the proposed QIP nor RAC completely eliminate regulatory lag and
2 its negative impact on the ability to earn the allowed return on and of invested capital that
3 is actually in service, due to the timing of the process the Company must go through to
4 actually implement the charges on the customer's bill. In addition, there are many other
5 factors not addressed in the QIP that can negatively impact the Company's ability to
6 actually earn the return. The same applies to the RAC. What these mechanisms do is
7 remove artificially induced impediments to the *opportunity* to earn the allowed return
8 resulting from the regulatory process, an opportunity to which Mr. Turner correctly
9 acknowledges the Company is entitled.

10 **Q. IS A DELIBERATE POLICY TO PROMOTE REGULATORY LAG**
11 **CONSISTENT WITH THE OPPORTUNITY TO EARN A FAIR RETURN?**

12 A. No. During the rate proceeding, the Board makes findings with regard to a ROE and a level
13 of expenses the utility is entitled to the opportunity to earn in order to provide service. In
14 other words the Board has determined, based on evidence, testimony, and thorough
15 review that these levels are reasonable and the utility is entitled to the opportunity to
16 recover those costs and earn the return. For a Board to deliberately adopt a policy
17 designed to delay the opportunity to begin earning on the invested capital and recovery of
18 reasonable expenses, immediately impairs and is inconsistent with that opportunity. This
19 is especially true if the policy is being used, as Mr. Turner suggests, to force the utility to
20 reduce costs the Board has just determined to be reasonably necessary to provide high-
21 quality, reliable service to customers.

1 **Q. ON PAGE 4, LINES 9, 10 OF HIS TESTIMONY, MR. TURNER STATES THAT**
2 **“REGULAR REVIEWS OF A UTILITY’S COSTS FOR REASONABLENESS IS**
3 **THE SINGLE MOST IMPORTANT PROTECTION PROVIDED TO**
4 **CONSUMERS BY RATE REGULATION.” DO YOU AGREE?**

5 A. No. I think the single most important protection provided to consumers by rate
6 regulation is enforcing the obligation and assuring the ability of the utility to continue
7 providing high quality, essential public utility services to customers. Review of the costs
8 of providing that service to determine if they are reasonable is obviously an important
9 element of Board review, but the purpose of the review of costs is fundamentally to
10 assure the continued ability to provide service. This means balancing the interests of
11 both the customers and the utility investors who are the source of the capital necessary to
12 provide that service. For the reasons stated, regulatory lag acts contrary to the interests
13 of both customers and investors. Moreover, the QIP and RAC the Company has
14 proposed would actually enhance review of these costs. They both require at least annual
15 review of charges and contain additional protections for customers. These reviews are
16 likely to be more focused than they would in the context of a general rate case.
17 Furthermore, the implication of Mr. Turner’s position seems to be that the more rate
18 cases, the better – in fact, why not have one every year. Again, this is not an appropriate
19 regulatory or public policy. Rate cases are extremely costly and time consuming for all
20 parties. While rate cases are a necessary part of traditional public utility regulation, that
21 does not lead to the conclusion that we should have as many of them as we can. The
22 mechanisms proposed in this case are entirely consistent with the need for periodic

1 regulatory review of costs and the fact that they have at least the potential to reduce the
2 frequency and cost of general rate cases should be viewed positively. Moreover,
3 although the Company believes the mechanisms it has proposed have the potential to
4 decrease the frequency of rate cases, on page 12, lines 9-19, Mr. Turner himself stated
5 the view that the RAC would not have enough of an impact to substantially postpone
6 future rate increases. On the other hand, this view is contrary to the view he expressed on
7 page 3, lines 20-21, of his testimony where he indicated that automatic adjustment
8 clauses would likely result in fewer rate reviews. Mr. Turner apparently opposes the
9 proposed mechanisms because they would both reduce and not reduce the frequency of
10 rate reviews.

11 **Q. ON PAGE 5, LINES 20-22 AND PAGE 6, LINES 1-7, MR. TURNER DISCUSSES**
12 **A “MATCHING” PRINCIPLE, WHICH HE EXPLAINS AS THE NEED TO**
13 **AVOID SINGLE ISSUE RATEMAKING AND TO SET RATES ONLY**
14 **THROUGH A GENERAL RATE PROCEEDING WHERE A FULL REVIEW OF**
15 **ALL COSTS AND POTENTIAL SAVINGS CAN BE REVIEWED AT THE SAME**
16 **TIME. DO YOU AGREE THAT SUCH A PRINCIPLE SHOULD BAR**
17 **ADOPTION OF THE REGULATORY LAG MECHANISMS PROPOSED IN**
18 **THIS CASE.**

19 **A.** No. While such a matching principle has been recognized, it is not the only principle
20 applicable to effective ratemaking, nor is it even an appropriate end in itself. It should be
21 viewed, as many other policies, in the context in which it promotes high quality, cost
22 effective service and properly balances the interests of both the utility and customers.

1 Where there are flaws in the regulatory model which impede achievement of these goals,
2 the “matching” principle should not be invoked to preclude innovative mechanism that
3 address these flaws and provide protections to ratepayers.

4 **Q. CAN YOU PROVIDE AN EXAMPLE OF ANOTHER SUCH PRINCIPLE?**

5 **A.** Yes. Another important goal of ratemaking is to set rates, to the extent practicable, to
6 recover the reasonable costs the utility is likely to incur during the time the rates are
7 expected to be effective. This is a “matching” principle Mr. Turner fails to mention.
8 Regulatory lag, deliberate or de facto, is a flaw in the system and a violation of this
9 principle because it delays the opportunity to begin earning the return to which the Board
10 has determined the Company is entitled.

11 **Q. ON PAGE 9, LINES 5-16, MR. TURNER INDICATES THAT THE PROPOSED**
12 **QIP PROVIDES NO WAY TO ENSURE THAT IOWA-AMERICAN’S EARNED**
13 **RETURNS DO NOT EXCEED THE ALLOWED RETURN SET BY THE BOARD.**
14 **DOES THIS ADEQUATELY DESCRIBE THE RATEPAYER PROTECTIONS**
15 **CONTAINED IN THE PROPOSED QIP?**

16 **A.** No. As Mr. Jones testified, the proposed QIP tariff contains provisions for annual
17 reconciliation proceedings to ensure that the actual revenues collected under the
18 surcharge equal the level of revenues authorized by the Board. Any overage or shortage
19 would be taken into account as an adjustment at the time the next surcharge calculation is
20 made. The tariff also caps the surcharge at five percent of revenue billed to customers.
21 In addition, the surcharge would apply only to qualified non-revenue producing plant
22 investment. While the Company believes these provisions provide substantial protection

1 for ratepayers, it would be more than willing to consider any modifications to the
2 proposed tariff to establish further protections, provided they are consistent with the basic
3 purposes and goals of the program.

4 **Q. DOES THE PROPOSED RAC ALSO CONTAIN PROVISIONS TO PROTECT**
5 **RATEPAYERS?**

6 A. Yes. The proposed RAC provides for annual proceedings to identify any net overages or
7 shortfalls resulting from the program which will be refunded or surcharged, as
8 appropriate, to customers. A revised surcharge or credit request will be filed annually
9 that will become effective upon Board approval.

10 **Q. SHOULD THE POTENTIAL FOR OVER-EARNING BE A REASON TO**
11 **REJECT THE QIP OR RAC?**

12 A. No. The *potential* of over-earning as a result of the programs should be compared to the
13 *fact* that the Company has been unable to earn its allowed return since 2002, and in the
14 last 20 years has been able to earn its allowed return in only five years, in part because of
15 the existence of regulatory lag which the proposed programs are designed to address.
16 (See Foran Exhibit 2). Both proposals provide substantial protections for ratepayers and,
17 as I previously indicated, the Company is willing to consider any further protections that
18 are consistent with the purposes of the programs.

19 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

20 A. Yes, it does.

AFFIDAVIT

State of New Jersey)
)
County of Camden) ss:

I, Paul G. Foran, being first duly sworn, state that I am Vice President and Counsel, Regulatory Programs at American Water Works Service Company and that the foregoing Rebuttal Testimony and Exhibits are true and correct to the best of my knowledge, information and belief.

/s/ Paul G. Foran
Paul G. Foran

Subscribed and sworn to before me, this 29th day of September, 2011.

/s/ Diane Rouleau
Diane Rouleau
Notary Public

[seal]

My Commission Expires: 6/22/14

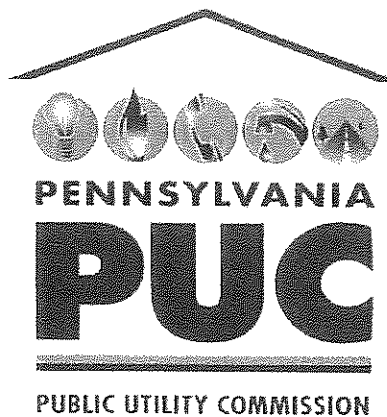
My County of Residence is: Camden

Prepared Testimony of
Robert F. Powelson
Chairman
Pennsylvania Public Utility Commission

before the

Pennsylvania House of Representatives
Consumer Affairs Committee

April 28, 2011



Pennsylvania Public Utility Commission
400 North Street
Harrisburg, Pennsylvania 17120
Telephone (717) 787-4301
<http://www.puc.state.pa.us>

Chairman Godshall, Chairman Preston, members of the Committee, I appreciate the opportunity to speak with you today about House Bill 1294. This legislation will give the Pennsylvania Public Utility Commission (PUC) the authority to allow utilities to recover in a timelier manner the capital costs associated with investments in infrastructure. The bill also allows water and wastewater utilities to combine the revenue requirements used to determine rates. For the reasons discussed below, the PUC supports the passage of this legislation.

While the ratemaking model currently employed at the PUC has worked relatively well for many decades, it does not adequately address the challenges we face today or going forward. In Pennsylvania, and across the nation, much of our utility infrastructure is over 70 years old. Replacing this infrastructure – from gas pipelines, to electric transmission lines, to wastewater collection systems – is extremely expensive. However, for both safety and reliability reasons, many of Pennsylvania's aging pipes and wires should soon be replaced. While many utilities are accelerating their infrastructure replacement schedules to address this challenge, replacing Pennsylvania's aging utility infrastructure remains a massive and expensive undertaking.

Even though utilities are investing significant amounts of money to replace and repair their physical infrastructure, the existing ratemaking methodology used by the PUC does not allow utilities to recover these costs in a timely manner. Utility ratemaking is founded upon the relationship between revenues, operating expenses, and investment (or rate base). Historically, utility companies counted on revenues increasing and

expenses decreasing as they became more efficient. Utilities could also assume that their rate base would grow, at least in partial relationship, to revenues. Times are different today.

Utilities are seeing their revenues decrease. Energy efficiency measures such as Act 129, while achieving their stated goals, are encouraging less consumption per customer, which means less revenue for utilities. With respect to expenses, while there is always room for increased efficiencies and innovation, most utilities have already taken numerous steps to reduce expenses and increase productivity. At the same time, utilities have seen rate base increase because infrastructure replacement generally does not generate a single dollar of new revenue. Thus, while utilities' revenues are decreasing, their expenses and rate base are increasing.

In order to ensure the continued safety and reliability of our utility system, it is essential that the PUC and the Legislature help Pennsylvania's utilities resolve the problem of aging infrastructure in our state. House Bill 1294 will do this by allowing the PUC to consider new ratemaking methods that will better address the challenges the utility industry faces today. By reducing regulatory lag and incenting investment in infrastructure, this legislation will ensure that the utility infrastructure in the Commonwealth will be updated in an expeditious manner, resulting in a safer and more reliable utility system.

One of the alternative ratemaking methods House Bill 1294 would allow the PUC to consider is the use of a fully projected future test year. Traditionally, when a utility

wants to increase its rates, it files a rate case with the PUC using a test year comprising of the utility's revenues and expenses during the 12-month period immediately following an historic test year. Ideally, a test year should reflect as closely as possible the conditions the utility will face when the rates being established will be in effect. However, the test year the PUC currently uses almost always results in "regulatory lag" because, by the time the rates go into effect at the conclusion of the rate case, the information relied upon from the test year is outdated.

House Bill 1294 would instead allow utilities to use, with the PUC's approval, a fully projected future test year. Under this approach, utilities' rates and costs will match the first year new rates are in effect. This will significantly reduce regulatory lag and will encourage less frequent base rate case filings, saving utilities and customers millions in rate case expenses.

Another alternative ratemaking method that House Bill 1294 would allow the PUC to consider is an automatic adjustment charge that enables utilities to recover certain infrastructure improvement costs between base rate cases through a surcharge on customers' bills. This surcharge is often called a Distribution System Improvement Charge (DSIC) by the water and natural gas industry, and a Collection System Infrastructure Charge (CSIC) by the wastewater industry. These surcharges ensure the least possible rate impact on customers by spreading out over time the cost of replacing and enhancing Pennsylvania's utility infrastructure.

Pennsylvania implemented the DSIC for the water industry in 1997. Over the past fourteen years, the DSIC has had substantial impact on accelerating water infrastructure replacement in Pennsylvania. Prior to the DSIC, Pennsylvania American Water Company (PAWC) projected that it would take about 225 years to upgrade its entire system. With DSIC, the projected amount of time for upgrades to the PAWC distribution system is about 117 years – a timeframe that more closely matches the expected service life of the system.

Pennsylvania was the first state in the nation to enact and use the DSIC, and since that time, it has become a national “best practice.” Seven other states have now adopted mechanisms similar to Pennsylvania’s water DSIC. Due to in large part to the DSIC, the PA PUC was recognized by Standard & Poor’s for effectively encouraging water company investment in infrastructure improvements. The DSIC has also been recognized in a resolution passed by the National Association of Regulatory Utility Commissioners (NARUC) as a national best practice regulatory tool. In addition, the Council of State Governments included DSIC in its model legislation. The DSIC is one of the most important regulatory tools of the past decade and it was created in Pennsylvania.

Given the success Pennsylvania has had with the water DSIC, a logical next step is to expand the DSIC, or a similar ratemaking mechanism, to other sectors of the utility industry, such as the natural gas, electric, and wastewater sectors. Currently, there are approximately 11,000 miles of cast iron, unprotected bare steel, and even a small portion of wooden natural gas pipes in Pennsylvania that have reached or are reaching the end of

their useful lives. If left in place, these facilities will continue to deteriorate. Although I believe the natural gas transportation network in Pennsylvania as whole is very safe, the recent tragic events in Allentown and Philadelphia have proven that we must take every step possible to replace vulnerable pipelines.

Natural gas companies spend millions every year repairing, replacing and maintaining the pipelines. As explained above, the current process for recouping the costs of making these upgrades is insufficient and results in unnecessary delay. House Bill 1294 would allow utilities to request permission from the PUC to use a mechanism similar to DSIC to recoup the revenue needed to upgrade and improve the pipelines in a timely manner. This DSIC mechanism would allow natural gas companies the flexibility to perform safety upgrades without a lengthy process to approve the rates necessary to make the large capital investment, and would encourage companies to replace pipelines under an expedited schedule.

In addition, the DSIC and CSIC will provide ratepayers with improved service quality and greater rate stability. By replacing aging infrastructure at an accelerated pace, there will be fewer main breaks, less frequent service interruptions, increased safety, and lower levels of unaccounted for natural gas and wastewater. The DSIC saves costs, not only in reducing frequency of rate cases, but by incenting capital investment to replace aging infrastructure. The infrastructure replacement encouraged by the DSIC would also help create hundreds of jobs — utility positions and pipeline contractors — needed to support the infrastructure replacement program. In light of today's difficult financial

markets, DSIC and CSIC are the type of innovative regulatory policies expected as rating agencies tighten their ratings benchmarks and are a key element in maintaining access to capital markets on reasonable terms.

It is also important to note that under House Bill 1294, utilities will not be able to implement a DSIC or CSIC without PUC approval. When a utility seeks to implement a surcharge such as DSIC, these requests receive closer scrutiny and review than time allows during a base rate case. In addition, the PUC has many safeguards to ensure the DSIC is implemented appropriately. For example, the PUC caps the surcharge to a percent of the total utility bill and requires that all customers receive notice of any such rate change. In addition, the PUC performs annual reconciliation audits to ensure that over-collections are refunded with interest and under-collections are included in future rates without interest recovery. Finally, the PUC reduces the surcharge to zero if the utility is over-earning. Through these safeguards, the PUC will ensure the DSIC and other related surcharges are implemented in manner that protects and benefits customers.

House Bill 1294 would also permit utilities to combine the revenue requirements of water and wastewater operations. Recently, the cost of wastewater treatment and collection has risen exponentially. As a result, many wastewater utilities have been granted significant rate increases by the PUC, which, in many cases, have resulted in rate shock for customers. By allowing utilities that provide both water and wastewater services to combine their revenue requirements, this will spread the increasing costs of

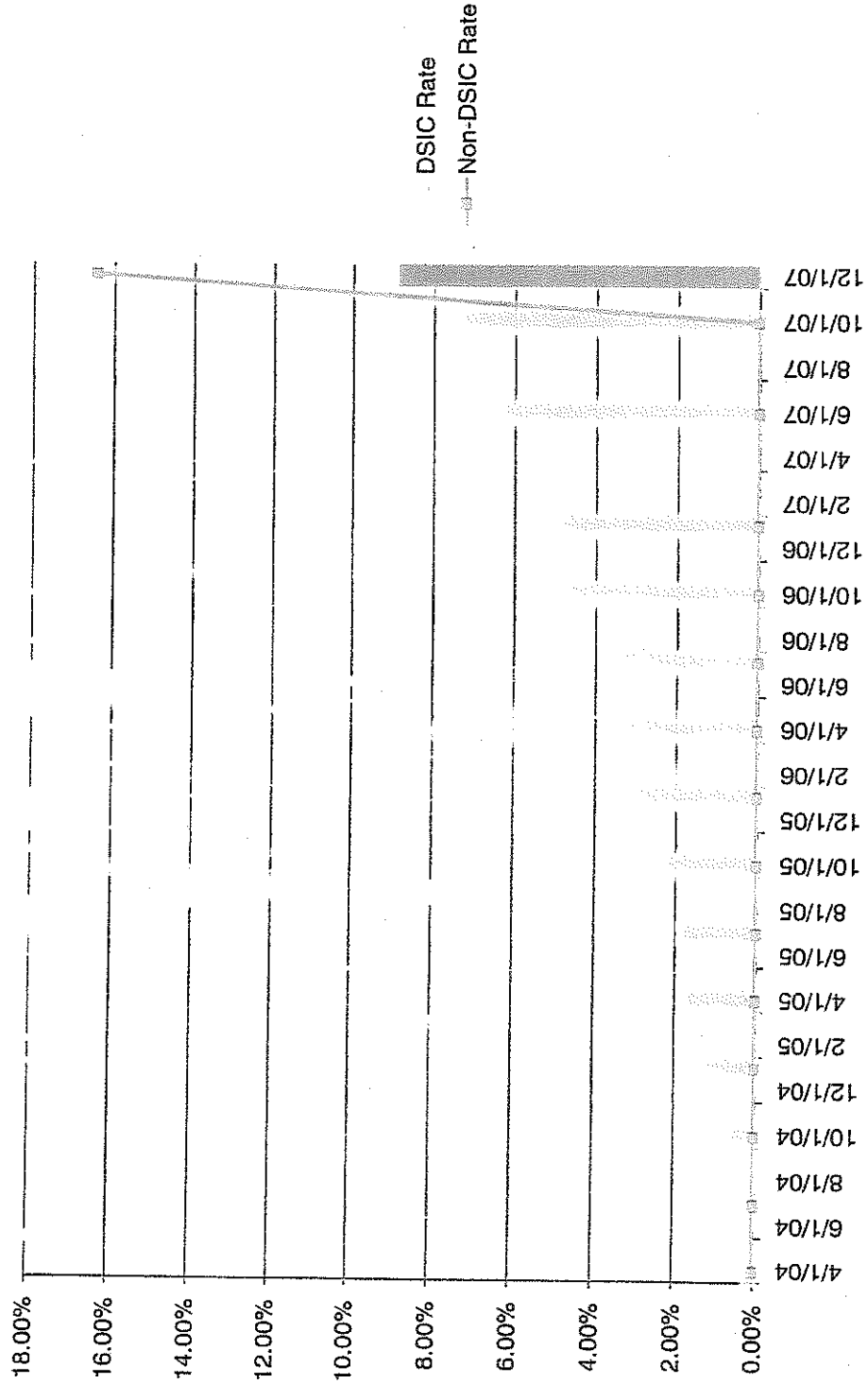
wastewater treatment and collection across a larger group of customers, thereby mitigating the dramatic rate increases for wastewater customers.

This approach makes sense when considering economies of scale. The number of wastewater customers in Pennsylvania is relatively small, which means it is difficult for those customers to absorb large rate increases. In contrast, there are a large number of water customers in Pennsylvania. Thus, if a portion of the wastewater rate increase is spread across the water customers, it will only result in a very small increase in the water customers' bills. This approach also allows wastewater customers to more gradually adjust to their increased rates.

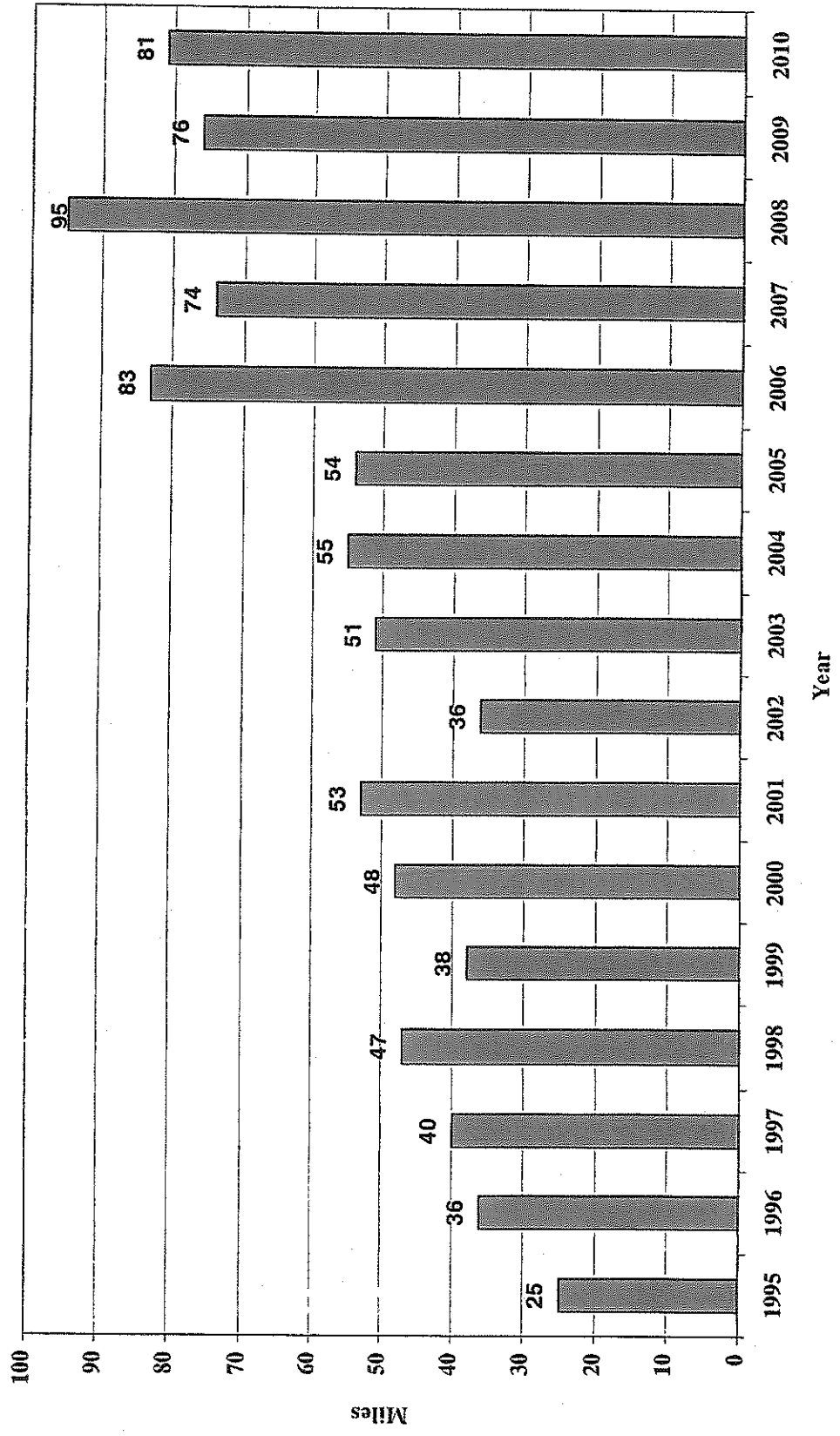
The statutory changes embodied in House Bill 1294 are necessary to enable the PUC to address the regulatory challenges facing us. The alternative ratemaking mechanisms permitted under this legislation will encourage investment in our state, accelerate aging infrastructure replacement, and result in greater rate stability for customers. For these reasons, the PUC encourages the Legislature to pass House Bill 1294.

DSIC Rate Gradualism

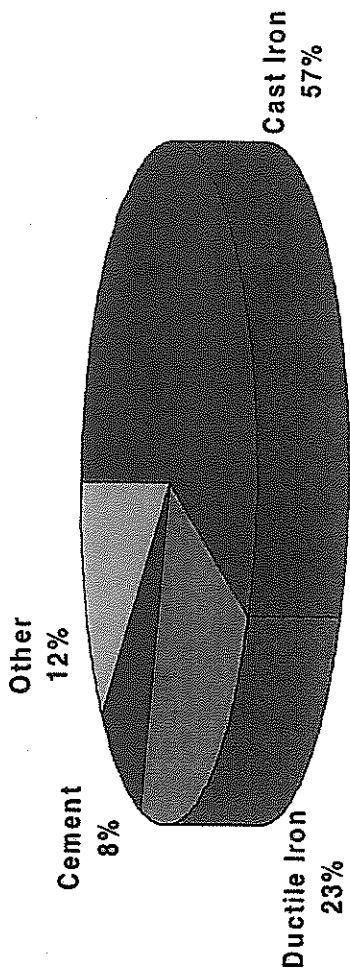
Smaller rate increases over time



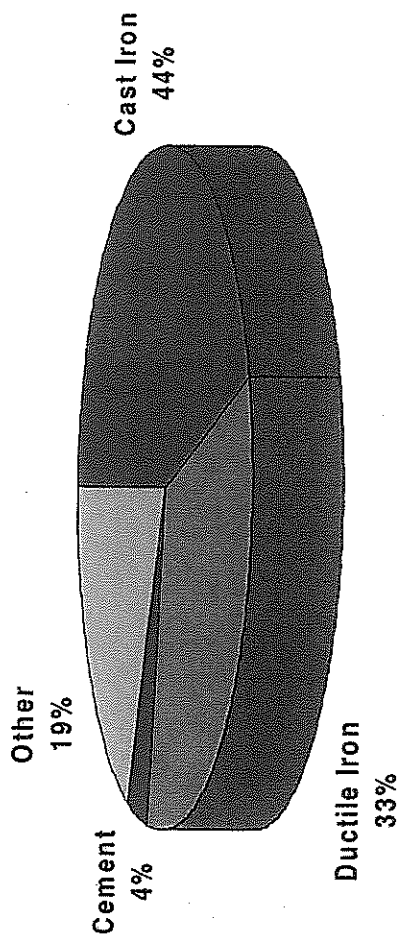
Pennsylvania American Water: Miles of Pipe Replaced



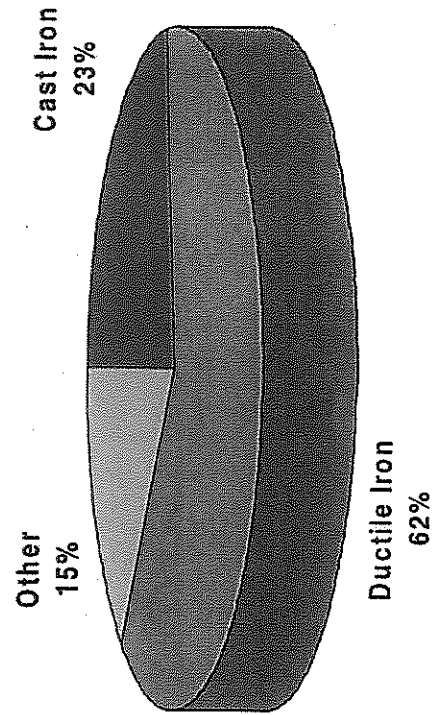
1997 (pre-DSIC)



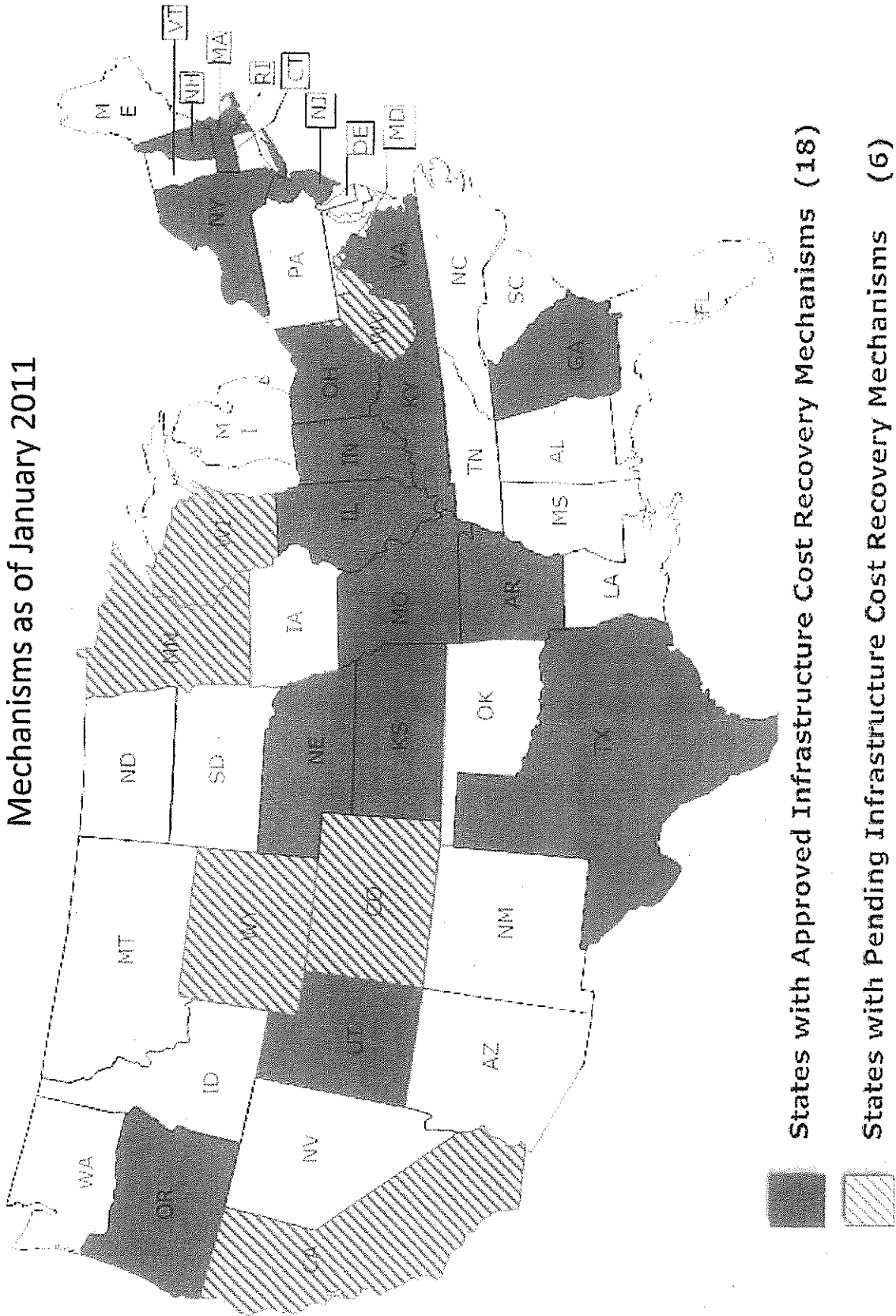
2008



Projected after Completion of Targeted Pool of Pipe



States With Infrastructure Cost Recovery Mechanisms as of January 2011



Iowa-American Water Company
Actual vs. Authorized Rate Of Return
1990 to 2010

Year	Actual Rate of Return	Authorized Rate of Return	Order #
1990	5.73%	12.91%	RPU-86-10
1991	6.22%	12.91%	RPU-86-10
1992	8.00%	12.57%	RPU-90-10
1993	5.99%	12.57%	RPU-90-10
1994	8.56%	10.72%	RPU-93-3
1995	10.23%	10.72%	RPU-93-3
1996	11.15%	11.05%	RPU-95-2
1997	11.11%	11.05%	RPU-95-2
1998	9.75%	11.05%	RPU-95-2
1999	11.43%	10.81%	RPU-98-3
2000	11.21%	10.81%	RPU-98-3
2001	10.16%	10.45%	RPU-01-4
2002	10.32%	10.45%	RPU-01-4
2003	8.37%	10.45%	RPU-01-4
2004	6.21%	10.45%	RPU-01-4
2005	5.24%	10.45%	RPU-01-4
2006	6.62%	10.45%	RPU-01-4
2007	1.89%	9.10%	RPU-07-3
2008	4.86%	9.10%	RPU-07-3
2009	4.32%	9.15%	RPU-09-4
2010	7.00%	9.15%	RPU-09-4

* The Company estimates the authorized rate of return using the supporting exhibits filed with each rate proceeding

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

Witness: Cheryl D. Norton/Keith Cartier/Linda C. Bridwell

55. Provide Kentucky-American's actual annual construction budget for water main replacements for each calendar year from 2000 to 2012 in actual dollars and as a percentage of Kentucky-American's total annual construction budget.

Response:

Please see the attached.

Kentucky American Water
Case No. 2012-00520
Construction Projects
As of 2012

Item	Description	Annual Actual	Percent of Budget
B	MAINS - REPLACED/RESTORED	\$ 673,367	2.69%
C	MAINS - UNSCHEDULED	\$ 373,389	1.49%
D	MAINS - RELOCATED	\$ (75,499)	-0.30%
	TOTAL	971,257	3.88%

Item	Description	Annual Actual	Percent of Budget
BUDGET PROJECTS			
IP-1202-18	US 25 Relocation	\$ 1,225,541	4.90%
IP-1202-19	Leestown Road	\$ 228,927	0.92%
	TOTAL	1,454,468	5.81%

Kentucky American Water
Case No. 2012-00520
Construction Projects
As of 2011

Item	Description	Annual Actual	Percent of Budget
B	MAINS - REPLACED/RESTORED	\$ 1,884,555	7.91%
C	MAINS - UNSCHEDULED	\$ 272,449	1.14%
D	MAINS - RELOCATED	\$ 375,492	1.58%
	TOTAL	2,532,495	10.63%

Item	Description	Annual Actual	Percent of Budget
BUDGET PROJECTS			
IP-1202-5	North Broadway Main Replacement	\$ (79,129)	-0.33%
IP-1202-17	South Limestone Replacement	\$ (108)	0.00%
IP-1202-18	US 25 Relocation	\$ 415,236	1.74%
IP-1202-19	Leestown Road	\$ 666,047	2.80%
	TOTAL	1,002,046	4.21%

Kentucky American Water
Case No. 2012-00520
Construction Projects
As of 2010

Item	Description	Annual Actual	Percent of Budget
B	MAINS - REPLACED/RESTORED	\$ 999,914	2.09%
C	MAINS - UNSCHEDULED	\$ 269,042	0.56%
D	MAINS - RELOCATED	\$ 727,693	1.52%
	TOTAL	1,996,648	4.18%

Item	Description	Annual Actual	Percent of Budget
BUDGET PROJECTS			
12020702	KY Major Highway	\$ (91,967)	-0.19%
IP-1202-5	North Broadway Main Replacement	\$ 1,565,365	3.28%
IP-1202-17	South Limestone Replacement	\$ 549,929	1.15%
IP-1202-18	US 25 Relocation	\$ 1,215,244	2.54%
IP-1202-19	Leestown Road	\$ 243,564	0.51%
12020201	Leestown Rd Main Improvements	\$ (150,955)	-0.32%
12020402	KY Major Highway Relocations	\$ (36,977)	-0.08%
		\$ -	0.00%
	TOTAL	3,294,204	6.90%

Kentucky American Water
Case No. 2012-00520
Construction Projects
As of 2009

Item	Description	Annual Actual	Percent of Budget
B	MAINS - REPLACED/RESTORED	\$ 592,723	0.59%
C	MAINS - UNSCHEDULED	\$ 198,334	0.20%
D	MAINS - RELOCATED	\$ 1,540,243	1.53%
	TOTAL	2,331,300	2.31%

Item	Description	Annual Actual	Percent of Budget
BUDGET PROJECTS			
02-02	2002 MAJOR HIGHWAY RELOCATIONS	\$ 19,206	0.02%
03-02	MAJOR HIGHWAY RELOCATIONS	\$ 267,429	0.27%
04-02	MAJOR HIGHWAY RELOCATIONS (343)	\$ 25,969	0.03%
12020702	MAJOR HIGHWAY RELOCATIONS 2007	\$ (23,290)	-0.02%
1202-5	NORTH BROADWAY MAIN REPLACEMENT	\$ 1,264,105	1.25%
		\$ -	0.00%
	TOTAL	1,553,419	1.54%

Kentucky American Water
Case No. 2012-00520
Construction Projects
As of 2008

Item	Description	Annual Actual	Percent of Budget
B	MAINS - REPLACED/RESTORED	\$ 992,301	1.66%
C	MAINS - UNSCHEDULED	\$ 271,187	0.45%
D	MAINS - RELOCATED	\$ 145,363	0.24%
	TOTAL	1,408,851	2.36%

Item	Description	Annual Actual	Percent of Budget
BUDGET PROJECTS			
02-02	2002 MAJOR HIGHWAY RELOCATIONS	\$ 40	0.00%
04-02	MAJOR HIGHWAY RELOCATIONS (343)	\$ 290,942	0.49%
06-13	HIGHWAY RELOCATION - CLAYS MILL	\$ -	0.00%
12020702	MAJOR HIGHWAY RELOCATIONS 2007	\$ (102,688)	-0.17%
1202-5	NORTH BROADWAY MAIN REPLACEMENT	\$ 299,377	0.50%
		\$ -	0.00%
	TOTAL	487,671	0.82%

Kentucky American Water
Case No. 2012-00520
Construction Projects
As of 2007

Item	Description	Annual Actual	Percent of Budget
B	MAINS - REPLACED/RESTORED	\$ 2,473,473	8.04%
C	MAINS - UNSCHEDULED	\$ 101,183	0.33%
D	MAINS - RELOCATED	\$ 16,024	0.05%
TOTAL		2,590,680	8.42%

Item	Description	Annual Actual	Percent of Budget
BUDGET PROJECTS			
01-07	MAJOR HIGHWAY RELOCATIONS	\$ (215,782)	-0.70%
02-01	LEESTOWN ROAD MAIN IMPROVEMENTS	\$ 6,403	0.02%
02-02	2002 MAJOR HIGHWAY RELOCATIONS	\$ (97)	0.00%
04-02	MAJOR HIGHWAY RELOCATIONS (343)	\$ 1,004,584	3.27%
12020702	MAJOR HIGHWAY RELOCATIONS 2007	\$ 1,811,645	5.89%
1202-5	NORTH BROADWAY MAIN REPLACEMENT	\$ -	0.00%
TOTAL		2,606,752	8.47%

Kentucky American Water
Case No. 2012-00520
Construction Projects
As of 2006

Item	Description	Annual Actual	Percent of Budget
81	NETWORK - REPLACEMENT/RENEWAL	\$ 2,126,151	8.38%
	TOTAL	2,126,151	8.38%

Item	Description	Annual Actual	Percent of Budget
BUDGET PROJECTS			
01-07	MAJOR HIGHWAY RELOCATIONS	\$ 215,782	0.85%
02-01	LEESTOWN ROAD MAIN IMPROVEMENTS	\$ 9,771	0.04%
02-02	2002 MAJOR HIGHWAY RELOCATIONS	\$ 219,992	0.87%
03-02	MAJOR HIGHWAY RELOCATIONS	\$ 31	0.00%
04-02	MAJOR HIGHWAY RELOCATIONS (343)	\$ 478,851	1.89%
06-13	HIGHWAY RELOCATION - CLAYS MILL	\$ 48	0.00%
	TOTAL	924,474	3.64%

Item	Description	Annual Actual	Percent of Budget
81	NETWORK - REPLACEMENT/RENEWAL	\$ 489,069	2.59%
	TOTAL	489,069	2.59%

Item	Description	Annual Actual	Percent of Budget
BUDGET PROJECTS			
02-01	LEESTOWN ROAD MAIN IMPROVEMENTS	\$ 9,467	0.05%
02-02	2002 MAJOR HIGHWAY RELOCATIONS	\$ 446	0.00%
03-02	MAJOR HIGHWAY RELOCATIONS	\$ 17,817	0.09%
04-02	MAJOR HIGHWAY RELOCATIONS	\$ 1,271,760	6.74%
	TOTAL	1,299,490	6.88%

Item	Description	Annual Actual	Percent of Budget
81	NETWORK - REPLACEMENT/RENEWAL	\$ 886,357	6.02%
	TOTAL	886,357	6.02%

Item	Description	Annual Actual	Percent of Budget
BUDGET PROJECTS			
02-01	LEESTOWN ROAD MAIN IMPROVEMENTS	\$ 9,249	0.06%
02-02	2002 MAJOR HIGHWAY RELOCATIONS	\$ 412	0.00%
03-02	MAJOR HIGHWAY RELOCATIONS	\$ 130,943	0.89%
04-02	MAJOR HIGHWAY RELOCATIONS	\$ 567,181	3.85%
	TOTAL	707,785	4.81%

Kentucky American Water
Case No. 2012-00520
Construction Projects
As of 2003

Item	Description	Annual Actual	Percent of Budget
B	MAINS & HYDRANTS, NEW & REPLACEMENT	1,388,765	9.42%
	TOTAL	1,388,765	9.42%

Item	Description	Annual Actual	Percent of Budget
BUDGET PROJECTS			
01-07	MAJOR HIGHWAY RELOCATIONS	(5,551)	-0.04%
02-01	LEESTOWN ROAD MAIN IMPROVEMENTS	31,644	0.21%
02-02	2002 MAJOR HIGHWAY RELOCATIONS	182,535	1.24%
03-02	MAJOR HIGHWAY RELOCATIONS	503,390	3.41%
	TOTAL	712,018	4.83%

Kentucky American Water
Case No. 2012-00520
Construction Projects
As of 2002

Item	Description	Annual Actual	Percent of Budget
B	MAINS & HYDRANTS, NEW & REPLACEMENT	793,184	5.67%
	TOTAL	793,184	5.67%

Item	Description	Annual Actual	Percent of Budget
INVESTMENT PROJECTS			
00-02	PARIS PIKE RELOCATION	(385,583)	-2.76%
00-03	HARRODSBURG ROAD RELOCATION DESIGN	(47,505)	-0.34%
00-04	RICHMOND ROAD RELOCATION	(774)	-0.01%
01-07	MAJOR HIGHWAY RELOCATIONS	230,799	1.65%
02-01	LEESTOWN ROAD MAIN IMPROVEMENTS	74,945	0.54%
02-02	MAJOR HIGHWAY RELOCATIONS	3,047,715	21.79%
	TOTAL	2,919,597	20.87%

Kentucky American Water
Case No. 2012 - 00520
Construction Projects
As of 2001

Item	Description	Annual Actual	Percent of Budget
B	MAINS & HYDRANTS, NEW & REPLACEMENT	993,755	6.40%
	TOTAL	993,755	6.40%

	Description	Annual Actual	Percent of Budget
INVESTMENT PROJECTS			
98-05	4,000' OF 12" LEESTOWN ROAD	94,489	0.61%
99-08	US 62 RELOCATION	11,126	0.07%
00-02	PARIS PIKE RELOCATION	377,404	2.43%
00-03	HARRODSBURG ROAD RELOCATION	13,273	0.09%
00-04	RICHMOND ROAD RELOCATION	18,737	0.12%
01-07	MAJOR HIGHWAY RELOCATIONS	992,648	6.39%
	TOTAL	1,507,677	9.70%

Kentucky American Water
Case No. 2012 - 00520
Construction Projects
As of 2000

Item	Description	Annual Actual	Percent of Budget
B	MAINS & HYDRANTS, NEW & REPLACEMENT	855,311	7.19%
	TOTAL	855,311	7.19%

	Description	Annual Actual	Percent of Budget
	INVESTMENT PROJECTS		
98-05	LEESTOWN ROAD (PHASE II)	107,393	0.90%
99-08	US 62 RELOCATION	1,056,386	8.88%
00-02	PARIS PIKE RELCOATION - DESIGN	8,053	0.07%
00-03	HARRODSBURG ROAD RELOCATION - DESIGN	30,716	0.26%
00-04	RICHMOND ROAD RELOCATION - DESIGN	102,724	0.86%
	TOTAL	1,305,272	10.98%

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: Cheryl D. Norton/Keith Cartier/Linda C. Bridwell

56. Provide Kentucky-American's estimate of its infrastructure replacement needs for the period from 2013 to 2032. Provide all work papers, show all calculations and state all assumptions used to derive this estimate.

Response:

Please see Exhibit LEW-1 attached to Lance Williams' testimony that shows the pipe diameter, year installed and total footage that is currently still in place. That chart shows that by 2032, there will be 608,541 feet or 115.25 miles of main 6-inch or smaller that was installed prior to 1950, or 83 years old or more. An additional 607,258 feet or 115 miles of main 6-inch or smaller will be between 73 and 83 years old (installed in the 1950s).

Using the same exhibit, by 2032, 155,500 feet or 29.45 miles of main 8-inch or larger will be 83 years old or more (installed in the 1949 or earlier). While these larger mains are frequently utilized longer if there is limited build-up within the pipe, they can still become maintenance problems and may need replacement as well.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: Cheryl D. Norton/Keith Cartier/Linda C. Bridwell

57. State whether Kentucky-American is of the opinion that its efforts at the replacement of 6-inch and smaller mains in the period from 2000 to 2012 were adequate and that Kentucky-American was devoting sufficient funds to such replacement. If not, explain why Kentucky-American did not allocate a greater portion of its prior years construction budgets to water main replacement projects.

Response:

KAW prioritizes construction projects based on available funds and project needs. During the period from 2000 to 2012, KAW believes that funds were prioritized appropriately and available funds were devoted to replacement projects providing the largest benefit. A large amount of capital during that time period was dedicated to the KRS II project which was the highest priority project. Despite the magnitude of that project, KAW spent approximately \$39.1 million from 2000 to 2012 replacing 6-inch and smaller mains in our service area. Availability of additional capital would allow a higher percentage of replacement ensuring that the infrastructure remains viable as the system continues to age.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: Gary M. VerDouw

58. In Case No. 2001-00092⁴ the Commission rejected a proposal to gross up, for purposes of calculating an Accelerated Main Replacement Program (“AMRP”) Rider, the rate of return applied to a gas utility’s net investment in replacement lines for uncollectible accounts, the PSC Assessment, state income taxes, and federal income taxes. It noted that those factors were excluded from environmental surcharge mechanisms and that the gross-up factors used in a surcharge mechanism do not have to match the factor used to determine a utility’s revenue requirement in a base rate proceeding. Explain why, in light of this decision, the Commission should include uncollectible accounts and PSC assessment factors in Kentucky-American’s proposed DSIC.

Response:

The Company acknowledges that in that case the Commission did not authorize the gross up factor to include uncollectibles and PSC Assessment, however, the Commission did not provide its reasoning for that decision. Absent that understanding, the Company believes it appropriate for the gross up to include these items. The Commission did authorize inclusion of state and federal income taxes in the gross up factor. Notwithstanding the Commission’s prior rejection of these costs, the fact is the revenue produced through the DSIC tariff rider will be incrementally exposed to increased uncollectible expense and will be subject to the PSC Assessment. Accordingly, the DSIC surcharge incorporates these factors in the gross up in order to provide the revenues necessary to pay these additional incremental expenses and thereafter, the funds required to provide for the ‘return of’, i.e. depreciation expense, and ‘return on’ the necessary DSIC infrastructure investment.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: Cheryl D. Norton/Keith Cartier/Linda C. Bridwell

59. Refer to the Direct Testimony of Gary M. VerDouw at 19-20.

- a. Explain why Kentucky-American is currently unable to partner with Lexington Fayette Urban County Government ("LFUCG") in LFUCG's sewer and storm water infrastructure replacement program to coordinate the replacement of aging water main infrastructure.
- b. Describe Kentucky-American's current efforts to coordinate its water main replacement program with LFUCG's sewer and storm water infrastructure replacement program.
- c. Describe how Kentucky-American's current efforts to coordinate its water main replacement program with LFUCG's sewer and storm water infrastructure replacement program would change with the approval of the proposed DISC.
- d. Provide all correspondence, internal memoranda, electronic mail messages and other documents in which the coordination of Kentucky-American and LFUCG's water, sewer, and storm water infrastructure replacement efforts have been discussed.

Response:

- a. Kentucky American Water (KAW) currently partners with Lexington Fayette Urban County Government (LFUGC) whenever possible to replace aging infrastructure. However, additional funding flexibility will allow even more coordination with LFUGC. KAW capital budgets are prioritized based on various parameters and the timing of LFUGC project notifications can make coordination challenging due to timing and funding limits for some projects. We are currently working with LFUGC and other utilities to coordinate more projects.
- b. Currently KAW and other utilities meet every two months at the LFUCG's Utility Coordination Meeting to discuss what projects are in planning stages and which ones are moving on to construction. The LFUCG also provides KAW with a paving schedule when it is available. The LFUCG sewer and storm water replacement are discussed during these meetings. In addition, LFUCG representatives have been included in strategic meetings and discussions with other utilities on future replacement projects.
- c. KAW will continue to work with LFUCG and other utilities to coordinate infrastructure replacements so that restoration costs could be shared. However, a

DSIC program would allow more capital spend for these types of projects, allowing more than just the most critical projects to be completed.

- d. Please see the attached information.



FW: Paving Summary

Charles Martin

to:

Lance.Williams

02/28/2012 12:32 PM

Hide Details

From: "Charles Martin" <chmartin@lexingtonky.gov>

To: <Lance.Williams@amwater.com>

History: This message has been forwarded.

1 Attachment



FY12 Resurfacing.xls

NOTE THE NEW ADDRESS FOR THE DIVISION OF WATER QUALITY'S ADMINISTRATIVE OFFICES

**125 LISLE INDUSTRIAL AVE., SUITE 180
LEXINGTON KY, 40511**

Charles H. Martin, P.E., Director
Division of Water Quality
Lexington-Fayette Urban County Government
office (859) 425-2455
fax (859) 254-7787
chmartin@lexingtonky.gov

From: Robert Bayert

file://C:\Documents and Settings\WILLIALE\Local Settings\Temp\notes30B6BD\~web54... 2/13/2013

Sent: Monday, February 27, 2012 3:13 PM
To: Charles Martin
Subject: FW: Paving Summary

From: Daniel Kiser
Sent: Monday, February 27, 2012 12:02 PM
To: Robert Bayert
Subject: FW: Paving Summary

FYI

From: Kevin Wente
Sent: Monday, February 27, 2012 11:32 AM
To: CAO Executive Assistant
Cc: Daniel Kiser
Subject: RE: Paving Summary

Marian/Paula:

Here is our FY12 resurfacing list. At this time we do not have a list for FY13, we work with Council and their aids to prepare the resurfacing list once we know how much has been budgeted for resurfacing. Please let me know if you have any questions.

Kevin

Kevin Wente
Lexington-Fayette Urban County Government
Department of Environmental Quality & Public Works
200 E. Main St. 9th Floor
Lexington, KY 40507

Phone: 859-258-3407
e-mail: kwente@lexingtonky.gov



RE: Engineering Meeting - Utilities

Charles Martin

to:

Lance.Williams

12/03/2012 05:25 PM

Hide Details

From: "Charles Martin" <chmartin@lexingtonky.gov>

To: <Lance.Williams@amwater.com>

History: This message has been forwarded.

Lance:

Wow – you guys must be much slower right now than we are, I couldn't do anything until January because my schedule's full through 12/21 and I was going to burn some time from the 21st through New Years.

I could do January 9th, 10th or 11th in the afternoons.

Charles H. Martin, P.E., Director
Division of Water Quality
Lexington-Fayette Urban County Government
office (859) 425-2455
fax (859) 254-7787
chmartin@lexingtonky.gov

From: Lance.Williams@amwater.com [<mailto:Lance.Williams@amwater.com>]

Sent: Monday, December 03, 2012 9:30 AM

To: Charles Martin

Subject: Engineering Meeting - Utilities

Charlie,

The Directors of Engineering from three of the utilities would like to schedule a meeting to discuss up and coming projects. This is a follow up to the meeting that Cheryl Norton and I had with you in September/October. The only date that is currently not available is December 20.

Would any of the following dates work with you schedule:

December 6

December 7

December 13

December 14

If you have any questions please give me a call.

Thanks

Lance E. Williams, PE
Director of Engineering
Kentucky American Water
2300 Richmond Rd.
Lexington, KY 40502
1.859.268.6316 Office
7.533.6316 Internal
1.859.321.8235 Cell
lance.williams@amwater.com



RE: Utilities meeting

Charles Martin

to:

Lance.Williams, thomas.appel, o1

12/20/2012 10:54 AM

Hide Details

From: "Charles Martin" <chmartin@lexingtonky.gov>

To: <Lance.Williams@amwater.com>, <thomas.appel@lge-ku.com>, <o1@nisource.com>

Works for me

Charles H. Martin, P.E., Director
Division of Water Quality
Lexington-Fayette Urban County Government
office (859) 425-2455
fax (859) 254-7787
chmartin@lexingtonky.gov

From: Lance.Williams@amwater.com [<mailto:Lance.Williams@amwater.com>]

Sent: Thursday, December 20, 2012 10:13 AM

To: Charles Martin; thomas.appel@lge-ku.com; o1@nisource.com

Subject: Utilities meeting

Charlie, Tom, Gary

Trying to schedule a meeting for all of the major utilities to get together to discuss up and coming projects in 2013. The primary point of discussion is to see if there are any projects that we may be able to work on together, looking for efficiency's.

It would be helpful if each utility could bring either a list of projects or a map to the meeting.

How does January 11 at 2:00 pm work for everyone?

Location? Kentucky American Water?

If there are other utilities that need to be added to this meeting invite please do so.

If you have any questions please let me know.

Thanks

Lance E. Williams, PE
Director of Engineering
Kentucky American Water
2300 Richmond Rd.
Lexington, KY 40502
1.859.268.6316 Office
7.533.6316 Internal
1.859.321.8235 Cell
lance.williams@amwater.com



RE: Reminder - Utility meeting
Charles Martin
to:
Lance.Williams
01/10/2013 12:18 PM
Hide Details
From: "Charles Martin" <chmartin@lexingtonky.gov>

To: <Lance.Williams@amwater.com>

Lance – Doug Baldwin from my staff will be coming as well ... he's part of the broader Consent Decree driven design/construction team who I wanted plugged into this effort from the start.

Charles H. Martin, P.E., Director
Division of Water Quality
Lexington-Fayette Urban County Government
office (859) 425-2455
fax (859) 254-7787
chmartin@lexingtonky.gov

From: Lance.Williams@amwater.com [<mailto:Lance.Williams@amwater.com>]
Sent: Wednesday, January 09, 2013 3:47 PM
To: Charles Martin; thomas.appel@lge-ku.com; gsulli1@nisource.com
Cc: Douglas.Brock@amwater.com
Subject: Reminder - Utility meeting

Reminder that we have a meeting scheduled for this Friday, January 11.

Date: January 11, 2013
Time: 2:00 pm
Location: Kentucky American Water
2300 Richmond Road
Room: 2nd Floor Conference Room

Lance E. Williams, PE
Director of Engineering
Kentucky American Water
2300 Richmond Rd.
Lexington, KY 40502
1.859.268.6316 Office
7.533.6316 Internal
1.859.321.8235 Cell
lance.williams@amwater.com



RE: Pavement Ratings

Charles Martin

to:

bkslone, dnlemons, matthewbrown, thomas.appel, kevin.long, Lance.Williams, Doug Baldwin

01/24/2013 12:52 PM

Hide Details

From: "Charles Martin" <chmartin@lexingtonky.gov> Sort List...

To: <bkslone@nisource.com>, <dnlemons@nisource.com>, <matthewbrown@nisource.com>, <thomas.appel@lge-ku.com>, <kevin.long@lge-ku.com>, <Lance.Williams@amwater.com>, "Doug Baldwin" <dbaldwin@lexingtonky.gov>

History: This message has been forwarded.

1 Attachment



Council Resurfacing Requests and Cost Tracking.xls

Urban County Council requests for 2013

Charles H. Martin, P.E., Director
Division of Water Quality
Lexington-Fayette Urban County Government
office (859) 425-2455
fax (859) 254-7787
chmartin@lexingtonky.gov

From: Charles Martin

Sent: Thursday, January 24, 2013 12:51 PM

To: 'bkslone@nisource.com'; 'dnlemons@nisource.com'; 'matthewbrown@nisource.com'; thomas.appel@lge-ku.com; 'kevin.long@lge-ku.com'; 'Lance.Williams@amwater.com'; Doug Baldwin

Subject: FW: Pavement Ratings

As promised from our 1/11/13 meeting, attached is the most recent pavement rating spreadsheet for LFUCG.

The actual council requested projects is forthcoming.

Charles H. Martin, P.E., Director
Division of Water Quality
Lexington-Fayette Urban County Government
office (859) 425-2455
fax (859) 254-7787
chmartin@lexingtonky.gov

From: Kevin Wentte
Sent: Thursday, January 24, 2013 11:33 AM
To: Charles Martin
Subject: RE: Pavement Ratings

Charlie,

This is the most recent information. A second list will follow reflecting the work that has been produced this fiscal year.

Kevin Wentte
Administrative Officer
Dept. of Environmental Quality & Public Works
200 E Main St
Lexington, KY 40507

Office: 859.258.3407
Email: kwente@lexingtonky.gov

From: Charles Martin
Sent: Tuesday, January 22, 2013 7:47 AM
To: Kevin Wentte
Subject: Pavement Ratings

Did we ever get a finalized, updated pavement rating document?

Charles H. Martin, P.E., Director
Division of Water Quality
Lexington-Fayette Urban County Government
office (859) 425-2455
fax (859) 254-7787
chmartin@lexingtonky.gov



Streetscape
Chambliss, James

to:

Lance.Williams@amwater.com

09/28/2009 03:27 PM

Cc:

"Wright, Chase"

Hide Details

From: "Chambliss, James" <James.Chambliss@strand.com>

To: "Lance.Williams@amwater.com" <Lance.Williams@amwater.com>

Cc: "Wright, Chase" <Chase.Wright@strand.com>

History: This message has been replied to and forwarded.

Lance,

I plan to begin locating utility markings on West Vine and West Main streets tomorrow morning, Tuesday September 29. I can meet with your locate personnel to help them locate in the area we are working. You can reach me at the office this afternoon or on my cell (576-4693) tomorrow. I plan to be on Vine and Main most of the rest of the week locating what has been marked.

Thanks.

James M. Chambliss, PLS
Strand Associates, Inc.
1525 Bull Lea Road, Suite 100
Lexington, KY 40511
859-225-8500
james.chambliss@strand.com



Streetscape Design Request

Jarold Jackson to: Lance E Williams, John-Mark B Hack

09/30/2008 07:19 AM

I received a call from Mike Webb yesterday requesting assistance from KAW regarding their efforts to map all the utilities as part of the design process. He informed me that Columbia Gas added a layer on top of the maps belonging to the LFUCG showing gas facilities in the area and would like for us to consider doing this for our facilities. He had suggested that someone make contact with Gary Sullivan of Columbia Gas for more information about what Columbia actually provided. Can someone in engineering take the lead on this?

Mike Webb can be reached at 258-3405.

Jarold Jackson
Manager, Field Operations
Kentucky American Water
2300 Richmond Road
Lexington, Kentucky 40502
859-268-6376 Office
859-268-6374 Fax
jarold.jackson@amwater.com



RE: Streetscape
Chambliss, James
to:
Lance.Williams@amwater.com
09/28/2009 04:25 PM
Hide Details
From: "Chambliss, James" <James.Chambliss@strand.com>

To: "Lance.Williams@amwater.com" <Lance.Williams@amwater.com>

Thanks for your assistance.

From: Lance.Williams@amwater.com [<mailto:Lance.Williams@amwater.com>]
Sent: Monday, September 28, 2009 3:36 PM
To: Chambliss, James
Cc: Wright, Chase; Jon.Felts@amwater.com
Subject: Re: Streetscape

James,
I forwarded your e-mail to Wes Felts with KAW and he contact you directly.

Lance E. Williams, PE
Director of Engineering
Kentucky American Water
2300 Richmond Rd.
Lexington, KY 40502
1.859.268.6316 Office
1.859.321.8235 Cell
lance.williams@amwater.com

"Chambliss, James" <James.Chambliss@strand.com>

09/28/2009 03:26 PM

To "Lance.Williams@amwater.com" <Lance.Williams@amwater.com>

cc "Wright, Chase" <Chase.Wright@strand.com>

Subject Streetscape

Lance,

I plan to begin locating utility markings on West Vine and West Main streets tomorrow morning, Tuesday September 29. I can meet with your locate personnel to help them locate in the area we are working. You can reach me at the office this afternoon or on my cell (576-4693) tomorrow. I plan to be on Vine and Main most of the rest of the week locating what has been marked.

Thanks.

James M. Chambliss, PLS
Strand Associates, Inc.
1525 Bull Lea Road, Suite 100
Lexington, KY 40511
859-225-8500
james.chambliss@strand.com



RE: Streetscape Utility Coordinating meeting-January 21, 2009

Diane Bonfert

to:

bill.brown, Robert Bayert, brent.birchell, Daniel Kiser, gsulli1, greg.tomko, Jarold.jackson, Jeffrey Neal, John-Mark.hack, Kevin Wentte, lance.williams, lowell.thompson, mcdonie.r, randy.vanlandingham, vchervus, Steve Feese, Vincent May, Arthur Craig, Steve Cummins, dnlemons, cs9001, gerald.long

02/17/2009 10:42 AM

Hide Details

From: "Diane Bonfert" <diane@lfucg.com> Sort List...

To: <bill.brown@windstream.com>, "Robert Bayert" <bobb@lfucg.com>, <brent.birchell@eon-us.com>, "Daniel Kiser" <dkiser2@lfucg.com>, <gsulli1@nisource.com>, <greg.tomko@amwater.com>, <Jarold.jackson@amwater.com>, "Jeffrey Neal" <jneal@lfucg.com>, <John-Mark.hack@amwater.com>, "Kevin Wentte" <kwente@lfucg.com>, <lance.williams@amwater.com>, <lowell.thompson@windstream.com>, <mcdonie.r@insightcom.com>, <randy.vanlandingham@windstream.com>, <vchervus@lfucg.com>, "Steve Feese" <stevef2@lfucg.com>, "Vincent May" <vmay@lfucg.com>, "Arthur Craig" <acraig@lfucg.com>, "Steve Cummins" <stevec@lfucg.com>, <dnlemons@nisource.com>, <cs9001@att.com>, <gerald.long@twtelecom.com>

Greetings! As a reminder, our next meeting is scheduled for tomorrow, February 18 at 3:30pm in the 3rd floor conference of the Phoenix Building. We look forward to seeing you then.

Diane Bonfert
 Program and Services Director
 Lexington Downtown Development Authority
 101 East Vine Street
 Lexington, Ky. 40507
 Office: (859) 425-2296
 Fax: (859) 425-2292

From: Diane Bonfert

Sent: Friday, January 30, 2009 11:12 AM

To: 'bill.brown@windstream.com'; Robert Bayert; 'brent.birchell@eon-us.com'; Daniel Kiser; 'gsulli1@nisource.com'; 'greg.tomko@amwater.com'; 'Jarold.jackson@amwater.com'; Jeffrey Neal; 'John-Mark.hack@amwater.com'; Kevin Wentte; 'lance.williams@amwater.com'; 'lowell.thompson@windstream.com'; 'mcdonie.r@insightcom.com'; 'randy.vanlandingham@windstream.com'; 'vchervus@lfucg.com'; Steve Feese; Vincent May; Arthur Craig; Steve Cummins; 'dnlemons@nisource.com'; 'cs9001@att.com';

'gerald.long@twtelecom.com'

Cc: 'harold@lexingtondda.com'; Michael Webb; 'Jeff Bryan'

Subject: RE: Streetscape Utility Coordinating meeting-January 21, 2009

Attached please find follow-up from our January 21 meeting. As a reminder, we will meet again on February 18 at **3:30pm** in the 3rd floor conference room of the Phoenix Building. Please note the time change; another meeting is scheduled in this room at 5:30pm which prompted us to move our meeting up so we would not be too tight on time. Please let me know if you have any questions or concerns. Thanks so much.

Diane Bonfert
Program and Services Director
Lexington Downtown Development Authority
101 East Vine Street
Lexington, Ky. 40507
Office: (859) 425-2296
Fax: (859) 425-2292



RE: Streetscape Utility Coordinating meeting-January 21, 2009

Diane Bonfert

to:

bill.brown, Robert Bayert, brent.birchell, Daniel Kiser, gsulli1, greg.tomko, Jarold.jackson, Jeffrey Neal, John-Mark.hack, Kevin Wentte, lance.williams, lowell.thompson, mcdonie.r, randy.vanlandingham, vchervus, Steve Feese, Vincent May, Arthur Craig, Steve Cummins, dnlemons, cs9001, gerald.long

01/30/2009 11:12 AM

Cc:

harold, "Michael Webb", "Jeff Bryan"

Hide Details

From: "Diane Bonfert" <diane@lfucg.com> Sort List...

To: <bill.brown@windstream.com>, "Robert Bayert" <bobb@lfucg.com>, <brent.birchell@eon-us.com>, "Daniel Kiser" <dkiser2@lfucg.com>, <gsulli1@nisource.com>, <greg.tomko@amwater.com>, <Jarold.jackson@amwater.com>, "Jeffrey Neal" <jneal@lfucg.com>, <John-Mark.hack@amwater.com>, "Kevin Wentte" <kwente@lfucg.com>, <lance.williams@amwater.com>, <lowell.thompson@windstream.com>, <mcdonie.r@insightcom.com>, <randy.vanlandingham@windstream.com>, <vchervus@lfucg.com>, "Steve Feese" <stevef2@lfucg.com>, "Vincent May" <vmay@lfucg.com>, "Arthur Craig" <acraig@lfucg.com>, "Steve Cummins" <stevec@lfucg.com>, <dnlemons@nisource.com>, <cs9001@att.com>, <gerald.long@twtelecom.com>

Cc: <harold@lexingtondda.com>, "Michael Webb" <mwebb@lfucg.com>, "Jeff Bryan" <jbryan@kkgstudios.com>

1 Attachment



phase I exhibits 1 30 09.pdf

Attached please find follow-up from our January 21 meeting. As a reminder, we will meet again on February 18 at **3:30pm** in the 3rd floor conference room of the Phoenix Building. Please note the time change; another meeting is scheduled in this room at 5:30pm which prompted us to move our meeting up so we would not be too tight on time. Please let me know if you have any questions or concerns. Thanks so much.

Diane Bonfert
Program and Services Director
Lexington Downtown Development Authority
101 East Vine Street
Lexington, Ky. 40507
Office: (859) 425-2296
Fax: (859) 425-2292



Re: Florida Street 
Lance E Williams to: Charles Martin <chmartin@lexingtonky.gov>

02/16/2011 08:28 PM

Cc: "William Azevedo"; jason.hurt

Charlie,
Sorry, I'm out of the office on business this week.

Does any of these work for you?
Tuesday 22 - 9:00 or 10:00 or 3:30
Thursday 24 - 10:00 or 11:00

Thanks
Lance E. Williams, PE
Director of Engineering
Kentucky American Water
2300 Richmond Rd.
Lexington, KY 40502
1.859.268.6316 Office
1.859.321.8235 Cell
lance.williams@amwater.com
"Charles Martin" <chmartin@lexingtonky.gov>



"Charles Martin"
<chmartin@lexingtonky.gov>
02/16/2011 09:48 AM

To <Lance.Williams@amwater.com>
cc "William Azevedo" <wazevedo@lexingtonky.gov>
Subject Florida Street

Lance:

Got your message about Florida Street. We have issues over there but not a clear cut action plan that we're satisfied with.

Since KAW/C apparently has some challenges over there as well, I agree, let's talk. I need to include Vernon Azevedo on the discussion; he has the best grasp of our issues.

Greg Tonko and I have a meeting scheduled at West Hickman WWTP tomorrow at 2:30 pm – proposed Marathon pipeline / KAWC proposed transmission main. Want to tag team this issue with that one? If not, please suggest some dates / times and we'll get back with you.

Charles H. Martin, P.E., Director

Division of Water Quality

Lexington-Fayette Urban County Government

office (859) 425-2455

fax (859) 254-7787

chmartin@lexingtonky.gov

**Improving utility coordination**

Cheryl D Norton to: hamiller, nelson.maynard

Cc: Susan L Lancho

06/13/2012 05:36 PM

Herb and Nelson,

We met with Jay McChord today and he mentioned the great job that our companies did on the S. Limestone project. He used that as an example of how well we can work together to make a project move quickly with minimal frustration. He also talked about the Clays Mill project that was anything but smooth and indicated that residents' yards have been a mess for years. He suggested that we get together and discuss how as a utility group, we could create a plan for future projects (starting with the next sections of Clays Mill). He was very positive in his approach and would be happy to join us if you would like to hear his perspectives. It doesn't sound like a difficult task to me, but we obviously would all benefit from working together more.

Please let me know if you would be interested in meeting to discuss this and I will be happy to arrange something.

Thanks,

Cheryl

Cheryl D. Norton
President
Kentucky American Water
2300 Richmond Road
Lexington, KY 40502-1390

Office (859) 268-6339
Internal (7 + 533-6339)
Cell (859) 533-3540

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Improving Utility Coordination
Maynard, Nelson to: Cheryl.Norton@amwater.com
Cc: "Bryant, Frank", "Freibert, David"

06/19/2012 12:01 PM

History: This message has been forwarded.

Cheryl: Good idea. We will be glad to participate. Thanks for taking the lead.

Nelson

Sent from my iPhone

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**Utilities meeting**

Cheryl D Norton to: jmcchord

Cc: Susan L Lancho, hamiller, nelson.maynard

07/18/2012 07:50 AM

Jay,

Thanks again for meeting with Susan and I last month. We really appreciate your input and feedback.

I wanted to update you on a meeting that I had recently with Herb Miller and Nelson Maynard and their teams to discuss how we can work together more effectively from a utilities perspective to better serve the citizens of Lexington/Fayette County. Everyone was very interested in improving our processes and willing to play a role going forward. We discussed the many reasons why specific projects have gone well and why others have faltered, as well as what our next steps should be.

Our thoughts were that we should offer the opportunity for all utilities to come to the table. We are currently trying to get a list of all utilities that hold a franchise with LFUCG. We plan to have a follow up meeting for strategic planning purposes which will include representatives from all interested utilities, including the LFUCG sewer and water quality departments. We all agree that project management is key to the success of these projects and need everyone (including LFUCG departments) at the table.

We thought it would be helpful to have a discussion with Planning Commissioner Derek Paulsen, but wanted your thoughts on that approach. We also wondered if there are other Council members that would be interested in supporting the development of this new approach. At some point we will need to get this initiative in front of Mayor Gray, but would like to have more development work done prior to that introduction.

The group was very excited about the opportunity to work together to improve the overall service provided to our customers. Please let us know what you think about our next steps and if you have any additional suggestions. Thanks again for your support and input.

Cheryl

Cheryl D. Norton
President
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transmission.

**Follow up letter to Derek Paulsen**

Cheryl D Norton to: hamiller, Maynard, Nelson
<Nelson.Maynard@lge-ku.com>

09/10/2012 08:39 AM

Herb and Nelson,

Sorry for the delay on this letter. Please take a look and feel free to make any edits or additions you feel necessary. Please check your titles, etc. to be sure that they are correct. I'll send it out once I have heard back from both of and incorporated your changes. I didn't mention Jay in there, but could add a sentence to acknowledge his support of this. I also thought we would copy him on the letter. What are your thoughts?

Thanks,

Cheryl



Planning Commissioner Paulsen - Aug 2012.docx

Cheryl D. Norton
President
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RE: Follow up letter to Derek Paulsen
Maynard, Nelson

to:

'cheryl.norton@amwater.com', hamiller@nisource.com

09/10/2012 10:47 AM

Hide Details

From: "Maynard, Nelson" <Nelson.Maynard@lge-ku.com>

To: "'cheryl.norton@amwater.com'" <cheryl.norton@amwater.com>, "hamiller@nisource.com" <hamiller@nisource.com>

Letter looks great. Title is correct. I am ok with adding a sentence thanking McCord for his role in bringing all together. And a copy to him.
Thanks for doing this.

Regards,

Nelson

Nelson Maynard
Director Electric Reliability
LG&E and KU Energy LLC
502-627-3242
859-367-1107

From: Cheryl.Norton@amwater.com [<mailto:Cheryl.Norton@amwater.com>]

Sent: Monday, September 10, 2012 8:39 AM

To: hamiller@nisource.com; Maynard, Nelson

Subject: Follow up letter to Derek Paulsen

Herb and Nelson,

Sorry for the delay on this letter. Please take a look and feel free to make any edits or additions you feel necessary. Please check your titles, etc. to be sure that they are correct. I'll send it out once I have heard back from both of and incorporated your changes. I didn't mention Jay in there, but could add a sentence to

acknowledge his support of this. I also thought we would copy him on the letter. What are your thoughts?

Thanks,

Cheryl

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Charlie Martin
Cheryl D Norton to: hamiller, nelson.maynard

09/25/2012 01:51 PM

Herb and Nelson,

Lance and I met with Charlie last Friday and he seems on board with our proposal to work together on project delivery. I asked if there was anyone instead of him that we should include and he said that he will be the contact for now. I think that our next steps would be to pull together the list of people that we want to include in the initial strategy session. I'm not sure where we stand on the Franchise list and no one from LFUCG seems to have any desire to help with that. Herb - was Kimra (sp?) able to find a list anywhere?

If you could send me a list of people from your organization, I will be happy to host the first meeting. I was thinking that it should last an hour or two, but would love your thoughts on the length and agenda. October is becoming extremely busy for me, so we may be looking at early November if that's OK with you. Just let me know.

Thanks,

Cheryl

Cheryl D. Norton
President
Kentucky American Water
2300 Richmond Road
Lexington, KY 40502-1390

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KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: **Gary M. VerDouw**

60. State whether implementation of Kentucky-American's proposed DISC will reduce the frequency of general rate adjustment proceedings. If yes, explain.

Response:

While the DSIC Tariff Rider has the potential to reduce the frequency of its base rate case filings, it cannot be known with any certainty. First, the DSIC Tariff Rider is for a narrowly focused component of capital improvements, not all capital improvements. There are many other areas of capital and expense items that will not be covered by the DSIC, will still be subject to a lag in rate recovery and over which the Company may have little or no control. Also, the purpose of the DSIC rate mechanism is to provide an incentive to increase the level of targeted infrastructure replacement. This may mean that the frequency of base rate cases will not decrease, but the rate of infrastructure replacement does increase.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

Witness: Gary M. VerDouw

61. Refer to the Direct Testimony of Gary M. VerDouw at 28.
- a. List the states that have approved a rate adjustment mechanism similar to Kentucky-American's proposed Purchased Power and Chemicals Charge Tariff Rider ("Power and Chemical Rider").
 - b. For each state listed in Item 60(a)
 - (1) State the date on which the rate mechanism was first authorized.
 - (2) Identify the statute, administrative regulation, or administrative order authorizing the rate mechanism and provide a copy of such statute, administrative regulation or order.
 - (3) State whether that state's utility regulatory commission permits the use of a forecasted test period in a general rate adjustment case and whether the use of a Power and Chemical Rider limits the use of a forecasted test period.

Response:

- a. The following states have rate adjustment mechanisms for the pass through of the listed expenses. The rate adjustment mechanisms in New Jersey and Illinois (American Water states) are similar to that proposed in this filing by KAWC. The Company does not have first-hand knowledge of how the rate adjustment mechanisms function in the other listed states. The statutes, regulations or Orders as applicable are provided herein in response to part b-(2).
 - (1) Arizona – purchased electricity; purchased natural gas; purchased water; ad valorem taxes or assessments;
 - (2) Florida – purchased electricity; purchased water; purchase wastewater treatment; ad valorem taxes; water/wastewater quality testing costs required by FDEP;
 - (3) Texas – purchased electricity; purchased natural gas; purchased water; purchased wastewater treatment;
 - (4) Wyoming - purchased commodities (electricity, natural gas, water, wastewater treatment);

- (5) Illinois - purchased water; purchased wastewater treatment;
 - (6) New Jersey - purchased water; purchased wastewater treatment;
 - (7,8) Both the California and New York regulatory commissions provide revenue stabilization tariff riders, which are referenced as “RPCRC” and “WRAM/MCBA” respectively. These tariff riders provide rate adjustments for the over/under recovery of revenues and also for the over/under recovery of water production expenses, i.e. purchased water, fuel, power, and chemicals, as applicable. Attached to the response to part b-(2) for California-American Water Company (“CAWC”) and Long Island Water Corporation (“LIWC”), both affiliates of KAWC, are the applicable sections of the commission rate orders authorizing the WRAM/MCBA and RPCRC respectively. For CAWC the order represents the initial authorization of the WRAM/MCBA for one of the Company’s districts. Subsequent commission orders authorized the WRAM/MCBA for additional CAWC districts. For LIWC, the attached order and tariff represents the most recent adoption of the RPCRC. It is believed the RPCRC or its equivalent has been in effect for LIWC since the late 1980’s.
- b.
- (1) The Company does not have this information for each state readily available.
 - (2) Attached please find the requested statutes, regulations or Orders as applicable.
 - (3) The California and New York commissions provide the revenue stabilization and water production expense rate adjustment mechanisms described in part (a) to this response and also utilize forecasted test periods in general (base) rate case proceedings. The use of the forecasted test periods does not limit the use of the rate adjustment mechanisms. Illinois utilizes forecasted test periods and also provides rate adjustment mechanisms for the above listed costs. Use of the rate adjustments does not place limits on use of the forecasted test period in general rate cases. Florida also utilizes both and while not an American Water state, the Company does not believe use of the rate adjustment mechanisms limits the use of a forecasted test period.

ARIZONA

ARS TITLE PAGE	NEXT DOCUMENT	PREVIOUS DOCUMENT
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40-370. Water utility surcharges to recover operating costs; notice; definition

A. Subject to the limitations provided in subsection D, the commission shall authorize water utilities to recover increases in specific operating costs by means of a surcharge on water sales and to reduce rates when those specific operating costs decrease. The operating costs that may be considered in this procedure are limited to specific, readily identifiable costs that are subject to the control of another person, including the cost of purchasing electricity or gas, the cost of purchasing water from another utility, municipality or district and the payment of ad valorem taxes or any similar tax or assessment levied on the water utility. The surcharge shall not exceed ten per cent of current rates.

B. The water utility shall file written notice of a surcharge or rate decrease pursuant to this section with the commission, clearly advising the commission of:

1. The specific operating cost being considered for the rate decrease or recovery by the surcharge.
2. The amount of the operating cost being considered for the rate decrease or recovery by the surcharge.
3. The timing and method of cost recovery or rate reduction.



C. The water utility shall also deliver to each customer with the customer's next bill for service a notice of the proposed surcharge or rate reduction. This notice to customers shall include the following information:

1. The information prescribed by subsection B.
2. The customer's right to comment on the proposed surcharge or rate reduction.
3. The address and telephone number of the commission.

D. A surcharge imposed by this section is effective thirty days after the date on which the water utility files the written notice with the commission, unless within that time the commission in its discretion adjusts or denies the surcharge or determines that further investigation of the surcharge is required. The commission shall notify the water utility in writing of a decision to adjust or deny the surcharge or to further investigate the appropriateness of the surcharge. If the commission determines that further investigation of the surcharge is required, the commission may conduct a hearing regarding the appropriateness of the surcharge. If the commission does not issue a decision within one hundred twenty days after the date the water utility files the written notice, the surcharge is effective without further action.

E. For purposes of this section, "water utility" means a public service corporation that is subject to the commission's jurisdiction and that engages in supplying water utility service in this state.

FLORIDA

Select Year: 2012  

The 2012 Florida Statutes

<u>Title XXVII</u>	<u>Chapter 367</u>	<u>View Entire</u>
RAILROADS AND OTHER REGULATED UTILITIES	WATER AND WASTEWATER SYSTEMS	<u>Chapter</u>

367.081 Rates; procedure for fixing and changing.—

(1) Except as provided in subsection (4) or subsection (6), a utility may only charge rates and charges that have been approved by the commission.

(2)(a)1. The commission shall, either upon request or upon its own motion, fix rates which are just, reasonable, compensatory, and not unfairly discriminatory. In every such proceeding, the commission shall consider the value and quality of the service and the cost of providing the service, which shall include, but not be limited to, debt interest; the requirements of the utility for working capital; maintenance, depreciation, tax, and operating expenses incurred in the operation of all property used and useful in the public service; and a fair return on the investment of the utility in property used and useful in the public service. However, the commission shall not allow the inclusion of contributions-in-aid-of-construction in the rate base of any utility during a rate proceeding, nor shall the commission impute prospective future contributions-in-aid-of-construction against the utility's investment in property used and useful in the public service; and accumulated depreciation on such contributions-in-aid-of-construction shall not be used to reduce the rate base, nor shall depreciation on such contributed assets be considered a cost of providing utility service.

2. For purposes of such proceedings, the commission shall consider utility property, including land acquired or facilities constructed or to be constructed within a reasonable time in the future, not to exceed 24 months after the end of the historic base year used to set final rates unless a longer period is approved by the commission; to be used and useful in the public service, if:

- a. Such property is needed to serve current customers;
- b. Such property is needed to serve customers 5 years after the end of the test year used in the commission's final order on a rate request as provided in subsection (6) at a growth rate for equivalent residential connections not to exceed 5 percent per year; or
- c. Such property is needed to serve customers more than 5 full years after the end of the test year used in the commission's final order on a rate request as provided in subsection (6) only to the extent that the utility presents clear and convincing evidence to justify such consideration.

Notwithstanding the provisions of this paragraph, the commission shall approve rates for service which allow a utility to recover from customers the full amount of environmental compliance costs. Such rates may not include charges for allowances for funds prudently invested or similar charges. For purposes of this requirement, the term "environmental compliance costs" includes all reasonable expenses and fair return on any prudent investment incurred by a utility in complying with the requirements or conditions contained in any permitting, enforcement, or similar decisions of the United States Environmental Protection Agency, the Department of Environmental Protection, a water management district, or any

other governmental entity with similar regulatory jurisdiction.

(b) In establishing initial rates for a utility, the commission may project the financial and operational data as set out in paragraph (a) to a point in time when the utility is expected to be operating at a reasonable level of capacity.

(3) The commission, in fixing rates, may determine the prudent cost of providing service during the period of time the rates will be in effect following the entry of a final order relating to the rate request of the utility and may use such costs to determine the revenue requirements that will allow the utility to earn a fair rate of return on its rate base.

(4)(a) On or before March 31 of each year, the commission by order shall establish a price increase or decrease index for major categories of operating costs incurred by utilities subject to its jurisdiction reflecting the percentage of increase or decrease in such costs from the most recent 12-month historical data available. The commission by rule shall establish the procedure to be used in determining such indices and a procedure by which a utility, without further action by the commission, or the commission on its own motion, may implement an increase or decrease in its rates based upon the application of the indices to the amount of the major categories of operating costs incurred by the utility during the immediately preceding calendar year, except to the extent of any disallowances or adjustments for those expenses of that utility in its most recent rate proceeding before the commission. The rules shall provide that, upon a finding of good cause, including inadequate service, the commission may order a utility to refrain from implementing a rate increase hereunder unless implemented under a bond or corporate undertaking in the same manner as interim rates may be implemented under s. 367.082. A utility may not use this procedure between the official filing date of the rate proceeding and 1 year thereafter, unless the case is completed or terminated at an earlier date. A utility may not use this procedure to increase any operating cost for which an adjustment has been or could be made under paragraph (b), or to increase its rates by application of a price index other than the most recent price index authorized by the commission at the time of filing.

(b) The approved rates of any utility which receives all or any portion of its utility service from a governmental authority or from a water or wastewater utility regulated by the commission and which redistributes that service to its utility customers shall be automatically increased or decreased without hearing, upon verified notice to the commission 45 days prior to its implementation of the increase or decrease that the rates charged by the governmental authority or other utility have changed. The approved rates of any utility which is subject to an increase or decrease in the rates or fees that it is charged for electric power, the amount of ad valorem taxes assessed against its used and useful property, the fees charged by the Department of Environmental Protection in connection with the National Pollutant Discharge Elimination System Program, or the regulatory assessment fees imposed upon it by the commission shall be increased or decreased by the utility, without action by the commission, upon verified notice to the commission 45 days prior to its implementation of the increase or decrease that the rates charged by the supplier of the electric power or the taxes imposed by the governmental authority, or the regulatory assessment fees imposed upon it by the commission have changed. The new rates authorized shall reflect the amount of the change of the ad valorem taxes or rates imposed upon the utility by the governmental authority, other utility, or supplier of electric power, or the regulatory assessment fees imposed upon it by the commission. The approved rates of any utility shall be automatically increased, without hearing, upon verified notice to the commission 45 days prior to implementation of the increase that costs have been incurred for water quality or wastewater quality testing required by the Department of Environmental Protection. The new rates authorized shall

reflect, on an amortized basis, the cost of, or the amount of change in the cost of, required water quality or wastewater quality testing performed by laboratories approved by the Department of Environmental Protection for that purpose. The new rates, however, shall not reflect the costs of any required water quality or wastewater quality testing already included in a utility's rates. A utility may not use this procedure to increase its rates as a result of water quality or wastewater quality testing or an increase in the cost of purchased water services, sewer services, or electric power or in assessed ad valorem taxes, which increase was initiated more than 12 months before the filing by the utility. The provisions of this subsection do not prevent a utility from seeking a change in rates pursuant to the provisions of subsection (2).

(c) Before implementing a change in rates under this subsection, the utility shall file an affirmation under oath as to the accuracy of the figures and calculations upon which the change in rates is based, stating that the change will not cause the utility to exceed the range of its last authorized rate of return on equity. Whoever makes a false statement in the affirmation required hereunder, which statement he or she does not believe to be true in regard to any material matter, is guilty of a felony of the third degree, punishable as provided in s. 775.082, s. 775.083, or s. 775.084.

(d) If, within 15 months after the filing of a utility's annual report required by s. 367.121, the commission finds that the utility exceeded the range of its last authorized rate of return on equity after an adjustment in rates as authorized by this subsection was implemented within the year for which the report was filed or was implemented in the preceding year, the commission may order the utility to refund, with interest, the difference to the ratepayers and adjust rates accordingly. This provision shall not be construed to require a bond or corporate undertaking not otherwise required.

(e) Notwithstanding anything herein to the contrary, a utility may not adjust its rates under this subsection more than two times in any 12-month period. For the purpose of this paragraph, a combined application or simultaneously filed applications that were filed under the provisions of paragraphs (a) and (b) shall be considered one rate adjustment.

(f) The commission may regularly, not less often than once each year, establish by order a leverage formula or formulae that reasonably reflect the range of returns on common equity for an average water or wastewater utility and which, for purposes of this section, shall be used to calculate the last authorized rate of return on equity for any utility which otherwise would have no established rate of return on equity. In any other proceeding in which an authorized rate of return on equity is to be established, a utility, in lieu of presenting evidence on its rate of return on common equity, may move the commission to adopt the range of rates of return on common equity that has been established under this paragraph.

(5) An application for a rate change must be accompanied by a fee as provided by s. 367.145, except that no fee shall be required for an application for a rate change made pursuant to subsection (4).

(6) The commission may withhold consent to the operation of any rate request or any portion thereof by a vote to that effect within 60 days after the date of filing of the rate request, or within a shorter period established by rule of the commission. The order shall state a reason or statement of good cause for the withholding of consent. The commission shall provide a copy of the order to the utility and all interested persons who have requested notice. Such consent shall not be withheld for a period longer than 8 months following the date of filing. The new rates or all or any portion thereof not consented to may be placed into effect by the utility under a bond, escrow, or corporate undertaking subject to refund at the expiration of such period upon notice to the commission and upon filing the appropriate tariffs. The commission shall determine whether the corporate undertaking may be filed in

lieu of the bond or escrow. The utility shall keep accurate, detailed accounts of all amounts received because of such rates becoming effective under bond, escrow, or corporate undertaking subject to refund, specifying by whom and in whose behalf such amounts were paid. In its final order relating to such rate request, the commission shall direct the utility to refund, with interest at a fair rate to be determined by the commission in such manner as it may direct, such portion of the increased rates which are found not to be justified and which are collected during the periods specified. The commission shall provide by rule for the disposition of any funds not refunded, but in no event shall such funds accrue to the benefit of the utility. The commission shall take final action on the docket and enter its final order within 12 months of the official date of filing.

(7) The commission shall determine the reasonableness of rate case expenses and shall disallow all rate case expenses determined to be unreasonable. No rate case expense determined to be unreasonable shall be paid by a consumer. In determining the reasonable level of rate case expense the commission shall consider the extent to which a utility has utilized or failed to utilize the provisions of paragraph (4)(a) or paragraph (4)(b) and such other criteria as it may establish by rule.

(8) A utility may specifically request the commission to process its petition for rate relief using the agency's proposed agency action procedure, as prescribed by commission rule. The commission shall enter its vote on the proposed agency action within 5 months of the official filing date. If the commission's proposed action is protested, the final decision shall be rendered by the commission within 8 months of the date the protest is filed. At the expiration of 5 months following the official filing date, if the commission has not taken action or, if the commission's action is protested by a party other than the utility, the utility may place its requested rates into effect under bond, escrow, or corporate undertaking subject to refund, upon notice to the commission and upon filing the appropriate tariffs. The utility shall keep accurate records of amounts received as provided by subsection (6).

History.—s. 1, ch. 71-278; s. 5, ch. 74-195; s. 3, ch. 76-168; s. 1, ch. 77-457; s. 53, ch. 78-95; ss. 10, 25, 26, ch. 80-99; ss. 2, 3, ch. 81-318; ss. 8, 15, ch. 82-25; s. 26, ch. 83-218; s. 3, ch. 84-149; s. 3, ch. 85-85; s. 25, ch. 87-225; ss. 7, 26, 27, ch. 89-353; s. 3, ch. 90-166; s. 4, ch. 91-429; s. 85, ch. 93-213; s. 184, ch. 94-356; s. 978, ch. 95-148; s. 1, ch. 99-319.

25-30.425 Pass Through Rate Adjustment.

The verified notice to the Commission of an adjustment of rates under the provisions of Section 367.081(4)(b), F.S., shall be made in the following manner:

(1) Prior to an adjustment in rates because of an increase or decrease in purchased utility service, the utility shall file:

(a) A certified copy of the order, ordinance or other evidence whereby the rates for utility service are increased or decreased by the governmental agency or by a water or wastewater utility regulated by the Commission, along with evidence of the utility service rates of that governmental agency or water or wastewater utility in effect on January 1 of each of the three preceding years.

(b) A statement setting out by month the charges for utility services purchased from the governmental agency or regulated utility for the most recent 12-month period.

(c) 1. A statement setting out by month the gallons of water or wastewater treatment purchased from the governmental agency or regulated utility for the most recent 12-month period. If wastewater treatment service is not based on a metered flow, the number of units by which the service is measured shall be stated.

2. A statement setting out by month gallons of water and units of wastewater service sold by the utility for the most recent 12-month period.

(d) A statement setting out by month the gallons of water or wastewater treatment purchased from any other government entity or utility company.

(e) A statement setting out by month the gallons of water pumped or wastewater treated by the utility filing the verified notice.

(f) If the total water available for sale is in excess of 110% of the water sold, a statement explaining the unaccounted for water.

(2) Prior to an adjustment in rates because of an increase or decrease in the charge for electric power the utility shall file with the Commission:

(a) A certified copy of the order, ordinance or other evidence which establishes that the rates for electric power have been increased or decreased by the supplier, along with evidence of the electric power rates of the supplier in effect on January 1 of each of the three preceding years.

(b) A schedule showing, by month, the charges for electric power and consumption for the most recent 12 month period, the charges that would have resulted had the new electric rates been applied, and the difference between the charges under the old rates and the charges under the new rates.

(c) A statement outlining the measures taken by the utility to conserve electricity.

(3) Prior to an adjustment in rates because of an increase or decrease in ad valorem taxes the utility shall file with the Commission:

(a) A copy of the ad valorem tax bills which increased or decreased and copies of the previous three years' bills; if copies have been submitted previously, a schedule showing the tax total only is acceptable; and

(b) A calculation of the amount of the ad valorem taxes related to that portion of the water or wastewater plant not used and useful in providing utility service.

(4) Prior to an adjustment in rates because of an increase or decrease in the costs of water quality or wastewater quality testing required by the Department of Environmental Protection (DEP), or because of an increase or decrease in the fees charged by DEP in connection with the National Pollutant Discharge Elimination System Program, the utility shall file with the Commission:

(a) A copy of the invoice for testing;

(b) Calculation of the amortized amount.

(5) In addition to subsections (1), (2), (3), and (4) above, the utility shall also file:

(a) A schedule of proposed rates which will pass the increased or decreased costs on to the customers in a fair and nondiscriminatory manner and on the basis of current customers, and a calculation showing how the rates were determined;

(b) A statement, by class of customer and meter size, setting out by month the gallons of water and units of wastewater service sold by the utility for the most recent 12 month period. This statement shall not be required in filings for the pass-through of increased regulatory assessment fees or ad valorem taxes;

(c) The affirmation reflecting the authorized rate of return on equity required by Section 367.081(4)(c), F.S.;

(d) A copy of the notice to customers required by subsection (7) of this rule;

(e) Revised tariff sheets reflecting the increased rates;

(f) The rate of return on equity that the utility is affirming it will not exceed pursuant to Section 367.081(4)(c), F.S.; and

(g) The utility's DEP Public Water System identification number and Wastewater Treatment Plant Operating Permit number;

(6) The amount authorized for pass through rate adjustments shall not exceed the actual cost incurred and shall not exceed the incremental increase or decrease for the 12-month period. Foregone pass through decreases shall not be used to adjust a pass through increase below the actual cost incurred.

(7) In order for the Commission to determine whether a utility which had adjusted its rates pursuant to Section 367.081(4)(b), F.S., has thereby exceeded the range of its last authorized rate of return, the Commission may require a utility to file the information required in Rule 25-30.437, F.A.C., for the test year specified.

(8) Prior to the time a customer begins consumption at the adjusted rates, the utility shall notify each customer of the increase authorized and explain the reasons for the increase.

(9) The utility shall file an original and five copies of the verified notice and supporting documents with the Division of Economic Regulation. The rates shall become effective 45 days after the official date of filing. The official date of filing for the verified notice to the Commission of adjustment in rates shall be at least 45 days before the new rates are implemented.

Specific Authority 350.127(2), 367.121(1)(c), (f) FS. Law Implemented 367.081(4), 367.121(1)(c), (g) FS. History—New 6-10-75, Amended 4-5-79, 4-5-81, 10-21-82, Formerly 25-10.179, Amended 11-10-86, 6-5-91, 4-18-99.

TEXAS

72nd Leg., 1st C.S., ch. 3, Sec. 4.03, eff. Sept. 1, 1991; Acts 1993, 73rd Leg., ch. 402, Sec. 1, eff. Aug. 30, 1993; Acts 1995, 74th Leg., ch. 400, Sec. 4, eff. Sept. 1, 1995; Acts 2001, 77th Leg., ch. 965, Sec. 3.10, eff. Sept. 1, 2001; Acts 2001, 77th Leg., ch. 966, Sec. 10.06, eff. Sept. 1, 2001.

Amended by:

Acts 2005, 79th Leg., Ch. 1106, Sec. 1, eff. September 1, 2005.

Acts 2011, 82nd Leg., R.S., Ch. 1021, Sec. 9.02, eff. September 1, 2011.

Acts 2011, 82nd Leg., R.S., Ch. 1163, Sec. 180, eff. September 1, 2011.

Sec. 13.188. ADJUSTMENT FOR CHANGE IN ENERGY COSTS. (a)

Notwithstanding any other provision in this chapter, the commission by rule shall adopt a procedure allowing a utility to file with the commission an application to timely adjust the utility's rates to reflect an increase or decrease in documented energy costs in a pass through clause. The commission, by rule, shall require the pass through of documented decreases in energy costs within a reasonable time. The pass through, whether a decrease or increase, shall be implemented on no later than an annual basis, unless the commission determines a special circumstance applies.

(b) Notwithstanding any other provision to the contrary, this adjustment is an uncontested matter not subject to a contested case hearing. However, the executive director shall hold an uncontested public meeting:

(1) on the request of a member of the legislature who represents the area served by the water and sewer utility; or

(2) if the executive director determines that there is substantial public interest in the matter.

(c) A proceeding under this section is not a rate case and Section 13.187 does not apply.

Added by Acts 2007, 80th Leg., R.S., Ch. 1430, Sec. 2.07, eff. September 1, 2007.

Sec. 13.189. UNREASONABLE PREFERENCE OR PREJUDICE AS TO RATES OR SERVICES. (a) A water and sewer utility as to rates or services

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C

Texas Administrative Code Currentness

Title 30. Environmental Quality

Part 1. Texas Commission on Environmental Quality

Chapter 291. Utility Regulations

Subchapter B. Rates, Rate-Making, and Rates/Tariff Changes

→→ § 291.21. Form and Filing of Tariffs

(a) Approved tariff. A utility may not directly or indirectly demand, charge, or collect any rate or charge, or impose any classifications, practices, rules, or regulations different from those prescribed in its approved tariff filed with the commission or with the municipality exercising original jurisdiction over the utility, except as noted in this subsection. A utility may charge the rates proposed under Texas Water Code (TWC), § 13.187(a) (relating to Statement of Intent to Change Rates) after the proposed effective date, unless the rates are suspended or the commission or a judge sets interim rates. The regulatory assessment required in TWC, § 5.235(n) does not have to be listed on the utility's approved tariff to be charged and collected but must be included in the tariff at the earliest opportunity. A person who possesses facilities used to provide water utility service or a utility that holds a certificate of public convenience and necessity to provide water service that enters into an agreement in accordance with TWC, § 13.250(b)(2), may collect charges for wastewater services on behalf of another retail public utility on the same bill with its water charges and shall at the earliest opportunity include a notation on its tariff that it has entered into such an agreement. A utility may enter into a contract with a county to collect solid waste disposal fees and include those fees on the same bill with its water charges and shall at the earliest opportunity include a notation on its tariff that it has entered into such an agreement.

(b) Requirements as to size, form, identification, minor changes, and filing of tariffs.

(1) Tariffs filed with applications for certificates of convenience and necessity.

(A) Every public utility shall file with the commission the number of copies of its tariff required in the application form containing schedules of all its rates, tolls, charges, rules, and regulations pertaining to all of its utility service when it applies for a certificate of convenience and necessity to operate as a public utility. The tariff must be on the form the commission prescribes or another form acceptable to the commission.

(B) Every water supply or sewer service corporation shall file with the commission the number of copies of its tariff required in the application form containing schedules of all its rates, tolls, charges, rules, and regulations pertaining to all of its utility service when it applies for a certificate of convenience and necessity to operate as a retail public utility.

(2) Minor tariff changes. Except for an affected county, a public utility's approved tariff may not be changed or amended without commission approval. An affected county may change rates for water or wastewater service without commission approval but shall file a copy of the revised tariff with the commission within 30 days after the effective date of the rate change.

(A) The executive director may approve the following minor changes to tariffs:

(i) service rules and policies;

(ii) changes in fees for customer deposits, meter tests, return check charges, and late charges, provided they do not exceed the maximum allowed by the applicable sections;

(iii) implementation of a purchased water or sewage treatment provision, a temporary water rate provision in response to mandatory reductions in water use imposed by a court, government

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agency, or other authority, or water use fee provision previously approved by the commission;

(iv) surcharges over a time period determined by the executive director to reflect the change in the actual cost to the utility for sampling costs, commission inspection fees, or at the discretion of the executive director, other governmental requirements beyond the utility's control;

(v) addition of the regulatory assessment as a separate item or to be included in the currently authorized rate;

(vi) addition of a provision allowing a utility to collect wastewater charges in accordance with TWC, § 13.250(b)(2) or § 13.147(d);

(vii) rate adjustments to implement authorized phased or multi-step rates or downward rate adjustments to reconcile rates with actual costs;

(viii) addition of a production fee charged by a groundwater conservation district as a separate item calculated by multiplying the customer's total consumption, including the number of gallons in the base bill, by the actual production fee per thousand gallons; or

(ix) implementation of an energy cost adjustment clause.

(B) The addition of an extension policy to a tariff or a change to an existing extension policy does not qualify as a minor tariff change because it must be approved or amended in a rate change application.

(3) Tariff revisions and tariffs filed with rate changes. The utility shall file three copies of each revision or in the case of a rate change, the number required in the application form. Each revision must be accompanied by a cover page that contains a list of pages being revised, a

statement describing each change, its effect if it is a change in an existing rate, and a statement as to impact on rates of the change by customer class, if any. If a proposed tariff revision constitutes an increase in existing rates of a particular customer class or classes, then the commission may require that notice be given.

(4) Rate schedule. Each rate schedule must clearly state the territory, subdivision, city, or county in which the schedule is applicable.

(5) Tariff sheets. Tariff sheets must be numbered consecutively. Each sheet must show an effective date, a revision number, section number, sheet number, name of the utility, the name of the tariff, and title of the section in a consistent manner. Sheets issued under new numbers must be designated as original sheets. Sheets being revised must show the number of the revision, and the sheet numbers must be the same.

(c) Composition of tariffs. A utility's tariff, including those utilities operating within the corporate limits of a municipality, must contain sections setting forth:

(1) a table of contents;

(2) a list of the cities and counties, and subdivisions or systems, in which service is provided;

(3) the certificate of convenience and necessity number under which service is provided;

(4) the rate schedules;

(5) the service rules and regulations, including forms of the service agreements, if any, and customer service inspection forms required to be completed under § 290.46(j) of this title (relating to Minimum Acceptable Operating Practices for Public Drinking Water Systems) if the form used deviates from that specified in § 290.47(d) of this title (relating to Appendices);

(6) the extension policy;

(7) an approved drought contingency plan as required by § 288.20 of this title (relating to Drought Contingency Plans for Municipal Uses

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by Public Water Suppliers); and

(8) the form of payment to be accepted for utility services.

(d) Tariff filings in response to commission orders. Tariff filings made in response to an order issued by the commission must include a transmittal letter stating that the tariffs attached are in compliance with the order, giving the application number, date of the order, a list of tariff sheets filed, and any other necessary information. Any service rules proposed in addition to those listed on the commission's model tariff or any modifications of a rule in the model tariff must be clearly noted. All tariff sheets must comply with all other sections in this chapter and must include only changes ordered. The effective date and/or wording of the tariffs must comply with the provisions of the order.

(e) Availability of tariffs. Each utility shall make available to the public at each of its business offices and designated sales offices within Texas all of its tariffs currently on file with the commission or regulatory authority, and its employees shall lend assistance to persons requesting information and afford these persons an opportunity to examine any of such tariffs upon request. The utility also shall provide copies of any portion of the tariffs at a reasonable cost to reproduce such tariff for a requesting party.

(f) Rejection. Any tariff filed with the commission and found not to be in compliance with this section must be so marked and returned to the utility with a brief explanation of the reasons for rejection.

(g) Change by other regulatory authorities. Tariffs must be filed to reflect changes in rates or regulations set by other regulatory authorities and must include a copy of the order or ordinance authorizing the change. Each utility operating within the corporate limits of a municipality exercising original jurisdiction shall file with the commission a copy of its current tariff that has been authorized by the municipality.

(h) Purchased water or sewage treatment provision.

(1) A utility that purchases water or sewage treatment may include a provision in its tariff to pass through to its customers changes in such

costs. The provision must specify how it is calculated and affects customer billings.

(2) This provision must be approved by the commission in a rate proceeding. A proposed change in the method of calculation of the provision must be approved in a rate proceeding.

(3) Once the provision is approved, any revision of a utility's billings to its customers to allow for the recovery of additional costs under the provision may be made only upon issuing notice as required by paragraph (4) of this subsection. The executive director's review of a proposed revision is an informal proceeding. Only the commission, the executive director, or the utility may request a hearing on the proposed revision. The recovery of additional costs is defined as an increase in water use fees or in costs of purchased water or sewage treatment.

(4) A utility that wishes to revise utility billings to its customers pursuant to an approved purchased water or sewer treatment or water use fee provision to allow for the recovery of additional costs shall take the following actions prior to the beginning of the billing period in which the revision takes effect:

(A) submit a written notice to the executive director; and

(B) mail notice to the utility's customers. Notice may be in the form of a billing insert and must contain the effective date of the change, the present calculation of customer billings, the new calculation of customer billings, and the change in charges to the utility for purchased water or sewage treatment or water use fees. The notice must include the following language: "This tariff change is being implemented in accordance with the utility's approved (purchased water) (purchased sewer) (water use fee) adjustment clause to recognize (increases) (decreases) in the (water use fee) (cost of purchased) (water) (sewage treatment). The cost of these charges to customers will not exceed the (increased) (decreased) cost of (the water use fee) (purchased) (water) (sewage treatment)."

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(5) Notice to the commission must include a copy of the notice sent to the customers, proof that the cost of purchased water or sewage treatment has changed by the stated amount, and the calculations and assumptions used to determine the new rates.

(6) Purchased water or sewage treatment provisions may not apply to contracts or transactions between affiliated interests.

(i) Effective date. The effective date of a tariff change is the date of approval by the executive director unless otherwise stated in the letter transmitting the approval or the date of approval by the commission, unless otherwise specified in a commission order or rule. The effective date of a proposed rate increase under TWC, § 13.187 is the proposed date on the notice to customers and the commission, unless suspended and must comply with the requirements of § 291.8(b) of this title (relating to Administrative Completeness).

(j) Tariffs filed by water supply or sewer service corporations. Every water supply or sewer service corporation shall file, for informational purposes only, one copy of its tariff showing all rates that are subject to the appellate jurisdiction of the commission and that are in force for any utility service, product, or commodity offered. The tariff must include all rules and regulations relating to or affecting the rates, utility service or extension of service or product, or commodity furnished and shall specify the certificate of convenience and necessity number and in which counties or cities it is effective.

(k) Surcharge.

(1) A surcharge is an authorized rate to collect revenues over and above the usual cost of service.

(2) If specifically authorized for the utility in writing by the executive director or the municipality exercising original jurisdiction over the utility, a surcharge to recover the actual increase in costs to the utility may be collected over a specifically authorized time period without being listed on the approved tariff for:

(A) sampling fees not already included in

rates;

(B) inspection fees not already included in rates;

(C) production fees or connection fees not already included in rates charged by a groundwater conservation district; or

(D) other governmental requirements beyond the control of the utility.

(3) A utility shall use the revenues collected pursuant to a surcharge only for the purposes noted and handle the funds in the manner specified according to the notice or application submitted by the utility to the commission, unless otherwise directed by the executive director. The utility may redirect or use the revenues for other purposes only after first obtaining the approval of the executive director.

(l) Temporary water rate.

(1) A utility's tariff may include a temporary water rate provision that will allow the utility to increase its retail customer rates during periods when a court, government agency, or other authority orders mandatory water use reduction measures that affect the utility customer's use of water service and the utility's water revenues. Implementation of the temporary water rate provision will allow the utility to recover from customers revenues that the utility would otherwise have lost due to mandatory water use reductions in accordance with the temporary water rate provision approved by the commission. If a utility obtains a portion of its water supply from another unrestricted water source or water supplier during the time the temporary water rate is in effect, the rate resulting from implementation of the temporary water rate provision must be adjusted to account for the supplemental water supply and to limit over-recovery of revenues from customers. A temporary water rate provision may not be implemented by a utility if there exists an available, unrestricted, alternative water supply that the utility can use to immediately replace, without additional cost, the water made unavailable because of the action requiring a mandatory reduction of use of the affected water supply.

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(2) The temporary water rate provision must be approved by the commission in a rate proceeding before it may be included in the utility's approved tariff or implemented as provided in this subsection. A proposed change in the temporary water rate must be approved in a rate proceeding. A utility that has filed a rate change within the last 12 months may file a request for the limited purpose of obtaining a temporary water rate provision.

TGC = temporary gallonage charge
 cgc = current gallonage charge
 r = water use reduction expressed as a decimal fraction (the pumping restriction)
 prr = percentage of revenues to be recovered expressed as a decimal fraction (i.e. 50% = 0.5)

$$TGC = cgc + [(prr)(cgc)(r)/(1.0-r)]$$

(A) The utility shall file a temporary water rate application prescribed by the executive director and provide customer notice as required in the application, but is not required to provide complete financial data to support its existing rates. Notice must include a statement of when the temporary water rate provision would be implemented, the classes of customers affected, the rates affected, information on how to protest the rate change, the required number of protests to ensure a hearing, the address of the commission, the time frame for protests, and any other information that is required by the executive director in the temporary water rate application. The utility's existing rates are not subject to review in the proceeding and the utility is only required to support the need for the temporary rate. A request for a temporary water rate provision under this paragraph is not considered a statement of intent to increase rates subject to the 12-month limitation in § 291.23 of this title (relating to Time between Filings).

(B) The utility shall establish that the projected revenues that will be generated by the temporary water rate provision are required by the utility to pay reasonable and necessary expenses that will be incurred by the utility during the time mandatory water use reductions are in effect.

(3) A utility may request a temporary water rate provision using the formula in this paragraph to recover 50% or less of the revenues that would otherwise have been lost due to mandatory water use reductions through a limited rate proceeding. The formula for a temporary water rate provision under this paragraph is:

(4) A utility may request a temporary water rate provision using the formula in paragraph (3) of this subsection or any other method acceptable to the commission to recover up to 100% of the revenues that would otherwise have been lost due to mandatory water use reductions.

(A) If the utility requests authorization to recover more than 50% of lost revenues, it shall submit financial data to support its existing rates as well as the temporary water rate provision even if no other rates are proposed to be changed. The utility shall complete a rate application and provide notice in accordance with the requirements of § 291.22 of this title (relating to Notice of Intent To Change Rates). The utility's existing rates are subject to review in addition to the temporary water rate provision.

(B) The utility shall establish that the projected revenues that will be generated by the temporary water rate provision are required by the utility to pay reasonable and necessary expenses that will be incurred by the utility during the time mandatory water use reductions are in effect; that the rate of return granted by the commission in the utility's last rate case does not adequately compensate the utility for the foreseeable risk that mandatory water use reductions will be ordered; and that revenues generated by existing rates do not exceed reasonable cost of service.

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(5) The utility may place the temporary water rate into effect only after:

(A) the temporary water provision has been approved by the commission and included in the utility's approved tariff in a prior rate proceeding;

(B) there is an action by a court, government agency, or other authority requiring mandatory water use reduction measures that affect the utility's customers' use of utility services; and

(C) issuing notice as required by paragraph (7) of this subsection.

(6) The utility may readjust its rates using the temporary water rate provision as necessary to respond to modifications or changes to the original order requiring mandatory water use reductions by reissuing notice as required by paragraph (7) of this subsection. The executive director's review of the proposed implementation of an approved temporary water rate provision is an informal proceeding. Only the commission, the executive director, or the utility may request a hearing on the proposed implementation.

(7) A utility that wishes to place a temporary water rate into effect shall take the following actions prior to the beginning of the billing period in which the temporary water rate takes effect:

(A) submit a written notice, including a copy of the notice received from the court, government agency, or other authority requiring the reduction in water use, to the executive director; and

(B) mail notice to the utility's customers. Notice may be in the form of a billing insert and must contain the effective date of the implementation and the new rate the customers will pay after the temporary water rate is implemented. The notice must include the following language: "This rate change is being implemented in accordance with the temporary water rate provision approved by the Texas Commission on Environmental

Quality to recognize the loss of revenues due to mandatory water use reduction ordered by (name of entity issuing order). The new rates will be effective on (date) and will remain in effect until the mandatory water use reductions are lifted or expired. The purpose of the rate is to ensure the financial integrity of the utility. The utility will recover through the rate (the percentage authorized by the temporary rate) % of the revenues the utility would otherwise have lost due to mandatory water use reduction by increasing the volume charge from (\$ per 1,000 gallons to \$ per 1,000 gallons)."

(8) A utility shall stop charging a temporary water rate as soon as is practical after the order that required mandatory water use reduction is ended, but in no case later than the end of the billing period that was in effect when the order was ended. The utility shall notify its customers of the date that the temporary water rate ends and that its rates will return to the level authorized before the temporary water rate was implemented.

(9) If the commission initiates an inquiry into the appropriateness or the continuation of a temporary water rate, it may establish the effective date of its decision on or after the date the inquiry is filed.

(m) Multiple system consolidation. Except as otherwise provided in subsection (o) of this section, a utility may consolidate its tariff and rate design for more than one system if:

(1) the systems included in the tariff are substantially similar in terms of facilities, quality of service, and cost of service; and

(2) the tariff provides for rates that promote water conservation for single-family residences and landscape irrigation.

(n) Regional rates. The commission, where practicable, shall consolidate the rates by region for applications submitted with a consolidated tariff and rate design for more than one system.

(o) Exemption. Subsection (m) of this section does not

Tex. Admin. Code tit. 30, § 291.21

apply to a utility that provided service in only 24 counties on January 1, 2003.

(p) Energy cost adjustment clause.

(1) A utility that purchases energy (electricity or natural gas) that is necessary for the provision of water or sewer service may request the inclusion of an energy cost adjustment clause in its tariff to allow the utility to adjust its rates to reflect increases and decreases in documented energy costs.

(2) A utility that requests the inclusion of an energy cost adjustment clause in its tariff shall file an application with the executive director. The utility shall also give notice of the proposed energy cost adjustment clause by mail, either separately or accompanying customer billings, or by hand delivery to all affected utility customers at least 60 days prior to the proposed effective date. Proof of notice in the form of an affidavit stating that proper notice was mailed to affected customers and stating the dates of such mailing shall be filed with the commission by the applicant utility as part of the application. Notice must be provided on the notice form included in the commission's application package and must contain the following information:

(A) the utility name and address, a description of how the increase or decrease in energy costs will be calculated, the effective date of the proposed change, and the classes of utility customers affected. The effective date of the proposed energy cost adjustment clause must be the first day of a billing period, which should correspond to the day of the month when meters are typically read, and the clause may not apply to service received before the effective date of the clause;

(B) information on how to submit comments regarding the energy cost adjustment clause, the address of the commission, and the time frame for comments; and

(C) any other information that is required by the executive director in the application form.

(3) The executive director's review of the utility's application is an uncontested matter not subject to a contested case hearing. However, the executive director shall hold an uncontested public meeting on the application if requested by a member of the legislature who represents the area served by the utility or if the executive director determines that there is substantial public interest in the matter.

(4) Once an energy cost adjustment clause has been approved, documented changes in energy costs must be passed through to the utility's customers within a reasonable time. The pass through, whether an increase or decrease, shall be implemented on at least an annual basis, unless the executive director determines a special circumstance applies. Anytime changes are being made using this provision, notice shall be provided as required by paragraph (5) of this subsection.

(5) Before a utility implements a change in its energy cost adjustment clause as required by paragraph (4) of this subsection, the utility shall take the following actions prior to the beginning of the billing period in which the implementation takes effect:

(A) submit written notice to the executive director, which must include a copy of the notice sent to the customers, proof that the documented energy costs have changed by the stated amount; and

(B) mail either separately or accompanying customer billings, or hand deliver notice to the utility's affected customers. Notice must contain the effective date of change and the increase or decrease in charges to the utility for documented energy costs. The notice must include the following language: "This tariff change is being implemented in accordance with the utility's approved energy cost adjustment clause to recognize (increases) (decreases) in the documented energy costs. The cost of these charges to customers will not exceed the (increase) (decrease) in documented energy costs."

(6) The executive director may suspend the

Tex. Admin. Code tit. 30, § 291.21

adoption or implementation of an energy cost adjustment clause if the utility has failed to properly complete the application or has failed to comply with the notice requirements or proof of notice requirements. If the utility cannot clearly demonstrate how the clause is calculated, the increase or decrease in documented energy costs or how the increase or decrease in documented energy costs will affect rates, the executive director may suspend the adoption or implementation of the clause until the utility provides additional documentation requested by the executive director. If the executive director suspends the adoption or implementation of the clause, the adoption or implementation will be effective on the date specified by the executive director.

(7) Energy cost adjustment clauses may not apply to contracts or transactions between affiliated interests.

(8) A proceeding under this subsection is not a rate case, and TWC, § 13.187 does not apply.

Source: The provisions of this § 291.21 adopted to be effective October 9, 1990, 15 TexReg 4019; amended to be effective January 10, 1996, 21 TexReg 114; amended to be effective September 20, 1996, 21 TexReg 8728; amended to be effective February 4, 1999, 24 TexReg 738; amended to be effective October 19, 2000, 25 TexReg 10367; amended to be effective August 29, 2002, 27 TexReg 7924; amended to be effective May 5, 2005, 30 TexReg 2528; amended to be effective September 28, 2006, 31 TexReg 8106; amended to be effective July 10, 2008, 33 TexReg 5327.

30 TAC § 291.21, 30 TX ADC § 291.21

Current through June 30, 2012

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Public Service Commission

Board or Commission Rules General Agency

Chapter 2. General Regulations

→ → Section 249. Electric, Gas, and Water Public Utility Commodity Purchase Pass-On Procedure.

Pursuant to W.S. § 37-3-106 and the rate filing requirements of this Chapter, a public utility may file an application to pass on to its utility customers in rates, known commodity or commodity related cost increases or decreases. A public utility shall file an application to pass on projected or estimated commodity related cost increases or decreases under this section in accordance with filed tariffs that comply with Section 250.

(a) Pass-on applications for public utilities subject to an explicit Commission authorized rate of return may be authorized, subject to public notice, opportunity for hearing and refund, if the evidence of record shows:

(i) That allowing the recovery of the costs would be in the public interest and the pass-on is for prudently incurred wholesale utility commodity cost increases or decreases not under this Commission's jurisdiction or other 2-30 commodity related costs explicitly requested and supported by the public utility and deemed appropriate by the Commission such as interstate or intrastate transmission or transportation costs, storage costs, fuel costs, hedging costs, or other commodity related costs.

(ii) That the pass-on only includes actual or projected increases in commodity or commodity related costs and will not result in the public utility's normalized rate of return on rate base exceeding that last authorized by the Commission. If the public utility is exceeding its authorized rate of return on rate base, the Commission may initiate a rate investigation on its own motion to have the public utility show why its base rates should not be adjusted, or may take any other duly authorized action to assure rates and earnings remain just and reasonable.

(b) A pass-on application filed under subsection (a) shall:

(i) Include documentation showing the public utility's normalized annual earnings and rate of return on rate base, comparing the rate of return on rate base to that last authorized by the Commission.

(ii) If the public utility files pass-on applications more often than annually, such documentation shall be filed at least annually and shall accompany a pass-on application. If the public utility files such applications less often than annually, such documentation shall accompany each application. The appropriate form and level of detail of the required supporting documentation shall be determined by the Commission on a case-by-case basis, in consideration of the public utility's size, complexity, nature of operations, corporate structure, and other relevant factors. The public utility shall be responsible for providing sufficiently detailed, reliable, and supportable documentation that accurately portrays its earnings.

(c) Public utilities not subject to an explicit Commission authorized rate of return shall submit documentation showing its recent level of normalized annual earnings compared to any financial parameters established by the Commission as a measure of the public utility's earnings. Pass-on applications for these public utilities may be authorized, subject to public notice, opportunity for hearing and refund, if the evidence of record shows:

(i) That allowing the recovery of the costs would be in the public interest and the pass-on is for prudently incurred

wholesale utility commodity cost increases or decreases not under this Commission's jurisdiction or other commodity related costs explicitly requested and supported by the public 2-31 utility and deemed appropriate by the Commission such as interstate or intrastate transmission or transportation costs, storage costs, fuel costs, hedging costs, or other commodity-related costs.

(ii) That the pass-on only includes actual or projected increases in commodity or commodity related costs and will not result in the public utility's normalized annual earnings exceeding that last authorized by the Commission. If the public utility is exceeding its authorized earnings, the Commission may initiate a rate investigation on its own motion to have the public utility show why its base rates should not be adjusted, or may take any other duly authorized action to assure rates and earnings remain just and reasonable.

(d) A pass-on application filed under subsection (c) shall:

(i) Include documentation showing the public utility's normalized annual earnings, comparing the earnings to the financial parameters last authorized by the Commission.

(ii) If the public utility files pass-on applications more often than annually, such documentation shall be filed at least annually and shall accompany a pass-on application. If the public utility files such applications less often than annually, such documentation shall accompany each application. The appropriate form and level of detail of the required supporting documentation shall be determined by the Commission on a case-by-case basis, in consideration of the public utility's size, complexity, nature of operations, corporate structure, and other relevant factors. The public utility shall be responsible for providing sufficiently detailed, reliable, and supportable documentation that accurately portrays its earnings.

(e) The pass-on shall be allocated to all retail rate classes and contract customers on an equal or proportionate basis. The Commission may consider special circumstances related to the allocation of costs to contract customers. Exceptions to the equal or proportionate class allocation may be permitted if specifically requested and justified and found by the Commission to be in the public interest.

(f) All pass-on rates shall be filed as a cumulative rate rider or surcharge separate from base rates, which may be blended into and consolidated with base rates in general rate case proceedings or as otherwise ordered by the Commission.

(g) As part of all pass-on filings under this rule, including all balancing account applications under Section 250, the public utility shall provide supporting documentation that the gas, electric or water commodity costs included in the pass-on application are the most reasonable option practically available to the public utility for safe, adequate and reliable service to retail customers, including, but not limited to:

(i) Documentation demonstrating the efforts taken by the public utility to serve its customers result in the most reasonable rate available consistent with safe, adequate and reliable service. A public utility may file integrated resource plans or commodity acquisition plans for Commission review and such plans, after acknowledgment by the Commission, shall comply with this requirement.

(ii) Physical hedging costs the public utility seeks to include in its pass-on rates, such as diversified contract terms and conditions, storage management, or other measures shall be documented in the application.

(iii) Financial hedging costs the public utility seeks to include in its pass-on rates, such as costs related to futures contracts, price caps, financial derivatives, swap agreements, collars, and other measures to achieve price stability or reduce price volatility shall be documented in the application.

(iv) Records of all physical and financial hedging costs incurred by the public utility for purposes of securing its commodity portfolio shall be maintained by the public utility and a written summary of such costs included in the supporting documentation supplied with the pass-on application. All records of such costs shall be available for audit by the Commission at any time.

Date Filed 09-08-2009

WY Rules and Regulations PSC GEN Ch. 2 s 249, WY ADC PSC GEN Ch. 2 s 249

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Title 83: Public Utilities

Chapter I: Illinois Commerce Commission

Subchapter E: Water Utilities

Part 655. Purchased Water and Sewage Treatment Surcharges

AUTHORITY: Implementing Section 9-220.2 and authorized by Section 10-101 of the Public Utilities Act [220 ILCS 5/9-220.2 and 10-101].

SOURCE: Adopted at 25 Ill. Reg. 16277, effective December 19, 2001.

83 Ill. Adm. Code Ch. I, Subch. E, Pt. 655, Refs & Annos, 83 IL ADC Ch. I, Subch. E, Pt. 655, Refs & Annos

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▣ Part 655. Purchased Water and Sewage Treatment Surcharges (Refs & Annos)

→ → 655.10 Applicability

a) A purchased water/sewage treatment surcharge shall be applied to water/sewer bills of customers of water/sewer utilities in the applicable rate zone for utilities having a purchased water/sewage treatment surcharge rider and information sheet in effect and on file with the Illinois Commerce Commission (Commission).

b) A purchased water/sewage treatment surcharge shall be applied, during the effective month, in accordance with the provisions of this Part.

c) Each purchased water/sewage treatment surcharge shall be determined in accordance with Section 655.40 of this Part.

83 ILAC § 655.10, 83 IL ADC 655.10

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Part 655. Purchased Water and Sewage Treatment Surcharges (Refs & Annos)

→ → 655.20 Definitions

“Act” means the Public Utilities Act [220 ILCS 5].

“Base period” means the remaining months in the reconciliation year that includes the effective month.

“Billing unit” means the unit of billing for water billed to the customer by the utility, for example, thousands of gallons or hundreds of cubic feet.

“Commercial customer” means any customer that is not a residential customer or multi-unit residential customer.

“Effective month” means any month during which the water/sewage treatment surcharge shall be in effect.

“Equivalent billing units” means the number of 5/8-inch meters equivalent in flow to a larger meter.

“Information sheet” means a tariff sheet supplemental to the rider filed in accordance with this Part that establishes the initial or modified amount of a purchased water/sewage treatment surcharge.

“Large commercial customer” means a commercial customer with an annual water use of 100,000 gallons or more.

“Multi-unit residential customer” means a dwelling unit used primarily as a residence and located in a master metered building containing more than one such dwelling unit.

“Purchased water/sewage treatment surcharge” means the amount added to a customer's bill in accordance with Section 655.40 of this Part.

“Rate zone” means the service areas to which a particular base rate or purchased water/sewage treatment surcharge applies, but does not include areas that have different base rates or purchased water/sewage treat-

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ment surcharges, even though such areas may be served by the utility.

“Reconciliation year” means the calendar year for which actual water and sewage costs and revenues attributable to the purchased water/sewage treatment surcharge are to be reconciled.

“Residential customer” means a customer serviced at an individually metered premises used primarily as a residence.

“Small commercial customer” means a commercial customer with an annual water use below 100,000 gallons.

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→ → **655.30 Recoverable Purchased Water/Sewage Treatment Costs**

a) Costs recoverable through the purchased water/sewage treatment surcharge shall include the following:

1) The cost of purchased water from an entity other than the utility (including wheeling or delivery charges); and

2) The cost of purchased sewage treatment from an entity other than the utility.

b) Recoverable purchased water/sewage treatment costs shall be offset by the revenues derived from transactions at rates not subject to the purchased water/sewage treatment surcharge to the extent that costs incurred in connection with such transactions are recoverable costs under subsection (a) above. Subsection (a) shall apply to transactions subject to rates contained in tariffs on file with the Commission, in contracts entered into pursuant to such tariffs, and in any other contracts providing for purchased water/sewage treatment.

c) Revenues from penalty charges approved by the Commission that relate to purchased water/sewage treatment shall offset recoverable costs as determined under Section 655.40 of this Part.

d) The determination of costs recoverable from customers through the purchased water/sewage treatment surcharge shall not include water used in, and/or sewage treated for, facilities either owned or leased by the utility.

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Part 655. Purchased Water and Sewage Treatment Surcharges (Refs & Annos)

→ → 655.40 Determination of Purchased Water/Sewage Treatment Surcharge

a) For the recovery of purchased water costs, the water surcharge shall consist of a monthly fixed charge and a variable charge.

1) The monthly fixed charge shall recover costs that do not vary with the quantity of water purchased. Such fixed charges would include items such as depreciation for existing facilities and capital-related costs for new and existing facilities when such costs are billed by the supplier as a fixed monthly or annual amount. If there are no fixed charges from the supplier, all costs shall be recovered as a variable charge.

A) Fixed costs shall be distributed among customers on an equivalent meter basis. A 5/8-inch disk meter shall equal one equivalent billing unit. Equivalent billing units for meters of other sizes shall be based upon the following ratios:

<u>Meter Size</u>	<u>Ratio</u>
5/8" disk	1.0
3/4" disk	1.5
1" disk	2.5
1 1/2" disk	5.0
2" disk	8.0
3" disk	15.0
4" disk	25.0
6" disk	50.0
8" disk	80.0
10" disk	115.0
12" disk	168.0
3" turbine	17.5
4" turbine	30.0
6" turbine	62.5
8" turbine	90.0

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10" turbine 145.0

B) The fixed charge shall be calculated using the following formula:

FC = FSC + Rf + Of

EBU

Where:

FC= Monthly fixed charge per equivalent billing unit to be billed to customers during the base period.

FSC= Estimated fixed charge from the supplier during the base period.

Rf= Utility-determined reconciliation component for the fixed charge.

Of= Commission-ordered adjustment component for the fixed charge.

EBU= Estimated equivalent billing units for the base period.

2) The variable charge shall recover costs that vary by the quantity of water purchased plus the reconciliation component and the adjustment component and shall be charged to all customer classes based on the quantity of water used by each customer, regardless of meter size. The variable charge shall be calculated using the following formula:

VC = VSC + Rv + Ov

VBU

Where:

VC= Variable charge per variable billing unit to be billed to customers during the base period.

VSC= Estimated variable charge from the supplier during the base period.

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Rv=	Utility-determined reconciliation component for the variable charge.
Ov=	Commission-ordered adjustment component for the variable charge.
VBU=	Variable billing units for water to be billed to customers during the base period expressed in 1,000 gallon or 100 cubic feet increments.

b) For the recovery of purchased sewage treatment costs, if the utility's cost for purchased sewage treatment does not vary based on the strength of waste treated, the sewage treatment surcharge shall consist of a monthly charge.

- 1) If all customers are residential, multi-unit residential, or small commercial customers, divide the total expected cost plus the reconciliation component and the adjustment component by the estimated monthly average number of customers for the base period and divide that amount by the number of months in the base period to obtain the monthly charge. For the purposes of subsection (b)(1), each multi-unit residential customer shall be counted as 85% of a residential customer. The charge for purchased sewage treatment will be calculated using the following formula:

$$SC_m = \frac{PST + R + O}{NC \times M}$$

NC x M

Where:

SC _m =	Monthly charge per residential customer or small commercial customer for purchased sewage treatment to be billed during the base period. (The monthly charge for each multi-unit residential customer shall equal SC _m x .85.)
PST=	Estimated cost of purchased sewage treatment charges from the supplier for the base period.
R=	Utility-determined reconciliation component.
O=	Commission-ordered adjustment component.

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NC=

Estimated monthly average number of customers for the base period (each multi-unit residential customer is counted as .85 of one residential customer).

M=

Number of months in the base period.

2) If the system serves one or more large commercial customers, the sewage treatment surcharge shall be calculated in the following manner.

A) The sewage treatment surcharge for large commercial customers shall be computed by obtaining an average cost of sewage treatment per 1,000 gallons or per 100 cubic feet of water used by all customers. The large commercial customers shall have a minimum monthly bill equal to the residential monthly sewage treatment surcharge as determined under subsection (b)(2)(B). Any over-recovery of revenue resulting from the imposition of the minimum bill to large commercial customers shall result in a reduction of the cost of the large commercial rate so that the total revenue recovered equals the target revenue from large commercial customers.

B) The residential sewage treatment surcharge shall be a flat rate equal to the average cost per 1,000 gallons or per 100 cubic feet of water used multiplied by the total average monthly estimated water usage of the residential customer class divided by the number of residential customers. For purposes of subsection (b)(2), each multi-unit residential customer shall be counted as 85% of a residential customer.

C) The multi-unit residential sewage treatment surcharge shall be equal to the residential sewage treatment surcharge multiplied by .85.

D) The charges for purchased sewage treatment shall be calculated using the following formulae:

$$SCbu = \frac{PST + R + O}{BU}$$

BU

$$CRSCbu = SCbu - AMC$$

$$RMSC = \frac{SCbu \times RAMU}{NCr}$$

NCr

Where:

SCbu=

Average charge for purchased sewage treatment per billing unit of water to be billed to residential and commercial customers during the base period.

PST=

Estimated cost of purchased sewage treatment charges from the supplier for the base period.

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R=	Utility-determined reconciliation component.
O=	Commission-ordered adjustment component.
BU=	Number of billing units to be billed to customers during the base period.
CRSCbu=	Large commercial rate sewage treatment charge for purchased sewage treatment per billing unit of water to be billed.
AMC=	Billing adjustment for the large commercial minimum charge.
RMSC=	Residential monthly sewage treatment charge. (The multi-unit residential monthly sewage treatment charge is equal to RMSC x .85.)
RAMU=	Total residential average estimated monthly water usage for the base period.
NCr=	Number of residential and multi-unit residential customers (each multi-unit residential customer being equal to .85 of one residential customer).

c) If the utility's cost varies based on the strength of waste treated, the appropriate formula for determination of the purchased sewage treatment surcharge will be included in the utility's purchased sewage treatment rider.

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Part 655. Purchased Water and Sewage Treatment Surcharges (Refs & Annos)

→→ **655.50 Annual Reconciliation**

a) At the time that the utility files its annual reconciliation, the utility shall file a petition pursuant to 83 Ill. Adm. Code 200 seeking approval of its annual reconciliation. The annual reconciliation shall be verified by an officer of the utility.

b) The utility shall provide the following schedules for each surcharge being reconciled:

1) A schedule showing the costs recoverable through the applicable surcharge during the reconciliation year,

2) A schedule showing the revenues arising from the applicable surcharge during the reconciliation year, and

3) A schedule showing the reconciliation components determined by the utility (Rf, Rv, and R, as applicable) to be recovered or refunded throughout the April 1 through December 31 period following the filing of the annual reconciliation. The reconciliation components shall be treated as an addition to, or an offset against, actual purchased water/purchased sewage treatment costs.

A) The calculation of the utility-determined reconciliation components shall include the effects of the reconciliation components and adjustment components from prior reconciliation years that were effective in the year being reconciled.

B) The utility-determined reconciliation components shall include the total of the following items:

i) Refunds, directly billed supplier surcharges, unamortized balances of adjustments in effect as of the utility's implementation date, and other separately designated adjustments;

ii) For the initial reconciliation year, the cumulative difference between actual recoverable purchased water/sewage treatment costs and surcharge recoveries for the period preceding the initial effective month; and

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- iii) The unamortized portion of any reconciliation components and/or adjustment components included in prior determinations of the purchased water/sewage treatment surcharge.
- C) The reconciliation components shall not include costs associated with unaccounted for water or any storm water inflow or infiltration in contravention of an Order of the Commission directing that such costs not be reflected in rates.
- D) If a utility determines the need to amortize a positive reconciliation component over a period longer than nine months, the utility must receive authority from the Commission's Manager of the Accounting Department to recover such costs over a longer period. The utility shall make the request in writing to the Manager of the Accounting Department. The Manager of the Accounting Department must approve the request for a longer amortization period in writing. The Manager of the Accounting Department shall consider the dollar amount of the positive reconciliation component and the impact of the positive reconciliation component on customer bills when granting or denying a utility's request for an amortization period longer than nine months.
- c) Costs and revenues associated with the purchased water/sewage treatment surcharge shall be subject to adjustment components (Of, Ov, and O, as applicable) as required by an Order of the Commission. Any difference determined by the Commission shall be credited or charged, as appropriate, along with any interest at the effective rates established by the Commission under 83 Ill. Adm. Code 280.70(e)(1). Interest on the adjustment component shall be applied from the end of the reconciliation year until the adjustment component is refunded or charged.
- d) The initial reconciliation year shall begin on the effective date of the purchased water/sewage treatment surcharge and end on December 31 of the calendar year in which the surcharge was initiated. Each subsequent reconciliation year shall begin on January 1 and shall end on December 31.
- e) The utility will file its annual reconciliation no later than the March 15 following the December 31 end of the reconciliation period. The utility-determined reconciliation component from the annual reconciliation shall become effective on the April 1 following the end of the reconciliation year.
- f) When the utility files its annual reconciliation, the utility shall provide two copies of the following items, for each surcharge being reconciled, one copy to the Commission's Manager of the Water Department and one copy to the Commission's Manager of the Accounting Department:
- 1) Copies of all workpapers pertaining to the reconciliation;
 - 2) Copies of all invoices supporting the costs for the applicable purchased water/sewage treatment surcharge;

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- 3) Copies of the applicable general ledger or equivalent documentation supporting the recovery of the purchased water/sewage treatment surcharge;
- 4) A worksheet showing an independent calculation of the purchased water/sewage treatment surcharge. For fixed charges, the worksheet shall show the total fixed charge obtained by multiplying the monthly fixed charge by the number of customer months. For variable charges, the worksheet shall show the total variable charge obtained by multiplying the units delivered by the variable charge rate; and
- 5) A detailed worksheet showing the calculation of any reconciliation component based upon the annual reconciliation and the effect of the reconciliation component amount on the purchased water/sewage treatment surcharge rate.

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→→ 655.60 Implementation

a) A utility proposing a purchased water/sewage treatment surcharge under this Part shall file a purchased water/sewage treatment surcharge rider in accordance with the requirements of Section 9-201 of the Act [220 ILCS 5/9-201].

b) The amount of any new or modified purchased water/sewage treatment surcharge shall be shown on an information sheet supplemental to the purchased water/sewage treatment surcharge rider, which shall be filed in accordance with this Section.

c) The utility shall provide supporting documentation and workpapers with the filing of each information sheet.

d) The utility shall file the information sheet and supporting data for the purchased water/sewage treatment surcharge no later than the 20th day of the month preceding the effective month. An information sheet and supporting data filed after that date, but prior to the first day of the effective month, shall be accepted only if it corrects an error or errors from a timely filed information sheet for the same effective date. Any other information sheet and supporting data shall be accepted only if submitted as a special permission request to become effective on less than 45 days' notice under the provisions of Section 9-201(a) of the Act [220 ILCS 5/9-201(a)].

e) The purchased water/sewage treatment surcharge shall be presented as a separate line item on the customer bills.

f) The revenues resulting from each purchased water/sewage treatment surcharge shall be recorded in a separate revenue subaccount.

g) A utility that presently has in place a separate charge for the recovery of purchased water/sewage treatment costs shall, within 180 days after December 19, 2001 (on or before June 17, 2002), file with the Commission tariff sheets proposing to initiate a new purchased water/sewage treatment surcharge rider consistent with this Part and cancel the presently effective separate charge. Such tariff sheets shall reflect the utility's proposal for disposition of reconciliation balances, if any, accrued under the separate charge in effect when

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Ill. Admin. Code tit. 83, § 655.60

the tariff sheets are filed.

h) A utility shall provide notice as required by Section 9-201(a) of the Act after the filing of each information sheet. The utility also shall post notice of such filing in accordance with the requirements of 83 Ill. Adm. Code 255. Unless filed as part of a general rate increase, notice of the filing of a purchased water/sewage treatment surcharge rider also shall be given in the manner required by this subsection for the filing of information sheets.

83 ILAC § 655.60, 83 IL ADC 655.60

This document is Current through January 27, 2012

END OF DOCUMENT

NEW JERSEY

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(b) Each provision violated shall constitute a separate and distinct violation, for which a separate penalty may be assessed.

(c) Each day that the violation continues shall constitute a separate and distinct violation, for which a separate penalty may be assessed.

(d) Any penalty assessed under this subchapter may be recovered with costs and, if applicable, interest charges, in a summary proceeding under the "penalty enforcement law," N.J.S.A. 2A:58-1 et seq.

(e) For any violation of this subchapter, the Board and/or the Department may commence a civil action in Superior Court for appropriate relief, including, without limitation, an injunction, and the reasonable costs of preparing and litigating the case.

(f) Use by the Board or the Department of any of the remedies provided for in this subchapter shall not preclude use of any other remedy available under this subchapter or any other applicable law.

New Rule, R.2006 d.367, effective October 16, 2006.
See: 38 N.J.R. 1538(a), 38 N.J.R. 4490(b).

SUBCHAPTER 7. PURCHASED WATER AND WASTEWATER ADJUSTMENT CLAUSES

14:9-7.1 Scope, applicability, and general provisions

(a) This subchapter provides for Board approval of purchased water adjustment clauses (PWACs) and purchased wastewater adjustment clauses (PSTACs), as these terms are defined at N.J.A.C. 14:9-7.2. A PWAC or PSTAC allows a utility to include in rates the costs of fluctuations in purchased water or purchased wastewater treatment, without the necessity of a full base rate case.

(b) To be eligible for a PWAC or a PSTAC, a utility shall meet the following requirements, as applicable:

1. For a water utility, the utility's purchased water costs, as defined at N.J.A.C. 14:9-7.2, exceed 10 percent of its total operating and maintenance expenses; and

2. For a wastewater utility, the utility's purchased wastewater treatment costs, as defined at N.J.A.C. 14:9-7.2, exceed 10 percent of its total operating and maintenance expenses.

(c) The Board approves a PWAC or PSTAC for one year, based on estimates of a utility's cost of purchased water or purchased wastewater treatment, and expected total volume of water or wastewater.

(d) At the end of each year, a utility with an approved PWAC or PSTAC shall:

1. Submit to the Board a year-end true up schedule to reconcile the previous year's actual and estimated costs of purchased water or purchased wastewater treatment; and
2. Submit a petition for an adjusted PWAC or PSTAC for the upcoming year.

Amended by R.1996 d.207, effective May 6, 1996.

See: 28 N.J.R. 1190(a), 27 N.J.R. 2405(b).

Added (b).

Amended by R.2001 d.133, effective May 7, 2001.

See: 33 N.J.R. 367(a), 33 N.J.R. 1392(b).

In (b), deleted "regular" preceding "rate relief".

Repeal and New Rule, R.2006 d.367, effective October 16, 2006.

See: 38 N.J.R. 1538(a), 38 N.J.R. 4490(b).

14:9-7.2 Definitions

The following words and terms, when used in this subchapter, shall have the following meanings unless the context clearly indicates otherwise. Additional definitions that apply to this subchapter can be found at N.J.A.C. 14:3-1.1 and 14:9-1.2.

"Base cost of purchased wastewater treatment" means the cost of contractually purchased wastewater treatment, as established in the most recent base rate case or through a PSTAC that has been approved through the procedures in N.J.A.C. 14:9-7.7. Purchased wastewater treatment cost shall be stated as a cost per 1,000 gallons or per 1,000,000 gallons, unless otherwise specifically approved by the Board.

"Base cost of purchased water" means the cost to a water utility of purchasing water through a contract. The base cost of purchased water is established in the most recent base rate case or adjustment clause case for that water utility. Base cost shall be stated as a cost per 1,000 gallons or cost per 1,000,000 gallons unless otherwise specifically approved by the Board.

"Base water consumption" means the amount of water consumed by customers of a particular water utility, as established in the most recent base rate Board Order, or adjustment clause Board Order that applies to that water utility. Base consumption is determined by subtracting unaccounted for water from the total amount of water that arrives from the purveyor to the utility water intake.

"Deferred accounting" means the deferral by a utility of accounting, on its books and records, for the amount of its over or under recovery of purchased water or wastewater treatment costs under a PWAC or PSTAC. A utility may request authorization for deferred accounting through a petition filed under N.J.A.C. 14:9-7.6.

"Flat rate basis" means the calculation of costs, rates and/or tariffs based on a method other than a metered basis, as defined in this section.

"Metered basis" means the calculation of costs, rates and/or tariffs based on the flow of water or wastewater through a meter.

"New cost of purchased wastewater treatment" means the base cost of purchased wastewater treatment, as defined in this section, plus the increase or decrease in the wastewater treatment purveyor's charges to the utility since the base cost was last approved by the Board.

"New cost of purchased water" means the base cost of purchased water, as defined in this section, plus the increase or decrease in the water purveyor's charges to the utility since the base cost was last approved by the Board.

"Operating and maintenance expenses" means the amount a utility uses to pay for day-to-day operations including, but not limited to, wages, maintenance, office supplies, etc.

"Purchased wastewater treatment adjustment clause" or "PSTAC" means the provision in a wastewater utility's tariff that authorizes the utility to adjust its rates to compensate for an increase or decrease in the cost of wastewater treatment purchased from a wastewater treatment purveyor.

"Purchased water" means water that a water utility buys from a water purveyor.

"Purchased water adjustment clause" or "PWAC" means the provision in a water utility's tariff that authorizes the utility to adjust its rates to compensate for an increase or decrease in the cost of water purchased from a water purveyor.

"True up schedule" means a detailed list which reconciles the actual recovery of costs under the PWAC or PSTAC that is in effect for a particular water or wastewater utility, for a specific period of time, with the Board approved criteria for recovery of such costs, and specifies when this reconciliation will occur.

"Wastewater treatment purveyor" means either of the following:

1. A governmental entity, including a utility authority or commission, that is empowered by law to charge for the treatment of wastewater; or
2. A private entity, whose rates for the sale of wastewater treatment are regulated by the Board.

"Water utility using a flat rate basis" means any water utility whose rates and tariffs are not designed on a meter flow basis.

"Water utility using a metered basis" means any water utility whose rates and tariffs are designed on a meter flow basis.

Amended by R.1996 d.207, effective May 6, 1996.

See: 28 N.J.R. 1190(a), 28 N.J.R. 2405(b).

Added "PWAC rate case expenses" and amended "base cost of purchased water", "purchased water adjustment clause" and "true up schedule".

Amended by R.2001 d.133, effective May 7, 2001.

See: 33 N.J.R. 367(a), 33 N.J.R. 1392(b).

In "Base consumption", inserted references to Board Orders; in "Deferred accounting treatment", inserted "of" following "water utility"; in "Water utility", deleted "the" following "subject to", substituted "by" for "of" preceding "the Board", and substituted "that" for "which" preced-

ing "purchases water"; in "Water utility using a metered basis", inserted "flow" following "meter".

Amended by R.2006 d.367, effective October 16, 2006.

See: 38 N.J.R. 1538(a), 38 N.J.R. 4490(b).

Rewrote the introductory paragraph and definitions "Base cost of purchased water", "New Cost of purchased water" and "Purchased water adjustment clause"; deleted definitions "Base consumption", "Public entity", "PWAC rate case expenses", "Revenue tax factor", "Trueing up schedule", "Water purveyor" and "Water utility"; added definitions "Base cost of purchased wastewater treatment", "Base water consumption", "Flat rate basis", "Metered basis", "New cost of purchased wastewater treatment", "Operating and maintenance expenses", "Purchased wastewater treatment adjustment clause", "Purchased water", "True up schedule" and "Wastewater treatment purveyor"; and substituted definition "Deferred accounting" for "Deferred accounting treatment" and rewrote the definition.

Case Notes

Purchased Water Adjustment Clause; water company entitled to base rate increase to recover costs associated with New Jersey Water Supply Authority contract. In Matter of Shorelands Water Company for Approval of Increase in Rates, 93 N.J.A.R.2d (BRC) 27.

14:9-7.3 Initial PWAC or PSTAC

(a) A water or wastewater utility with purchased water costs or wastewater treatment costs may file a petition with the Board for approval of an initial purchased water adjustment clause or purchased wastewater treatment clause, provided the utility meets all of the following criteria:

1. The utility's purchased water cost, or purchased wastewater treatment cost, exceeds 10 percent of the utility's operating and maintenance expenses;
2. The Board has approved the utility's base rates through a rate case and order during the three years prior to submittal of the petition for an initial PWAC or PSTAC; and
3. The utility has received notice of an increase or decrease in the cost of purchased water from its water purveyor, or in the cost of purchased wastewater treatment from its wastewater treatment purveyor.

(b) To obtain Board approval of an initial PWAC or PSTAC, a utility shall submit a petition that meets the requirements of N.J.A.C. 14:9-7.6. The utility shall submit the petition as soon as possible after the utility receives notice of a change in its purchased water or purchased wastewater treatment costs, and no later than 45 days after receiving such notice. The Board may extend this deadline for just cause.

(c) No initial purchased water adjustment clause shall be approved unless a water utility, within the prior three years, has had its base rates set by the Board in a decision and order which established base level data against which the new cost of purchased water can be measured. All succeeding adjustment clauses shall reflect the incremental or decremental cost of purchased water.

(d) The Board shall process a petition for approval of a PWAC or PSTAC in accordance with the rules of procedure regarding petitions at N.J.A.C. 14:1-5, the rules regarding

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contested cases at N.J.A.C. 14:1-8 and the Uniform Administrative Procedure Rules at N.J.A.C. 1:1.

(e) An initial PWAC or PSTAC shall remain in effect until the utility's next rate case, provided that the utility submits an annual year-end true up and an annual petition for adjustment of the PWAC or PSTAC amount, in accordance with N.J.A.C. 14:9-7.4.

Amended by R.1996 d.207, effective May 6, 1996.
See: 28 N.J.R. 1190(a), 28 N.J.R. 2405(b).

Rewrote the section.

Amended by R.2001 d.133, effective May 7, 2001.
See: 33 N.J.R. 367(a), 33 N.J.R. 1392(b).

In (a), rewrote the second sentence and inserted "by the Board" preceding "for just cause" in the third sentence; in (c), substituted "The" for "Said" at the beginning of the second sentence; in (d), substituted "result from" for "are results of" preceding "a true up" in the first sentence, substituted "in" for "at" preceding "its discretion" and inserted ", whichever is the most appropriate refund under the specific circumstances" following "by check" in the second sentence.

Amended by R.2006 d.367, effective October 16, 2006.

See: 38 N.J.R. 1538(a), 38 N.J.R. 4490(b).

Section was "Petitions for purchased water adjustment clauses; true up schedules; time for filing." Rewrote (a); added new (b), (d) and (e); recodified former (b) as new (c); and deleted former (c) through (e).

Case Notes

Purchased Water Adjustment Clause; water company entitled to base rate increase to recover costs associated with New Jersey Water Supply Authority contract. In Matter of Shorelands Water Company for Approval of Increase in Rates, 93 N.J.A.R.2d (BRC) 27.

14:9-7.4 Year-end true up schedule

(a) Once a purchased water adjustment clause has been in effect for one year, a utility shall submit a true up schedule to the Board. The true up schedule shall compare:

1. The actual cost of purchased water or of wastewater treatment for the previous year; and
2. The estimated costs of purchased water or of wastewater treatment for the previous year, upon which the PWAC or PSTAC for the previous year was based.

(b) The utility shall file the true up schedule within 45 days after the end of the year covered by the PWAC or PSTAC, regardless of whether the utility files a petition for approval of an adjustment of the PWAC or PSTAC for the following year.

(c) If the utility files a petition for approval of an adjustment of a PWAC or PSTAC for the following year, the utility may file the year-end true up schedule for its previous year's PWAC or PSTAC in conjunction with the utility's petition for the adjustment (see N.J.A.C. 14:9-7.6), or in conjunction with the filing of a base rate case.

(d) If the year-end true up schedule indicates that the utility recovered more under the PWAC or PSTAC than was necessary to reflect its cost of purchased water or wastewater treatment during the preceding year, the following shall apply:

1. The utility shall submit, as part of its true up schedule, a calculation of the interest for the year on the over recovery, in accordance with N.J.A.C. 14:3-13; and

2. Either or both of the following shall apply:

i. The Board may require an adjustment that will reduce the utility's revenue under its PWAC or PSTAC for the following year; and/or

ii. The Board may require that the utility provide a refund to customers. The Board may, in its discretion, require that refunds be provided through a bill credit, refund check, or other appropriate means.

(e) A utility that is required to provide a refund under this section shall certify to Board staff that the refund was provided, the date upon which it was provided, and the total amount of the refund.

New Rule, R.2006 d.367, effective October 16, 2006.

See: 38 N.J.R. 1538(a), 38 N.J.R. 4490(b).

Former N.J.A.C. 14:9-7.4, Petition for purchased water adjustment clauses; content; procedures, recodified to N.J.A.C. 14:9-7.6.

14:9-7.5 Billing

If a utility has a Board approved purchased water adjustment clause or purchased wastewater treatment adjustment clause, the utility shall list and identify any rate adjustment authorized through the clause separately on customer bills.

New Rule, R.2006 d.367, effective October 16, 2006.

See: 38 N.J.R. 1538(a), 38 N.J.R. 4490(b).

Former N.J.A.C. 14:9-7.5, Formula for determination of base costs by a water utility using a flat rate basis, recodified to N.J.A.C. 14:9-7.7.

14:9-7.6 Petition contents

(a) This section sets forth the content requirements for a petition for:

1. Approval of an initial PWAC or PSTAC;
2. Approval of a year-end true up schedule; and
3. Approval of an adjustment to a PWAC or PSTAC for a year following the year of the initial PWAC or PSTAC.

(b) A petition submitted under this subchapter shall include the following:

1. A copy of the contracts for purchased water or purchased wastewater, which formed the basis for the utility's most recent base rate case or adjustment clause case, whichever is later;
2. Copies of the present and proposed purchased water or wastewater contracts, including price and detailed financial statements of associated expenses;
3. The actual number and classes of customers that the utility serves;

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- i. As approved in the utility's most recent base rate case or adjustment clause case, whichever is later; and
 - ii. As of the end of the most recent calendar year;
4. The actual volume of water or wastewater treatment purchased:
- i. As approved in the utility's most recent base rate case or adjustment clause case, whichever is later; and
 - ii. As of the end of the most recent calendar year;
5. An estimate of the cost per unit of volume of water or wastewater treatment that the utility will purchase under contracts during the upcoming year if the Board approves the PWAC or PSTAC. The utility shall develop this estimate using the methodology approved by the Board in the utility's most recent base rate case or adjustment clause case, whichever is later;
6. A proposed tariff sheet, entitled "Purchased Water Adjustment Clause" or "Purchased Wastewater Treatment Adjustment Clause" that shows all rate schedules in the tariff that will be affected by the clause, if approved, and how each rate schedule will be affected;
7. A copy of each Board Order that approves rates, which was issued as a result of the utility's most recent base rate case or its most recent adjustment clause case;
8. A detailed description of all of the following:
- i. The utility's efforts to investigate the basis for any cost increase proposed by its purveyor;
 - ii. The utility's findings and results of the investigation conducted under i above;
 - iii. The utility's efforts to negotiate with the purveyor to ensure that the charges are such that they will not hamper the utility's efforts to ensure that its rates are just and reasonable;
9. A list of expenditures that a utility must make to conduct a rate case in accordance with Board procedures, including, but not limited to, consulting, legal and accounting fees; costs of the public notice, room rental, court reporter and transcripts for the public hearing; the cost of any necessary changes to customer invoices; and other traditional rate case expenses; and
10. At the utility's discretion, the utility may include a request for compression or deferred accounting.

(c) The Board shall not accept or consider a request for deferred accounting of PWAC or PSTAC amounts except in the context of an adjustment clause proceeding. The amount that the Board will permit the utility to defer may be adjudicated in a subsequent filing of an adjustment clause or base rate case.

(d) If the Board approves deferred accounting, the utility shall pay interest on the deferred amount in accordance with N.J.A.C. 14:3-13.2.

(e) A utility shall serve a copy of each petition subject to this section, and all supporting exhibits, upon Rate Counsel simultaneously with the filing of the petition with the Board.

(f) In reviewing a petition subject to this subchapter, the Board may consider such additional relevant information or financial analysis as it deems appropriate.

Amended by R.1996 d.207, effective May 6, 1996.
See: 28 N.J.R. 1190(a), 28 N.J.R. 2405(b).

Rewrote (a).

Amended by R.2001 d.133, effective May 7, 2001.
See: 33 N.J.R. 367(a), 33 N.J.R. 1392(b).

In (a)5, substituted "The" for "Said" and "that" for "which" in the second sentence; rewrote (a)6; in (a)7, substituted "shall" for "will" in the third sentence; and in (e), substituted "of the petition" for "thereof" preceding "with the Board".

Recodified from N.J.A.C. 14:9-7.4 and amended by R.2006 d.367, effective October 16, 2006.

See: 38 N.J.R. 1538(a), 38 N.J.R. 4490(b).

Section was "Petition for purchased water adjustment clauses; content; procedures". Rewrote the section. Former N.J.A.C. 14:9-7.6, Formula for determination of costs by a water utility using a metered basis, combined with former N.J.A.C. 14:9-7.5 as new 14:9-7.7.

14:9-7.7 Determining the customer charge under a PWAC or PSTAC

(a) This section sets forth the procedure by which a water or wastewater utility shall calculate the amount the utility is authorized to collect from each customer under its PWAC or PSTAC. The utility shall present this calculation to the Board for its review and approval as part of a petition submitted under N.J.A.C. 14:9-7.5.

(b) To determine the customer charge under a PWAC or PSTAC, a utility shall apply the equation in Table B below, for all customers charged for service on a flat rate basis, and the equation in Table C below for all customers charged on a metered basis.

Table B

Determining PWAC or PSTAC Customer Charge – Flat Rate Basis

Utility's base cost of purchased water or wastewater at time of petition submittal

- +/- New cost of purchased water or wastewater
- +/- Rate case expenses
- +/- Amount of costs and expenses compressed or deferred, if any
- x Revenue tax factor, that is, the multiplier applied to recoup the Gross Receipts and Franchise Taxes at the rate established in the utility's last base rate or adjustment clause case
- = Total allowable expenses
- ÷ Number of customers by class
- = PWAC or PSTAC charge per customer for the upcoming year

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Table C

Determining PWAC or PSTAC Customer Charge -- Metered Basis**Base cost of purchased water or wastewater**

+/-	New cost of purchased water or wastewater
+/-	Rate case expenses
+/-	Amount of costs and expenses compressed or deferred, if any
x	Revenue tax factor, that is, the multiplier applied to recoup the Gross Receipts and Franchise Taxes at the rate established in the utility's last base rate or adjustment clause case
=	Total allowable expenses
+	Base water consumption or base wastewater treatment
=	PWAC or PSTAC charge per thousand gallons for the upcoming year

Amended by R.1996 d.207, effective May 6, 1996.

See: 28 N.J.R. 1190(a), 28 N.J.R. 2405(b).

Rewrote section.

Recodified from N.J.A.C. 14:9-7.5 and amended by R.2006 d.367, effective October 16, 2006.

See: 38 N.J.R. 1538(a), 38 N.J.R. 4490(b).

Section was "Formula for determination of base costs by a water utility using a flat rate basis". Section combined with former N.J.A.C. 14:9-7.6, Formula for determination of costs by a water utility using a metered basis. Added (a) and (b); rewrote existing table as "Table B"; and incorporated and rewrote table from former N.J.A.C. 14:9-7.6 as "Table C".

Case Notes

Purchased Water Adjustment Clause; water company entitled to base rate increase to recover costs associated with New Jersey Water Supply Authority contract. In Matter of Shorelands Water Company for Approval of Increase in Rates, 93 N.J.A.R.2d (BRC) 27.

Waste disposal rates; reasonableness of additional disposal and transportation costs; refunds for put-or-pay penalty charges; no refunds for failure to invoke Force Majeure clause; interim rate determined. In Matter of Petition of Bridgewater Resources, Inc., 92 N.J.A.R.2d (BRC) 27.

SUBCHAPTER 8. COMBINED DOMESTIC WATER AND FIRE SUPPRESSION SERVICE**14:9-8.1 Definitions**

The following words and terms, when used in this subchapter, shall have the following meanings, unless the context clearly indicates otherwise. Additional definitions that apply to this subchapter can be found at N.J.A.C. 14:9-1.2, and 14:3-1.1.

"Customer's water system" means all water facilities on the customer's side of the meter, or on the customer's side of the water service, which are owned or controlled by the customer.

"DCA" means the Department of Community Affairs.

"Domestic water service" means potable water service supplied by a water utility that meets or exceeds New Jersey Safe Drinking Water rules, found at N.J.A.C. 7:10-1.3.

"Fire suppression service" means potable water supplied for use in a fire suppression system inside a structure, such as an automatic sprinkler system.

"Multi-use service" means water service that is supplied to a structure through one water line extending from the water main to the structure, and which is used inside the structure for both domestic water service and fire suppression service.

14:9-8.2 Required water tariff filings and amendments

(a) A water utility that is required under N.J.A.C. 14:1-11 to file a tariff with the Board after October 16, 2006 shall ensure that the tariff complies with this subchapter.

(b) A water utility that has filed a tariff prior to October 16, 2006, which is in effect as of October 16, 2006, shall submit an amendment to the tariff, or a new tariff page(s), that complies with this subchapter. The water utility shall submit the amendment or new tariff page(s) by January 14, 2007.

(c) If a residential customer or builder requests fire suppression service and that service is provided from a multi-use line of two inches or less, the customer's meter may be placed on the domestic branch of the customer's service to properly measure domestic water use.

14:9-8.3 Multi-use service

(a) Each water utility that provides multi-use service, as defined at N.J.A.C. 14:9-8.1, shall include in its tariff the language required in this section. The water utility shall place the language in the tariff in the location required in this section.

(b) The following language shall be located in the tariff in a Terms of Payment section governing multi-use service, or in a general Terms of Payment section:

"A water utility may terminate a customer's multi-use service for non-payment of a valid water bill for multi-use service, in accordance with the Board's rules governing discontinuance of service at N.J.A.C. 14:3-3.6."

(c) The following language shall be located in the tariff in a Conditions section that governs multi-use service:

"By applying for multi-use service, the customer or builder certifies that:

1. The customer or builder has hydraulically calculated the demand for the customer's or builder's water system, based on the simultaneous domestic demand and fire sprinkler demand. The customer or builder shall make this calculation in accordance with the Uniform Construction Code; and

2. The customer or builder will ensure that the system is installed in accordance with the Uniform Construction Code at N.J.A.C. 5:23; and

3. The customer will, prior to installation of the meter, obtain a construction permit in accordance with the Uniform Construction Code from the enforcing agency having jurisdiction over the system.

CALIFORNIA

ALJ/CMW/jt2

Date of Issuance June 16, 2008

Decision 08-06-002 June 12, 2008

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of California-American Water Company (U210W) for an order authorizing it to increase its rates for Water Service in its Los Angeles District to increase revenues by \$2,020,466 or 10.88% in the year 2007; by \$634,659 or 3.08% in the year 2008; and by \$666,422 or 3.14% in the year 2009.

Application 06-01-005
(Filed January 9, 2006)

DECISION ADOPTING A CONSERVATION RATE DESIGN SETTLEMENT

A.06-01-005 ALJ/CMW/jt2

Commission issues a final decision in this proceeding. The settlement is unopposed and the proposed decision recommends it be adopted. Therefore, Cal-Am can begin the process of customer notification and billing system modifications when the proposed decision is first issued, and it should give priority to quickly accomplishing these tasks.

3.2.2. WRAM and MCBA Mechanisms

In order to (1) remove any disincentive for Cal-Am to implement conservation rates and programs, (2) ensure any cost savings resulting from conservation are passed onto ratepayers, and (3) reduce overall water consumption in the Los Angeles district, the settling parties propose adopting a WRAM and MCBA in the Pilot Program.¹¹

Together, these two mechanisms will operate to ensure recovery of the adopted fixed costs recovered through Cal-Am's volumetric rates, and the actual variable costs for purchased power, purchased water, and pump taxes. The fixed costs not included in these accounts will be recovered through the service charge, which is a monthly charge that customers pay regardless of consumption levels. Cal-Am stipulates that it will exercise due diligence in ensuring the least-cost water mix of its water sources and will make a showing in the next GRC filing demonstrating that it has exercised due diligence and that any significant change in water purchases was reasonable.¹²

Each of Cal-Am's three service areas will have its own WRAM and MCBA balancing accounts, with separate reporting by customer class maintained for

¹¹ These are the three goals stated in Section VI of the settlement.

¹² Significant changes in water purchases are defined for each service area in Section IX.D and will be tracked for later reasonableness review.

A.06-01-005 ALJ/CMW/jt2

each WRAM balancing account.¹³ The WRAM and MCBA accounts for each service area will always be considered together, *i.e.* netted, when determining the need for additional revenue recovery from, or for refunds to, ratepayers in that service area. The WRAM and MCBA accounts will accrue interest at the 90-day commercial paper rate.

The settlement provides that by March 31st of each year, Cal-Am will provide the Water Division (with a copy to DRA) a written report that includes the net WRAM/MCBA balance in each service area. If the report shows the net balance exceeds 2.5% of a service area's total recorded revenue requirement for the prior calendar year, Cal-Am will file an advice letter within 30 days that amortizes the balance through a volumetric surcharge, if it is an under-collection, or a volumetric surcredit, if it is an over-collection. If the 2.5% threshold is not met, these balancing accounts will be amortized in the next GRC.

Discussion

In D.07-08-030, the Commission expressed a policy preference for a revenue adjustment mechanism that focused solely on cost under- and over-recovery caused by conservation policies, rather than a broader WRAM mechanism. Cal-Am and DRA in their comments on the proposed decision stated that they did not have the data necessary to develop the proposed conservation-focused mechanism.

Since the issuance of D.07-08-030, the parties have again requested the Commission consider, as part of a Pilot Program scheduled to be in place for

¹³ While Cal-Am will track revenues in the WRAM account in each service area by customer class for analysis purposes, implementation of a surcharge or surcredit will be calculated using the WRAM balance for all customer classes in each service area.

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approximately two years, the WRAM and MCBA mechanisms. Therefore, we assess the specifics of these mechanisms for the Los Angeles district Pilot Program.

The conservation rate design being proposed is expected to have a measurable but not substantial impact on sales during the Pilot Program. This is seen in our earlier discussion of the structure of the conservation rate design and is also apparent in the proposed balancing account recovery and refund procedures, which have an annual review, with a 2.5% annual revenue requirement threshold.

As a safeguard, the parties have also provided a provision in the settlement that would allow for a review and midcourse correction if the impacts of the WRAM and MCBA mechanisms go well beyond conservation impacts and instead produce a disparate impact on ratepayers or shareholders. This provision is found in Section III.3., and it would cause the parties to meet and discuss adjustments. We find that following this discussion, the parties should individually or jointly file a petition to modify this decision.

One disparate impact that could occur in the Pilot Program period would be a severe economic downturn in one or more of the Los Angeles service areas that causes a significant decrease in revenues. This could occur from a high rate of home foreclosures and/or business slowdowns or shutdowns. We find this would clearly be a disparate impact as the WRAM mechanism would shield shareholders from all financial consequences of the economic downturn while requiring ratepayers to bear the full cost. Since Cal-Am will be tracking sales levels by customer class and service area, any disparate impact can be quickly seen and addressed.

A.06-01-005 ALJ/CMW/jt2

Given the expected modest balancing account impacts, the safeguards discussed above, and the limited time period of the Pilot Program, we find it reasonable to adopt the proposed WRAM and MCBA mechanisms. We expect that the usage information collected and evaluated during the Pilot Program will allow a conservation focused mechanism to be given consideration in the next GRC filing.

3.2.3. Procedural Process to Address Return on Equity Adjustment

In Phase 1 of this proceeding, the Commission examined the issue of whether a downward adjustment to Cal-Am's Los Angeles district return on equity should be made if a WRAM mechanism was adopted in Phase 2. The initial proposed decision recommended a 50 basis point downward adjustment be adopted. The Commission removed consideration of both the WRAM and a return on equity adjustment from this proceeding in D.07-08-030, stating these issues should be examined in a generic proceeding for all water utilities (I.07-01-022). Subsequently, the parties filed a petition to modify D.07-08-030 that requested the WRAM be considered here, but did not address the related return on equity adjustment issue. In the settlement filed on March 25, 2008, the parties provide a procedural process for consideration of a return on equity adjustment for the WRAM in this settlement.

Section XIV of the settlement provides that if the Commission adopts in Phase 1B of I.07-01-022 a generic basis point adjustment to return on equity for water utilities that have WRAM/MCBA mechanisms that are similar to those approved for California Water Service Company and Park Water Company in D.08-02-036, then the same generic return on equity adjustment should be applied to the WRAM/MCBA adopted here. Further, the return on equity

A.06-01-005 ALJ/CMW/jt2

O R D E R

IT IS ORDERED that:

1. The March 25, 2008 settlement attached at Appendix A is adopted.
2. California-American Water Company (Cal-Am) is directed to file a Tier 1 advice letter, in accordance with General Order (GO) 96-B , and make effective on not less than five days notice, revised tariff schedules reflecting the adopted conservation rate design and rates and the adopted Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) mechanisms, as well as the schedule of recovery for the balances under these mechanisms.
3. During the Pilot Program, Cal-Am shall collect and analyze the data necessary for Commission consideration of a proposal to move to monthly billing. Cal-Am shall present a proposal for this in its next Los Angeles district general rate case (GRC) filing.
4. Cal-Am shall meet and confer with all interested parties in the next 90 days to determine the types of data collection necessary in order for the Commission to consider further conservation rate design proposals for non-residential customers in the next GRC proceeding.
5. Cal-Am shall track and prepare a report on the usage of the top 100 residential customers in each service area during the Pilot Program. This report shall be in the same format as the report made for the Monterey district, as shown in Exhibit 63.
6. Cal-Am shall make every effort to implement the conservation rate design adopted here as soon as possible.

A.06-01-005 ALJ/CMW/jt2

7. Cal-Am shall include in its next GRC filing a discussion of the feasibility, as well as the costs and benefits, of revenue adjustment mechanisms that are focused solely on conservation impacts.

8. If the Commission issues a decision regarding a return on equity adjustment in I.07-01-022 that is not consistent with the generic adjustment described in the settlement, Cal-Am shall meet and confer with all interested parties within 30 days and then, jointly or separately, file a petition to modify this decision within 15 days after the meeting.

9. The WRAM/MCBA balancing accounts adopted here shall be subject to true-up to the date of a final decision on a return on equity adjustment.

10. Cal-Am shall provide, upon request, drafts of its Comprehensive Planning Study and Condition-Based Assessment of Buried Infrastructure reports to any city with residents who are customers of Cal-Am as of July 15, 2008, and shall provide those cities a 30 day period for review and submission of written comments before Cal-Am finalizes the reports.

11. In consultation with DRA and other interested parties, Cal-Am shall develop a comprehensive monitoring and data collection system for use in analyzing customer response to the proposed conservation rates and conservation programs. Cal-Am shall schedule a meeting every four to six months to discuss with interested parties the results of the customer response data it is tracking and whether there should be any changes in conservation outreach programs in response to the results.

A.06-01-005 ALJ/CMW/jt2

12. Application 06-01-005 is closed.

This order is effective today.

Dated June 12, 2008, at San Francisco, California.

MICHAEL R. PEEVEY
President
DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
TIMOTHY ALAN SIMON
Commissioners

Advice Letter 943
May 2, 2012
Page 2 of 6

6487-W

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(continued)

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6484-W

Request:

This advice letter filing is to request recovery of the Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) balances as of December 31, 2011 in accordance with pages 8 and 9 of the settlement agreement adopted by the California Public Utilities Commission (Commission) in D.08-06-002, which states;

1. *The WRAM and MCBA accounts for each service area will always be considered together for purposes of determining the need for additional revenue recovery from, or for refund to, ratepayers in that service area, and will be netted prior to any refund or recovery.*
2. *California-American Water will track revenues in the WRAM account in each service area by customer class for analysis purposes, but implementation of a surcharge or surcredit will be done considering the net balance of the WRAM and MCBA accounts for all customer classes in each service area.*
3. *If the annual report shows that the combined over- or under-collection for the WRAM or the MCBA in any service area exceeds 2.5% of the service area's total recorded revenue requirement for the prior calendar year, California-American Water will file an advice letter within 30 days that amortizes the balance in all of the WRAM and MCBA accounts in the service area.*
4. *If the 2.5% threshold is not met, these balancing accounts will be amortized in the next GRC.*
5. *Recovery of under-collections and refunds of over-collections will be passed on to ratepayers through volumetric surcharges and surcredits.*

California American Water submitted its annual WRAM and MCBA report on April 3, 2012. In that report, California reported the following balances for the accounts from January 1, 2011 through December 31, 2011;

Table 1: WRAM/MCBA Balances for the period 1/1/11 through 12/31/11

Service Area	2011 WRAM Over(Under) Collection	2011 MCBA Over(Under) Collection	2011 WRAM/ MCBA
Baldwin Hills	(\$753,033)	\$405,148	(\$347,885)
Duarte	(\$885,575)	\$1,213,851	\$328,276
San Marino	(\$2,546,100)	\$2,683,099	\$136,999

Background:

On June 12, 2008 the Commission issued Ordering Paragraph 1 of D.08-06-002 which adopted a settlement agreement between California American Water, the Division of Ratepayer Advocates (DRA) and the City of Duarte to establish a Pilot Program for a conservation rate structure in the Baldwin Hills, Duarte and San Marino service areas of the Los Angeles district.

The March 25, 2008 settlement attached as Appendix A is adopted.

Advice Letter 943

May 2, 2012

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As part of the amended settlement, California American Water was to establish a WRAM and MCBA as outlined below from page 6 of the agreement, dated March 24, 2008;

Decoupling for California-American Water will be accomplished through both of the following mechanisms:

1. *A Water Revenue Adjustment Mechanism (WRAM) for each service area in the Los Angeles District.*
2. *A Modified Cost Balancing Account (MCBA) for each service area. MCBA's will replace existing cost balancing accounts for purchased power, and purchased water (pump taxes are tracked in the purchased water balancing account for each service area).*
3. *Together, these decoupling mechanisms will ensure recovery of the adopted fixed costs recovered through the quantity charge, and the actual variable costs for purchased power, purchased water and pump taxes. The fixed costs not included in these accounts will be recovered through the service charge, which is a monthly charge that customers pay regardless of consumption.*
4. *In accordance with established Commission practice, the WRAM and MCBA accounts will accrue interest at the 90-day commercial paper rate.*

The WRAM will track the difference between the total quantity charge revenues authorized by the Commission ("Total Adopted Quantity Revenues"), and the total revenues actually recovered through the quantity charge based on actual sales ("Total Actual Quantity Revenues"), excluding:

1. *Revenue from Private Fire Protection Service... and;*
2. *Revenue from the "Other" class of general metered customers.*

Recovery of the WRAM and MCBA Balances:

A comparison of the WRAM and MCBA balances to 2011 recorded operating revenue by region is provided in Tables 2 and 3 below.

Table 2: WRAM and MCBA Balances to 2011 Operating Revenue

Service Area	Net 2011 WRAM/MCBA Balance at 12/31/11	Prior Remaining Balance at 12/31/11	Combined 2011 and Prior Net Balances	2011 Recorded Operating Revenue	% to Operating Revenue
Baldwin Hills	(\$347,885)	(\$149,889)	(\$497,774)	\$5,319,451	9.36%

For Baldwin Hills, the 2010 under-collection of \$241,009 was nearly offset by the 2009 outstanding over-collection of \$241,218 at December 31, 2010. California American Water received approval to net these balances out and halt the surcredit that was currently in place to refund the 2009 balance. However, due to timing differences, the surcredit remained in effect until August 2011, resulting in an under-collected balance of \$149,889. California American Water proposes to consolidate this with the 2011 balance. The combined total comes to 9.36% of recorded 2011 revenue, which requires a volumetric surcharge over a two-year period beginning in 2012 under current Commission recovery guidelines.

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Table 3: WRAM and MCBA Balances to 2011 Operating Revenue

Service Area	Net 2011 WRAM/MCBA Balance at 12/31/11	2011 Recorded Operating Revenue	% to Operating Revenue	Prior Remaining Balance at 12/31/11	Combined 2011 and Prior Net Balances To be Re-amortized & Recovered Within Original Recovery Period
Duarte	\$328,276	\$6,031,018	5.44%	(\$1,616,826)	(\$1,288,550)
San Marino	\$136,999	\$12,324,247	1.11%	(\$2,287,990)	(\$2,150,991)

For Duarte and San Marino, California American Water is filing to apply the 2011 over-collected net balances towards the current recovery of the 2009 and 2010 under-collections to reduce the outstanding balance, with the new net balance re-amortized to still be recovered within the previously authorized periods for 2009 and 2010.

Related Filings:

The Commission is currently reviewing California American Water's request in its statewide General Rate Case (GRC) in A.10-07-007 to shorten the amortization periods for WRAM and MCBA balances due to recent changes to general accounting principles. Should decisions issued under either proceeding amend the current balances and recovery procedures, California American Water will modify any active surcharge and recovery period accordingly. However, until such a determination is made, California American Water will continue to abide by the current standards and settlements in effect.

The actions requested in this advice letter are not now the subject of any formal complaint with the California Public Utilities Commission or action in any court of law.

This filing will not cause the withdrawal of service, nor conflict with other schedules or rules.

Tier Designation:

These tariffs are submitted pursuant to General Order No. 96-B and this advice letter is designated as a Tier 1 filing.

Effective Date:

California American Water requests that the tariffs discussed above, be made effective May 9, 2012.

Service List:

In accordance with Section 4.3 of General Order 96-B, a copy of this advice letter has been served upon all interested and affected parties as shown in Exhibit A.

Protest and Responses:

Anyone may respond to or protest this advice letter. A response supports the filing and may contain information that proves useful to the Commission in evaluating the advice letter.

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May 2, 2012

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A protest objects to the advice letter in whole or in part and must set forth the specific grounds on which it is based. These grounds may include the following:

- (1) The utility did not properly serve or give notice of the advice letter;
- (2) The relief requested in the advice letter would violate statute or Commission order, or is not authorized by statute or Commission order on which the utility relies;
- (3) The analysis, calculations, or data in the advice letter contain material errors or omissions;
- (4) The relief requested in the advice letter is pending before the Commission in a formal proceeding; or
- (5) The relief requested in the advice letter requires consideration in a formal hearing, or is otherwise inappropriate for the advice letter process; or
- (6) The relief requested in the advice letter is unjust, unreasonable, or discriminatory (provided that such a protest may not be made where it would require relitigating a prior order of the Commission.).

A protest shall provide citations or proofs where available to allow staff to properly consider the protest.

A response or protest must be made in writing or by electronic mail and must be received by the Water Division within 20 days of the date this advice letter is filed. The address for mailing or delivering a protest is:

Tariff Unit, Water Division, 3rd floor
California Public Utilities Commission,
505 Van Ness Avenue, San Francisco, CA 94102
water_division@cpuc.ca.gov

On the same date the response or protest is submitted to the Water Division, the respondent or protestant shall send a copy by mail (or e-mail) to us, addressed to:

Recipients:	E-Mail:	Mailing Address:
David P. Stephenson <i>Director – Rates & Regulation</i>	dave.stephenson@amwater.com ...	4701 Beloit Drive Sacramento, CA 95838 Fax: (916) 568-4260
Sarah E. Leeper..... <i>Vice President – Legal, Regulatory</i>	sarah.leeper@amwater.com.....	333 Hayes Street San Francisco, CA 94102 Fax: (415) 863-2960
Suzette Halterman <i>Financial Analyst I</i>	suzette.halterman@amwater.com ..	4701 Beloit Drive Sacramento, CA 95838 Fax: (916) 568-4260

Advice Letter 943

May 2, 2012

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Cities and counties that need Board of Supervisors or Board of Commissioners approval to protest should inform the Water Division, within the 20-day protest period, so that a late filed protest can be entertained. The informing document should include an estimate of the date the proposed protest might be voted on.

If you have not received a reply to your protest within 10 business days, contact this person at (916) 568-4222.

CALIFORNIA-AMERICAN WATER COMPANY

/s/ David P. Stephenson

David P. Stephenson
Director - Rates & Regulation

CALIFORNIA-AMERICAN WATER COMPANY
 1033 B Avenue, Suite 200
 CORONADO, CA 92118

Revised C.P.U.C. SHEET NO. 6485-W

CANCELLING Revised C.P.U.C. SHEET NO. 6155-W

Schedule No. LA-1 (Continued)
 Los Angeles District Tariff Area
GENERAL METERED SERVICE

SPECIAL CONDITIONS (Continued):

- 6. Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) Surcharges:
 - a. **Baldwin Hills**
 - i. For the Baldwin Hills service area, a surcharge is included on each bill to recover the net under-collection in the WRAM and MCBA of \$497,774, including interest, as of December 31, 2011. The surcharge is \$0.1561 per ccf and will remain effective for 24 months beginning May 9, 2012.
 - b. **Duarte**
 - i. For the Duarte service area, a surcharge is included on each bill to recover the net under-collection in the WRAM and MCBA of \$1,288,550, including interest, as of December 31, 2011. The surcharge is \$0.2388 per ccf and will remain effective through May 31, 2014.
 - c. **San Marino**
 - i. For the San Marino service area, a surcharge is included on each bill to recover the net under-collection in the WRAM and MCBA of \$2,150,991, including interest, as of December 31, 2011. The surcharge is \$0.1883 per ccf and will remain effective through May 31, 2014.

(D)
(N)

(N)

(Continued)

(TO BE INSERTED BY UTILITY)
 ADVICE LETTER NO. 943

ISSUED BY
D. P. STEPHENSON

(TO BE INSERTED BY C.P.U.C.)
 DATE FILED MAY - 2 2012

DECISION NO. D. 08-06-002

DIRECTOR - Rates & Regulation

EFFECTIVE MAY - 9 2012
 RESOLUTION _____

CALIFORNIA-AMERICAN WATER COMPANY

1033 B Avenue, Suite 200
CORONADO, CA 92118

Revised C.P.U.C. SHEET NO. 6486-W

CANCELLING Revised C.P.U.C. SHEET NO. 6161-W

Schedule No. LA-1-LIRA (Continued)
Los Angeles District Tariff Area
LOW INCOME RATEPAYER ASSISTANCE PROGRAM

SPECIAL CONDITIONS APPLICABLE TO ALL CUSTOMERS (Continued):

6. Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA) Surcharges:

a. **Baldwin Hills**

i. For the Baldwin Hills service area, a surcharge is included on each bill to recover the net under-collection in the WRAM and MCBA of \$497,774, including interest, as of December 31, 2011. The surcharge is \$0.1561 per ccf and will remain effective for 24 months beginning May 9, 2012.

b. **Duarte**

i. For the Duarte service area, a surcharge is included on each bill to recover the net under-collection in the WRAM and MCBA of \$1,288,550, including interest, as of December 31, 2011. The surcharge is \$0.2388 per ccf and will remain effective through May 31, 2014.

c. **San Marino**

i. For the San Marino service area, a surcharge is included on each bill to recover the net under-collection in the WRAM and MCBA of \$2,150,991, including interest, as of December 31, 2011. The surcharge is \$0.1883 per ccf and will remain effective through May 31, 2014.

(D)
(N)

(N)

(Continued)

(TO BE INSERTED BY UTILITY)
ADVICE LETTER NO. 943

ISSUED BY
D. P. STEPHENSON
NAME

(TO BE INSERTED BY C.P.U.C.)
DATE FILED MAY -2 2012
EFFECTIVE MAY -9 2012
RESOLUTION

DECISION NO. D. 08-06-002

DIRECTOR - Rates & Regulation
TITLE

NEW YORK

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

At a session of the Public Service
Commission held in the City of
Albany on March 15, 2012

COMMISSIONERS PRESENT:

Garry A. Brown, Chairman
Patricia L. Acampora
Maureen F. Harris
James L. Larocca

CASE 11-W-0200 - Proceeding on Motion of the Commission as to
the Rates, Charges, Rules and Regulations of
Long Island Water Corporation d/b/a Long Island
American Water for Water Service.

ORDER DETERMINING
REVENUE REQUIREMENT AND RATE DESIGN

(Issued and Effective March 20, 2012)

BY THE COMMISSION:

This order adopts terms set forth in a Joint Proposal submitted for our review by Long Island Water Corporation d/b/a Long Island American Water (LIAW, the company), trial staff of the Department of Public Service (Staff), and the Utility Intervention Unit of the New York Department of State's Consumer Protection Division (UIU). We thereby establish a rate plan and other provisions governing the company's water services, to remain in effect for the three years starting April 1, 2012.

CASE 11-W-0200

purposes. The Joint Proposal provides that the earnings sharing mechanism will remain in effect beyond the term of the rate plan until the company's rates are reset in a subsequent proceeding. Ratepayers' allocation of shared earnings will be held by LIAW for the benefit of ratepayers and will be used to reduce the company's revenue requirement in the next general rate case or for such other purposes as we may direct.

Staff and UIU suggest that this mechanism includes features that are of significant benefit to ratepayers. First, they note, the initial 55 basis point "deadband" between the authorized ROE of 9.65% and the 10.2% level at which sharing begins is smaller than normal. This, they say, was deliberately intended to ensure that if LIAW earnings receive a boost as a result of greater than anticipated synergies derived from the proposed acquisition of Aqua New York, Inc. by American Water Works, ratepayers will realize a benefit immediately, rather than having to wait until rates are reset in the future.²⁵ Similar ratepayer protection is provided by continuation of the sharing mechanism beyond the end of the rate plan itself.

Overall, Staff argues the earnings sharing mechanism reasonably balances customer and company interests. The equal sharing in the first earnings tier ensures that LIAW will continue to have an incentive to manage costs and improve earnings, while the final tier with 75% of earnings going to customers provides a safeguard against excessive utility earnings.

Revenue, Production Costs and Property Tax Reconciliation Mechanism

LIAW currently operates under a mechanism that allows it to defer and recover (or refund) differences between the

²⁵ Staff Statement in Support, p. 10; UIU Statement in Support, p. 1.

CASE 11-W-0200

level of actual revenues it realizes and the level included in rates, and changes in costs associated with production, such as the fuel, power and chemicals required to deliver water to the system, referred to by the parties as the RPCRC.²⁶ It also includes a property tax reconciliation mechanism. Under the terms of the Joint Proposal, these mechanisms would be continued, with updated targets specified for each of the three years of the rate plan. The RPCRC would continue beyond the term of the rate plan until rates are reset. Targets would continue at Rate Year 3 levels except that if LIAW does not file for rate relief to be effective April 1, 2015, the revenue target will be adjusted using a formula based on monthly average metered revenue over the most recent five years for which data are available.

The property tax reconciliation mechanism will permit LIAW to recover 90% of any increase in taxes above target levels. The company will bear the remaining 10%. If property taxes decrease, LIAW will be able to retain 10% of the savings only if it can demonstrate that the reduction in taxes was the direct result of its efforts. Under any circumstances, 90% will go to ratepayers.

Staff says that permitting LIAW to recover 90% of property tax increases above the target levels will allow the company to recover additional revenues needed to cover these escalating expenses while continuing to give it a strong incentive to monitor and challenge such property tax increases.²⁷ LIAW points out that its efforts to aggressively challenge tax assessments returned over \$11.5 million to ratepayers during the period from 2007 through 2010 and have helped reduce the overall

²⁶ The acronym originally stood for Revenue and Production Cost Reconciliation Clause.

²⁷ Staff Statement in Support, p. 11.

CASE 11-W-0200

property tax burden from 36.2% of revenues in 2003 to 22.8% in the test year for this case.²⁸ Although it originally sought full reconciliation of property taxes, LIAW says the Joint Proposal's sharing requirements adequately recognize the company's property tax expense reduction efforts.

System Improvement Charge

The SIC in place under the terms of the company's current rate plan is proposed to be continued under the Joint Proposal. The mechanism allows the company to utilize surcharges to recover carrying costs for specific capital improvement projects that have been fully reviewed and approved by Staff, when those projects are put in service during the term of the rate plan. The surcharges will continue until rates are reset, at which time all costs will be fully accounted for.

The projects to which the SIC will apply are specified in the Joint Proposal. According to Staff, if all projects are completed on schedule, the potential maximum surcharges for each project range from 0.44% to 1.9%.²⁹ To establish a surcharge, the company must provide Staff with detailed project information within 30 calendar days of its in-service date, and Staff will have 60 days to analyze and verify the data and the surcharge calculation.

Under the SIC approach, Staff says, LIAW has the financial flexibility to undertake significant plant construction without the need to apply for rate increases. At the same time, ratepayers are protected against the possibility of slippage in scheduled construction, because no allowance for carrying charges on the designated projects is included in

²⁸ Company Statement in Support, p. 10.

²⁹ Staff Statement in Support, p. 12.

STATE OF NEW YORK
PUBLIC SERVICE COMMISSION

Proceeding on Motion of the Commission as to the Rates, Charges, Rules and Regulations of Long Island Water Corporation d/b/a Long Island American Water for Water Service.

Case 11-W-0200

JOINT PROPOSAL

THIS JOINT PROPOSAL is made as of November 28, 2011, by and between Long Island Water Corporation, d/b/a Long Island American Water ("LIAW" or the "Company"), the Staff of the New York State Department of Public Service ("Staff") and the Utility Intervention Unit ("UIU") of the New York State Department of State's Division of Consumer Protection. It sets forth the terms of a Rate Plan for the three-year period beginning April 1, 2012, and ending March 31, 2015. This Joint Proposal is intended, by the signatory parties, to settle all issues in the above-referenced rate proceeding and to be presented to the Public Service Commission ("Commission") for approval in its entirety since each provision is in consideration and support of all of the other provisions.

I. PROCEDURAL HISTORY

LIAW provides various types of water service to approximately 74,000 customers in Nassau County, New York. On April 29, 2011, LIAW filed amendments to its tariff schedule P.S.C. No. 1 – Water, with supporting testimony and exhibits, to increase annual base rates for all customer classes by \$9,563,146 or 19.49% for the rate year ending March 31, 2013.¹ According to the Company, the proposed increase in revenue requirement is necessary for LIAW

¹ The Company's filing stated that taking into account the resetting of certain surcharges, however, the net impact of the rate increase was 13.23%.

B. Revenue, Production Costs and Property Tax Reconciliation (RPCRC)**Mechanisms**

The existing RPCRC Mechanisms are continued with revisions updated for new target levels. The effects of differences in the level of actual revenues versus the level of revenues in rates, production costs (fuel, power and chemicals) and property taxes versus the targets presented below in each rate year for the period April 1, 2012 through March 31, 2015, will be deferred and recovered or refunded through the RPCRC Mechanisms on an annual (rate year) basis. The reconciliations and associated tariff leaves will be submitted annually to the Secretary to the Commission within 60 days after the end of the term of each Rate Year. The submitted net surcharge or credit will go into effect 45 days after submittal unless Staff submits a letter to the Company indicating that the reconciliation amounts should be adjusted.

- a. For purposes of reconciliation under the RPCRC, the target levels for Year One will be as follows:
 - i. Metered Revenues \$47,549,412
 - ii. Fuel, power and chemicals \$3,953,224
 - iii. Property Taxes \$11,893,414
- b. The target level for revenues reconciled under the RPCRC for Year Two is \$48,807,844, and for Year Three is \$49,869,621.
- c. The target level for fuel, power and chemicals is \$4,032,684 for Year Two and \$4,118,580 for Year Three. Changes to these items will be determined in accordance with the current methodology employed for RPCRC Mechanism.
- d. The target level for property taxes in Year Two is \$12,132,472 and the target level for property taxes in Year Three is \$12,390,893. The treatment of property taxes is further described in Section I, below.
- e. The RPCRC Mechanisms will continue beyond the term of the Rate Plan set out within this Joint Proposal at the Year Three target levels until new target levels are set in the Company's next rate proceeding. If the Company decides to voluntarily not file for rate relief to be effective by April 1, 2015, the Year Three monthly target levels will set using the monthly averages of metered revenue for the most-recent five years applied to the Year Three target level of \$49,869,621. These monthly

target levels are for calculating the RPCRC for any period of time not equivalent to a normal rate year for LIAW.

C. Base Rates

- a. The percentage increases, dollar increases and revenue forecasts for the base rates in each year for the term of the Rate Plan are as follows:

	% Increase	Increase	Revenues
Year One	6.02%	\$2,955,218	\$52,018,377
Year Two	2.64%	\$1,375,826	\$53,394,203
Year Three	2.17%	\$1,160,601	\$54,554,804

- b. The revenue requirement calculations for each year and any adjustments contained in this Joint Proposal are contained in Appendix A.
- c. The effect of this proposal on customers' bills is summarized in Appendix B.
- d. Appendix C contains the proposed tariff leaves detailing the base rate increase and the effective date for Rate Years One, Two and Three.

D. Acquisition Considerations

- a. Currently, LIAW's corporate parent is in the process of acquiring the New York assets of Aqua New York, Inc. (Aqua NY) (Case 11-W-0472). The JP revenue requirement recognizes \$901,331 of ratepayer synergy savings throughout the three-year period of the rate plan (\$133,777 + 383,777 + 383,777 for rate year 1, rate year 2 and rate year 3, respectively). This amount represents the Company's best estimate for the three-year rate plan.

Appendix D

PSC No. 1 - WATER
 COMPANY: LONG ISLAND WATER CORPORATION d/b/a
 LONG ISLAND AMERICAN WATER
 INITIAL EFFECTIVE DATE: APRIL 1, 2012

STATEMENT TYPE: RPCRC
 STATEMENT No.: 2

GENERAL INFORMATION

STATEMENT #1

Revenue and Production Cost Reconciliation Adjustment Clause and Property Tax Clause #1

Applicable to all Metered Customers in Service Classifications 1, 1A and 3.

Commission Order in Case 07-W-0508, dated March 5, 2008, directed that the rates applicable to all metered customer accounts, as defined above, be subject to automatic adjustment by way of a surcharge, or credit, based on the difference between the actual net revenues (operating revenues less production costs) for the preceding rate year and the net revenue target as estimated in the most recent rate case. The difference is then surcharged (or credited) to be recovered (or refunded) over the ensuing year. In the following proceeding, Case 11-W-0200, target levels for revenues, production costs and property taxes were set for future years as follows, with the levels from the third rate year carrying forward for all future years until new target levels are set in the next rate proceeding (the revenue numbers below do not include net RAC adjustments for the rate year ending March 31, 2013 of (\$40,303) (\$8,977 for the Service Centers and (\$49,280) for Demutualization) from the Commission decision on 11/20/2002 in Cases 02-W-0054 and 02-W-0056):

Year Ending	March 31, 2013	March 31, 2014	March 31, 2015
Revenues	\$47,549,412	\$48,807,844	\$49,869,621
Production Costs	\$3,953,224	\$4,032,684	\$4,118,580
Property Taxes	\$11,893,414	\$12,132,472	\$12,390,893

The surcharge/credit for the year ending March 31, 2013 is calculated as follows:

The actual net revenues for the year ended March 31, 2013 of \$ was compared to the target level set forth above. The difference, including accrued interest, results in a surcharge/credit to customers of \$

The net amount to be surcharged/refunded to customers derived from the calculation described above, during the ensuing year ending March 31, 2014 is: \$

Since the total number of metered customers is:

The surcharge/credit per customer amounts to: \$

In accordance with the property tax mechanism set forth in the settlement agreement approved by the Commission in Case 07-W-0508, the PSC has permitted the company to reconcile property taxes. For the rate year ended March 31, 2013, such reconciliation resulted in a surcharge/credit to customer of \$. As a result, the net surcharge/credit to each customer's bill amounts to \$

Issued in compliance with Commission Order issued and effective March XX, 2012 in Case 11-W-0200.

Issued by: William M. Varley, President, 733 Sunrise Highway, Lynbrook, NY

PSC No. 1 - WATER
COMPANY: LONG ISLAND WATER CORPORATION d/b/a
LONG ISLAND AMERICAN WATER
INITIAL EFFECTIVE DATE: APRIL 1, 2012

STATEMENT TYPE: RPCRC
STATEMENT No.: 2

GENERAL INFORMATION

STATEMENT #1

Revenue and Production Cost Reconciliation Adjustment Clause and Property Tax Clause #1 (cont'd)

Any refunds due ratepayers from any net over-recovery in the rate year will be credited to customers' bills in the earliest month, as administratively practical, of the following rate year. Customer bills will be surcharged, no greater than \$4 per customer per month, to recover any deferral of cost recovery in the rate year beginning in the earliest month, as administratively practical, of the following rate year and continue each month thereafter, as necessary, until the entire deferral is recovered. Should the \$4 per customer per month surcharge limit be inadequate to fully recover any deferred costs prior to the end of the following rate year, the limit will be waived. For sprinkler customers there will be a one time credit/surcharge. Any credit/surcharge is subject to the applicable local gross revenue taxes as set forth in the current tax statements.

Issued in compliance with Commission Order issued and effective March XX, 2012 in Case 11-W-0200.

Issued by: William M. Varley, President, 733 Sunrise Highway, Lynbrook, NY

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: Gary M. VerDouw

62. List the jurisdictions in which an American Water operating subsidiary has proposed to implement a rate mechanism similar to the proposed Power and Chemical Rider and provide a copy of the administrative order in which the state utility regulatory commission addressed the proposal. (If the administrative order is published or available through the Internet, a citation to the order or a hyperlink to the site where the order is accessible may be provided in lieu of a copy.)

Response:

		<u>Purchased Power</u>	<u>Purchased Chemicals</u>	<u>Docket/Case</u>
California	(1)	x		Decision 08-06-002
Indiana	(3)	x		Cause No. 43187
Illinois	(4)	x	x	Order 11-0767 Docket No. RPU-2011-
Iowa	(3)	x	x	0001
New Jersey	(3)	x		Docket No. WR06030257
New York	(2)	x	x	Case No. 11-W-0200 Docket No. R-2011-
Pennsylvania	(3)	x		22322430
Tennessee	(3)	x	x	Docket No. 12-00049
West Virginia	(5)	x		Case No. 10-0920-W-42T

- (1) As authorized by the Commission, California-American Water Company has a Water Revenue Adjustment Mechanism ("WRAM") and Modified Cost Balancing Accounts ("MCBA") Tariff Rider. The WRAM represents the decoupling of revenues from water usage and the MCBA represents the associated decoupling of Water Production Expenses i.e.. Purchased Power and Purchased Water. The Commission's Order is provided in the response to Item 61 of this same data request.
- (2) As authorized by the Commission, Long Island Water Corp. (an American Water subsidiary) has a Revenue and Production Cost Reconciliation Adjustment Clause Tariff Rider ("RPCRC") Tariff Rider. The RPCPR represents the decoupling of revenues from water usage and the associated decoupling of Water Production Expenses i.e.. Purchased Fuel, Power and Chemicals. The Commission's Order is provided in the response to Item 61 of this same data request.
- (3) American Water subsidiaries in each of these states proposed Purchased Power

Adjustment Clauses (Tennessee and Iowa included Chemicals) but these proposals were subsequently withdrawn.

- (4) Illinois-American Water Company proposed a Revenue Adjustment Clause mechanism that also included Water Production costs. The Commission did not approve the proposal. The Order is attached.
- (5) West Virginia-American Water Co. requested that the Commission open generic investigations into the implementation of a Water Revenue Adjustment Mechanism and a Purchased Power Adjustment Clause. The Commission did not approve those requests. The Order is attached.

Based upon the record, the Commission concludes that the proposed consolidation of the non-production related costs of Chicago Metro and Zone 1 districts is reasonable, and in the public interest, and should be approved.

XI. PROPOSED REVENUE ADJUSTMENT CLAUSE

IAWC has proposed a mechanism, the Revenue Adjustment Clause or “RAC,” which would “decouple” its recovery of fixed costs in providing water utility service to its customers from the volume of water it actually sells. The other parties oppose this proposal. No exceptions were filed with respect to this issue.

A. IAWC's Position

IAWC states that it must stand ready to provide and deliver water to customers if and when called upon, and it maintains a significant infrastructure to provide that service. IAWC says nearly 94% of its costs are fixed. IAWC states that under the traditional ratemaking paradigm, IAWC’s revenues, and, thus its ability to recover its costs, are directly dependent upon its customers’ water usage. IAWC says it will only recover its costs if the level of water usage upon which its rates are premised is actually achieved. (IAWC IB at 107)

IAWC claims it has experienced a significant and continuing trend of declining usage in water consumption. IAWC asserts that declining usage has a considerable impact on IAWC’s water sales. According to IAWC, the declining usage results from changes in usage due to federal and state water efficiency standards, increased customer installation and use of more efficient plumbing and water-using appliances, and heightened interest in natural resources, including water, conservation. IAWC says all of these factors are outside utility control. IAWC states that as the interest in and adherence to water conservation measures grows and the presence of more efficient plumbing fixtures and appliances increases, it can no longer anticipate increased water sales.

IAWC’s projections in this case, based on a study of usage, purport to show residential water sales declining annually by nearly 2%. IAWC has proposed a mechanism which would “decouple” its recovery of its fixed costs in providing water utility service to its customers from the volume of water it actually sells. IAWC says this mechanism, the Revenue Adjustment Clause or “RAC,” will provide IAWC with a measure of revenue stability which will enable it to champion water conservation measures without the fear of undermining business interests in the face of the declining usage trend IAWC has and expects to continue to experience. (IAWC IB at 107-108)

According to IAWC, the proposed RAC is a transparent decoupling mechanism that would enable IAWC to recover on a current basis the level of revenue the Commission authorized it to recover in the preceding rate case, no more and no less. IAWC claims it is symmetrical in that it accounts for both the over- and under-recovery

of that revenue requirement. In IAWC's view, the RAC will not have any impact on IAWC's overall revenue requirement. (IAWC IB at 108)

IAWC states that under the RAC, the levels of revenue and production expense (i.e., for fuel, power and chemical) authorized by the Commission in this case constitute "base" levels. Going forward, IAWC says the actual monthly levels of revenue and production expense will be booked and compared to those base levels. IAWC says that at the end of 12 months, the difference between the base revenue level, net of base production costs, and the actual revenue level, net of actual production costs, will be determined. Under its plan, IAWC indicates it will then file with the Commission on an annual basis a request to issue a refund to customers or to collect a surcharge, as the case may be, reflecting that difference. (IAWC IB at 108)

Under IAWC's proposal, metered customers would receive the corresponding refund or surcharge in its entirety on their next monthly bill. IAWC says the refund or surcharge will not exceed -5% or +5% of any customer's water bill for the applicable 12-month period. IAWC believes that in this way, customer bill impact is mitigated. To the extent the difference exceeds the 5% cap, IAWC proposes for the excess to be deferred to a future period with interest at the AFUDC rate. According to IAWC, this entitles customers to a refund, over time, of any revenues collected above the Commission-approved level. IAWC contends that the function of the RAC ensures that IAWC recovers its required level of revenue as sanctioned by the Commission, no more and no less, while also ensuring IAWC's customers pay the amount of fixed cost contribution authorized to be included in their monthly bills. (IAWC IB at 108-109)

IAWC argues that as the traditional ratemaking model is premised on the establishment of properly recoverable costs and a projection of a volume of sales over which those costs will be recovered, it fails that goal when the actual sales volume is less than the projection used to set rates. IAWC says recent history has proven that to be the case for it. IAWC maintains it is experiencing a significant trend of declining annual water sales. IAWC complains that other variables also outside its control, including weather and changing customer numbers, contribute to its inability to forecast with precision its test year level of water consumption. IAWC claims the RAC effectively eliminates the resulting concerns related to the process of projecting the pro forma water sales volumes used to establish its rates. IAWC repeats that fixed costs remain the same regardless of sales volumes and says the RAC recognizes this. IAWC asserts that the RAC ensures it receives, and customers supply, the level of required revenue approved by the Commission despite the decline in usage, the unpredictability of weather and changes in customer numbers. (IAWC IB at 109)

In its Initial Brief, IAWC argues that Illinois law and Commission practice and policy support approval of the RAC. Among other authority purportedly supporting its position, IAWC cites the Commission's decisions in Docket Nos. 07-0241/07-0242 (Cons.), Docket No. 10-0467, Docket No. 08-0363, Docket No. 07-0585, et al., Docket No. 07-0507, Docket No. 09-0319, Docket Nos. 11-0280/11-0281 (Cons.), and *City of*

Chicago v. Illinois Commerce Comm'n, 13 Ill. 2d 607, 611 (1958). (IAWC IB at 110-112)

According to IAWC, the record evidence shows that the significant annual decline in customer usage, unpredictability of weather and changes in customer numbers make the accurate establishment of projected pro forma sales volumes problematic. Citing Docket Nos. 07-0241/07-0242 (Cons.), IAWC claims this is one of the reasons the Commission approved Rider VBA in that proceeding. (IAWC IB at 113)

IAWC disputes Staff's assertion that it has not explained why the RAC is needed now when IAWC has been able to function without that decoupling mechanism until the present. IAWC contends that simply because the RAC has not been in place before does not mean circumstances do not warrant its adoption in this case. IAWC argues that like the energy utilities at issue in Docket Nos. 07-0241/07-0242 (Cons.), climate, demographic, political and economic shifts impacting IAWC and the water industry have been considerable, yet water rate structures have not adapted. (IAWC IB at 114)

IAWC disputes the contention by both Staff and IAWC that the RAC should be rejected because it reduces IAWC's incentive to control costs. IAWC believes this argument is misplaced because the RAC only impacts revenues, and the refund or surcharge amounts are net of production costs. IAWC claims that it remains at risk for fluctuations in fixed costs or unit production costs. IAWC says its management must actively and efficiently manage the cost elements that comprise IAWC's total cost of service. (IAWC IB at 115)

IAWC also disputes the contention of Staff and IAWC that the RAC discourages voluntary water conservation efforts on the part of customers because it imposes a surcharge when their consumption levels decline. IAWC claims it is traditional use of volumetric rate designs to recover fixed costs that implies that a utility can reduce those costs if customers reduce their usage. IAWC asserts that in reality, that is not the case. IAWC claims the price signals customers receive under the RAC will be more aligned with the reality of the provision of water utility service. IAWC contends that even if customers use less water, because the utility's costs are fixed in the short-term and revenues are predominately volumetric, it is still necessary for them to pay for the fixed costs. IAWC also claims Staff and IAWC's contention in this regard ignore there are myriad environmental and operational benefits from lower water usage, including the maintenance of source water supplies. (IAWC IB at 115-116)

IAWC notes that the AG also presents a conservation-related argument against the RAC. The AG contends IAWC has presented no conservation rationale for the RAC and that it is not engaged in aggressive water conservation efforts. IAWC believes it presented ample evidence that conservation measures, both its own and regulatory ones, are a significant driver of the need for decoupling. IAWC also claims the Commission has made clear decoupling mechanisms need not be solely tied to conservation measures to be appropriate. IAWC says Rider VBA was not conditioned

on the utilities increasing their energy efficiency initiatives and believes the RAC also should not be so conditioned. (IAWC IB at 116)

B. IWC/FEA's Position

IWC/FEA believes IAWC is attempting to shift, to its customers, operating risk that is traditionally borne by the utility and adequately addressed through a traditional ratemaking proceeding. IWC/FEA says the RAC rider adjusts rates on the basis of only selected cost elements, namely metered revenue and production expenses, without taking into consideration other cost factors that would affect the utility's overall profitability. According to IWC/FEA, the RAC rider has the potential to provide additional revenue to IAWC without the traditional Commission review to determine the prudence of the cost and revenue elements. IWC/FEA also believes the ratemaking approach represented by the RAC rider bears a striking resemblance to past instances of "single issue ratemaking" and therefore should be avoided. (IWC/FEA IB at 32-33; RB at 22-23)

IWC/FEA also expresses concern that the RAC rider may also distort or otherwise compromise the incentives for prudent and efficient utility operation built into the regulatory oversight and ratemaking process. IWC/FEA claims that when investors bear the risk of regulatory lag, the utility's management has a strong incentive to control cost escalations. IWC/FEA says this is due to the fact that any cost increase affects the utility's bottom line until the next rate case. IWC/FEA also claims the existing regulatory framework also gives IAWC a strong incentive to control its costs in order to avoid upward pressure on rates, as its shareholders are currently at risk for a loss of revenues resulting from a decline in sales levels between rate cases. IWC/FEA believes that when the risk of such cost increases and sales revenue reductions between rate cases is shifted to customers through the use of tracking mechanisms, the utility's motivation to control costs is significantly reduced. (IWC/FEA IB at 33, RB at 23)

IWC/FEA also suggests that revenue decoupling reduces IAWC's financial incentive to control increases and to promote economic development in its service territory. IWC/FEA contends that the RAC rider restricts IAWC's incentive to manage costs to achieve targeted profits and to mitigate the profit impact created by sales volume variations in its service area. IWC/FEA also claims IAWC will have little financial interest to attract new commercial and industrial customers to its service area, because the profits from increased sales could be flowed back to customers in the RAC. In IWC/FEA's view, the RAC would discourage efficient cost management and economic development. According to IWC/FEA, this is true because all increased revenues would have to be flowed back to customers under the RAC rider. (IWC/FEA IB at 33-34, RB at 23)

If the Commission approves the RAC rider, IWC/FEA suggests the Commission should set base levels for both revenue and production expenses and should reject the proposal to reset the base level of production in between rate cases. IWC/FEA

suggests that removing IAWC's ability to automatically pass through annual production cost increases will encourage IAWC to aggressively manage its production expenses and provide an incentive for it to continue implementing cost saving measures. (IWC/FEA IB at 35)

IAWC argues that it must operate its source of supply, treatment and transmission and distribution system to provide water service to its customers whether those customers use no water, or 100,000 gallons of water, in a given month. IWC/FEA contends that while the comparison does hold some truth it should not serve as the foundation for a Rider designed to guarantee revenues with no regard as to how much water IAWC actually delivers and sells. (IWC/FEA RB at 22)

According to IWC/FEA, Rider RAC has the potential to violate the rule against single issue ratemaking. IWC/FEA says each of the expense adjustments that occur in the future can be made without regard to other changes that may lower IAWC's overall revenue requirement. IAWC is proposing a mechanism which decouples its recovery of fixed costs in providing water utility service to its customers from the volume of water it actually sells. IWC/FEA says IAWC believes Rider RAC will not have any impact whatsoever on IAWC's overall revenue requirement. IWC/FEA argues that despite what IAWC claims, the proposed Rider adjusts rates on the basis of only selected cost elements, namely metered revenue and production expenses, without taking into consideration other cost factors that would affect the utility's overall profitability. IWC/FEA says the Rider has the potential to provide additional revenue to IAWC without the traditional Commission review to determine the prudence of the cost and revenue elements. IWC/FEA insists that it is improper to consider changes to components of the revenue requirement in isolation. IWC/FEA says a change in one item of the revenue formula is often offset by a corresponding change to another component of the formula. (IWC/FEA RB at 24)

IWC/FEA disagrees with IAWC's argument that Illinois law and Commission practice and policies support approval of Rider RAC. IWC/FEA notes that IAWC cites a number of Commission cases in support of this proposition. IWC/FEA believes it is worth noting that in only one case has the Commission approved a decoupling mechanism similar to RAC. IWC/FEA says that in the remaining Illinois cases cited by IAWC, the Commission basically rejected the implementation of a rider mechanism similar to Rider RAC. IWC/FEA states that the Commission elected to address utility concerns on this issue through appropriate rate design changes to allow the utility to recover more of its fixed costs through fixed charges. IWC/FEA believes this type of redesign is easier for customers to understand than rider mechanisms, such as Rider RAC. (IWC/FEA RB at 25-26)

C. Staff's Position

Staff believes IAWC has not provided a sound basis for the Commission to adopt the proposed RAC and, therefore, it should be rejected. Staff says that all of the factors

cited by IAWC in favor of an RAC were present in its past rate cases, and yet, it was able to function without need of an RAC. (Staff IB at 72)

According to Staff, if the RAC were adopted, ratepayers would potentially be subject to higher rates for service than they would otherwise incur under the traditional regulatory process. Staff believes the RAC proposal will undermine IAWC's incentive to control costs because it would guarantee recovery of the approved revenue requirement. Additionally, Staff claims that having a RAC in place would remove the proper price signals that customers currently receive. Staff states that if the target revenues do not match the actual revenues, both net of production costs, IAWC proposes to add the resulting percentage from the RAC formula to each metered water customer's bill for one year. Staff says future customer bills will not necessarily decline or increase as a direct result of respectively using less or more water. Staff also expresses concern that ratepayers may not receive the benefit of any reductions in costs or operating efficiencies related to costs. (Staff IB at 72-73)

Staff notes that in rebuttal testimony, IAWC proposed a modification to the design of the RAC allegedly in response to Staff's concern that the RAC could lead to higher rates. Staff contends that this proposed modification exacerbated Staff's concern by deferring, to an unspecified future period, any surcharge percentage ("SC%") in excess of 5% with interest charges accruing on the deferred balance. Staff says that under its original proposal, any SC% amount greater than 5% or less than -5% would not be charged or refunded, respectively, to customers and would have been absorbed by shareholders. Staff states that under IAWC's modified proposal, if an SC% surcharge is greater than 5% in one year, then the additional amount will accumulate with interest and be an added surcharge in future years for recovery from ratepayers. It is unclear to Staff how this modification mitigates Staff's concern that the customers will potentially be subject to higher rates if the RAC is implemented. Staff maintains that this modification to the RAC should be rejected. (Staff IB at 73)

If the Commission decides to adopt an RAC, which Staff does not believe it should, Staff urges the Commission to adopt the version of the RAC proposed in IAWC's direct testimony. Staff notes that the version proposed in IAWC's direct testimony would have shareholders absorb any SC% that is greater than 5%. Staff states that under that version, if IAWC under collected the RAC revenue, no further adjustment was proposed. (Staff IB at 73)

In the event the Commission approves the RAC, Staff witness Hathhorn made several technical changes to the language of the proposed RAC. (Staff Ex. 2.0 at 10-14) In rebuttal testimony, IAWC presented IAWC Ex. 14.02R, which reflects its revised RAC tariff with several modifications adopted from Ms. Hathhorn's testimony. Staff believes that two issues remain outstanding between IAWC and Staff if the Commission approves RAC. Staff's final position regarding proposed changes to the RAC, in the event the commission approves it, is included in Staff Ex. 10.0, Attachment B. (Staff IB at 74)

With regard to IAWC's deferral proposal, Staff's Initial Brief indicates that Staff witness Harden opposed the proposal for deferrals. Staff's Initial Brief also indicates that, in the event the Commission authorizes a deferral, Staff witness Freetly proposes that the appropriate interest rate would be the Commission-authorized interest rate for customer deposits. (Staff IB at 74-75)

Staff proposed that IAWC conduct an annual internal audit of RAC, with specific objectives defined in the rider. IAWC believes the internal audit is unnecessary. Staff argues that IAWC's position is inconsistent with many automatic fully tracking cost recovery or revenue balancing mechanisms in operation in Illinois, which Staff says require annual internal audits. In Staff's view, the record has not demonstrated any reason to allow IAWC to receive less monitoring of a tariff with objectives similar to the Peoples/North Shore's Rider VBA tariffs. (Staff IB at 75-76)

According to Staff, IAWC proposes that if the Commission orders the annual internal audit, that \$7,500 be included in the revenue requirement for the incremental expense. Staff contends that there is no basis for this recommendation and it provided no supporting analysis for evidence that the internal audit requirement would increase its costs by \$7,500. Staff believes the point is moot, because of the timing of the rider's implementation and the test year. Staff claims IAWC admits that it would not incur any additional internal audit costs during the test year. Staff insists IAWC's proposal to increase the revenue requirement if the audit requirement is adopted by the Commission must be rejected. (Staff IB at 76-77)

Staff notes that IAWC proposed to use the AFUDC rate as the interest rate to be applied to the deferral of recovery or refund amounts if the surcharge or credit percentage ("SC%") in the current year exceeds $\pm 5\%$. Staff believes that the AFUDC rate is not the appropriate interest rate to apply to the deferral of the SC% amount to be refunded or surcharged above or below 5%. Staff says deferred amounts are recovered dollar for dollar. Since under-recovered amounts are essentially a loan from IAWC to customers, Staff contends the interest rate should reflect the credit risk of the customers. Staff also asserts that ComEd and Ameren Illinois affiliates have issued securitized debt whose credit risk were wholly based on the ability of utility customers' collective ability to pay and those securities were rated AAA/Aaa.

Staff concluded that the default risk of IAWC's collective obligation to pay under collected revenues would also be rated AAA/Aaa. In contrast, Staff says IAWC's financial ratios are more indicative of a BBB/Baa credit rating. Unfortunately, Staff is not aware of any readily available publication of either one-year AAA/Aaa or BBB/Baa utility bond yields. Therefore, Staff suggests the Commission-authorized interest rate on customer deposits, determined in accordance with 83 Ill. Adm. Code 280.70(e) should be applied to any deferred amounts under Rider RAC. Given the ease of administration in connection with Staff and IAWC relying on a rate published annually by the Commission, and the small difference between the customer deposit rate and current 0.68% yields on one-year AA financial securities, Staff recommends applying the Commission-authorized customer deposit rate to under-recovered amounts and refunds

associated with the formula rate, if the Commission approves a deferral. (Staff IB at 77-78)

D. The AG's Position

The AG urges the Commission to reject IAWC's proposed Rider RAC because it contravenes accepted ratemaking principles, and is the same type of prohibited single-issue ratemaking device that has been rejected by Illinois courts. According to the AG, IAWC's RAC is an unlawful rider that does nothing more than guarantee revenues while shifting costs across customer classes and districts, and ignoring both the quantities of water sold and the wide disparities in production costs across districts. The AG also claims IAWC has not proven that the proposed RAC and its guaranteed revenues are necessary. (AG IB at 43-44, RB at 25)

The AG states that proposed rider RAC delivers a predetermined level of revenues to AIWC without any consideration of how much water customers actually use. The AG also says proposed RAC applies the same surcharge to every gallon of water IAWC sells regardless of location, despite the extreme variances in costs and charges among districts, customer classes, and usage levels. (AG IB at 44)

The AG asserts that although IAWC describes the RAC as a simple mechanism, calculation of the amount payable to IAWC is anything but simple, involving a series of calculations that ultimately lead to the subtraction of "Actual Revenues" from "Target Revenues" – essentially guaranteeing a predetermined level of revenues. (AG IB at 44)

In the AG's view, the proposed RAC violates the commonly accepted principles that underlie the treatment of revenues for a water utility, including that revenues are always subject to the amount of water sold to customers, the numbers of customers added or lost, or any other volume or demand factor. The AG states that instead, it is based exclusively on a predetermined "target revenue." The AG contends that the proposed RAC places the risk associated with revenues on the ratepayers, not on shareholders, who are compensated for such risk through a Commission-established rate of return on investment. (AG IB at 45, RB at 25-26)

The AG argues that this risk-shifting to ratepayers defeats the very purpose of a regulatory system. The AG contends that generally, the competitive market does not set prices for regulated water utilities in Illinois. The AG states that in its simplest terms, because utilities have a captive base of customers and operate under a monopoly franchise, regulators set the price that utilities may charge to that captive base of customers. The AG claims that the very purpose of regulation is to set fair, just and reasonable prices for those customers, not to guarantee that the utility and its investors receive a guaranteed stream of revenue. The AG asserts that regulation fixes the prices that customers pay for their utility service, while the revenues that the utility receives will vary based on the number of customers served and the volume each customer uses. According to the AG, the regulatory bargain is based on the utility receiving a return on investment well in excess of a risk-free rate of return to

compensate it for the risk of consumers buying more or less of its service than projected. (AG IB at 45-46)

The AG contends that with proposed RAC, IAWC attempts to reverse this basic principle of regulation. According to the AG, IAWC suggests that the very purpose of regulation should be to deliver a fixed revenue recovery to the utility and adjust the price to the consumer as the utility sees fit. The AG says IAWC would shift risk to the captive utility customer and strip that customer of the certainty of having a stable and known price. (AG IB at 46)

The AG asserts that for each of the years between 2005 and 2010, IAWC's "targeted revenues" exceeded actual revenues, meaning ratepayers would incur surcharges each year, amounting to a 5% annual rate increases without the traditional Commission oversight present in a rate case. The AG also claims that in the years 2005 and 2006, IAWC sold more water than projected, but collected less revenue. The AG says IAWC's revenues in those years fell short of projected revenues by \$13.6 million and \$21.1 million respectively. The AG believes these revenue shortfalls are likely the result of more water being sold to lower-margin customers in these periods than had been projected. In the AG's view, this actual data demonstrates that the proposed Rider RAC is not designed to address sales reductions resulting from efficiency efforts, as claimed by IAWC, but rather designed to guarantee revenue streams. (AG IB at 46, RB at 26)

While IAWC argues that the rider provides symmetrical benefits, noting that the rider provides for customer refunds when actual revenues exceed forecasted revenues in a given year, the AG claims the record evidence demonstrates the unlikelihood of such a benefit incurring to ratepayers. The AG maintains that for each of the years it analyzed, IAWC failed to meet its targeted revenues despite selling more water than it had projected. Had Rider RAC been in effect, the AG says ratepayers would not have seen a single refund. In the AG's view, despite the so-called symmetrical aspect of the rider, IAWC's own data demonstrates that ratepayers are more likely pay surcharges to ensure IAWC reaches its guaranteed level of revenues even when IAWC sells more water than it had projected. (IAWC IB at 47, RB at 26-27 and 32-33)

The AG argues that Rider RAC does more than "decouple" usage from revenues. The AG avers that it also shifts costs among customer groups and usage levels so that even in years where usage is constant or increases, the RAC would lead to surcharges. (AG IB at 47. RB at 27)

The AG believes a key design flaw of the proposed Rider RAC is that it ignores a more than 400% difference in production costs from one location to another in IAWC's service territory. The AG claims there are significant variations in production costs across locations in IAWC's service territory. The AG says production costs, a vital variable that the RAC fails to acknowledge, range from a high of 52.43 cents to a low of 9.88 cents per 1,000 gallons. (AG IB at 47-48)

The AG states that proposed RAC is based on the margin (or mark-up) between the rate per unit of water (typically ccf or 1,000 gallons) to customers and IAWC's production costs per unit of water, both of which it says vary widely. The AG claims that the varying rates, production costs, and margins demonstrate that the RAC is not a "decoupling" mechanism in the traditional sense of the word, but rather is a faulty ratemaking tool that undermines cost allocation, rate design, and the fundamental relationship between usage and revenue. (AG IB at 48)

According to the AG, these sizable rate, production cost, and margin variances between rate areas will ultimately impact the calculation of the proposed RAC, even if IAWC does not sell less water. As an example, the AG says if sales were to decline by 1 million gallons in Zone 1, IAWC would lose \$5,175 in margin. The AG also states that if sales increased by exactly the same 1 million gallons in Pekin, IAWC would gain \$2,984. The AG contends that under the RAC revenue recovery mechanism, customers would be assessed a surcharge even though IAWC sold exactly the same amount of water as it projected merely because the water was sold in a different location. The AG states that variations in the level of sales among districts – not reduced overall usage – drives the RAC calculation. (AG IB at 48-49)

The AG claims the proposed RAC also ignores the effects of a shift in usage among customer classes, resulting in ratepayers paying surcharges even if IAWC sells as much water overall as projected. The AG says IAWC's present and proposed rates contain declining block rates for large commercial, public, and industrial customers, meaning that margins are lower from high-usage, non-residential customers than for residential customers in the same rate area. That AG asserts that if non-residential consumption increased and at the same time residential consumption decreased by exactly the same amount of water, under the proposed RAC, its total margin would decrease due to the lower non-residential margins. The AG says in that situation, ratepayers would pay more to cover IAWC's guaranteed revenue despite selling an identical amount of water in total and the lower costs associated with large volume usage. The AG believes this is not an appropriate use of the ratemaking process. Customers should not be required to guarantee revenues and insulate a utility from the effects of changes in consumption. (AG IB at 49)

In the AG's view, another serious flaw of this proposed revenue-generating device is that it does not distinguish the recovery of revenues based on the source of the water. The AG suggests that Chicago Metro customers, who receive purchased water rather than water produced by IAWC, would be responsible for paying the purchased water surcharge as well as any RAC surcharge based on the difference in revenues net of production costs in the non-purchased water rate areas. (AG IB at 49)

The AG argues that another reason for Commission rejection of the rider is that IAWC failed to prove that such an extreme and unusual ratemaking device is financially necessary. The AG claims IAWC provided questionable evidence as to declining water usage and no financial evidence that the test year demand levels would not enable it to recover its costs of providing safe and reliable service and provide an opportunity to

earn a reasonable return. The AG asserts that despite repeatedly claiming the need for this guaranteed revenue stream, IAWC relies primarily on its repeated statements that it is entitled to the additional revenues the RAC would generate rather than evidence of sustained financial hardship. (AG IB at 49-50)

According to the AG, IAWC relies heavily on statements and calculations that it is experiencing a downward trend in residential water usage that averages about a 1.9% decline each year. The AG believes IAWC's projections are based on flawed and overly-simplified analyses. In projecting its consumption levels, the AG says IAWC did not consider a large enough sample of data and failed to account for major influences in water demand forecasting, including population, economic factors, changes in water-using appliances, weather, climate, price, and conservation programs. In the AG's view, the bases for IAWC's statements about declining usage are therefore unreliable and should be rejected. (AG IB at 50, RB at 28)

The AG avers that although there appears to be a currently declining long-term consumption trend, this does not translate to a year-after-year reduction in consumption or a reduction in total revenue. As is true in any long-term forecast, there will be year to year fluctuations. The AG suggests that eventually, the trend will level off as more homes become equipped with efficient fixtures and appliances. The AG says at no point will this trend line reach zero because there will always be some demand for water. Until that potentially theoretical date when the demand trend does level off, however, the AG believes a rate case is the appropriate forum in which to determine IAWC's revenue requirements. The AG says IAWC has been seeking rate changes every two years and already has an infrastructure rider, Rider QIPS, reducing the time during which its demand projections will be in place and covering its investment needs. The AG suggests that these regulatory tools already address any reduction in demand and need for revenue and an automatic revenue guarantee is unnecessary and redundant. (AG IB at 50-51, RB at 30)

The AG says this identical issue was rejected by the Indiana Utility Regulatory Commission ("IURC") earlier this month in a rate case involving IAWC's affiliate, Indiana American Water Company. The AG also complains that IAWC's alleged financial justification for the rider also inappropriately ignores the reduced risk to shareholders a revenue guarantee mechanism like the RAC provides IAWC. The AG says IAWC argues that there was no way to quantify adjustments to risk premiums and return on equity as a result of the RAC. The AG believes that position belies IAWC's argument that it needs the RAC to address revenue risk and exposes the RAC as nothing more than a revenue guarantee for IAWC shareholders at ratepayer expense. (AG IB at 51-52)

The AG believes IAWC's claim that it is necessary to implement the RAC due to variability in weather should also be rejected. The AG notes that this is a variable that has always existed in the water industry and in other utility industries as well. The AG says there is no evidence in the record that the utility could predict weather more

accurately in the past, necessitating the proposed RAC. The AG urges the Commission to reject this attempt to guarantee revenue to investors. (AG IB at 52)

According to the AG, the proposed Rider RAC violates the Commission's test year rules. The AG says a necessary component of setting utility rates is the synchronized examination of each aspect of a utility's cost of service and each source of revenue, which the AG describes as the "matching principle." (AG IB at 52-53)

The AG argues that proposed RAC ignores the established relationship between utility rates and levels of cost and investment, contravening established ratemaking practice and shifting unnecessary risk to the ratepayers. The AG states that under Parts 285 and 287 of the Commission's rules, a utility seeking to increase revenues must file a rate case using a proposed test year if it wants to increase revenues by more than 1%, the purpose of which is to require the utility to match revenues, expenses, rate base, and capital costs to the same time period. The AG says estimating sales is a key component of the ratemaking equation, and the variability in demand provides utilities with the incentive to achieve efficiencies (when sales decline) and the opportunity to exceed the allowed return on investment (when sales increase). (AG IB at 53)

The AG contends that a revenue requirement established in a rate case represents the Commission's best estimate of revenues that a utility needs to both recover its costs and earn a reasonable profit. The AG states that while rates are set based on the specific revenue requirement set in a rate case, monopoly regulation in no way assumes that utility expenses and revenues will remain static or that the utility is guaranteed a certain level of revenues. The AG says expenses, revenues and the cost of capital are inherently dynamic and ever-changing. According to the AG, rate of return regulation in Illinois, a key part of the regulatory bargain, sets rates based on prudently incurred and reasonable expenses based on a test year that serves as a snapshot in time of the utility's revenue needs, including a reasonable return on the utility's rate base. The AG avers that when rates are set using a designated revenue requirement based on the test year expense and revenue levels, utilities are given the opportunity, not a guarantee, of earning a designated profit level. (AG IB at 53-54)

The AG states that the traditional rate-setting process was designed to allow a utility the opportunity to earn a reasonable rate of return on investment; a utility has never been guaranteed a specific margin revenue level. While rates should never be set so low as to be confiscatory to the utility, the AG says Illinois Courts have explained that, within this outer boundary, if the rightful expectations of the investor are not compatible with those of the consuming public, it is the latter which must prevail. (AG IB at 55)

According to the AG, IAWC asserts that it needs Rider RAC in order to ensure cost recovery, and assumes that it is entitled to a guaranteed specific revenue level until rates are reset in a future rate case. The AG argues that riders are a mechanism to be used in very specific circumstances, to recover very specific kinds of expenses. Using a

rider to guarantee a designated level of revenues violates the rules governing riders established by the Illinois courts. (AG IB at 55-56)

The AG asserts that as a general rule, an automatic rate adjustment mechanism should be used, if at all, only for significant expenses that are volatile and largely outside of the utility's control. The AG says every Illinois court to review a non-statutory Commission-approved rider has judged it against the limits established by the rule against single-issue ratemaking. (AG IB at 56-57)

In the AG's view, Rider RAC, as proposed by IAWC, is inconsistent with the parameters identified by Illinois courts. The AG says recovery of designated revenue forecasts is not recovery of a pass-through expense. The AG also says the sole purpose of the rider is to increase income (when revenues are less than expected), thereby directly impact the utility's rate of return. (AG IB at 57)

The AG argues that Rider RAC is unlawful because its purpose of guaranteeing revenue streams has the effect of adjusting utility rates based solely upon changes in revenues, without regard to other changes in the utility's rate base, operating expenses, customer numbers or the cost of capital. The AG says RAC assumes, inappropriately, that the utility's financial health is dependent on ensuring that an established revenue level is maintained between rate cases. The AG asserts that this unjustified premise for the RAC revenue-recovery mechanism ignores the fact that utility expenses, rate base, customer numbers and cost of capital are dynamic and ever-changing. The AG contends that the RAC fails to properly account for (1) changes in operating expenses, such as labor force reductions and operating efficiencies gained through new technology; (2) changes in the rate base; and (3) changes in the cost of capital – all elements that affect a utility's revenue requirement. The AG complains that Rider RAC changes future customer rates to account for changes in only a single element of the revenue requirement formula – forecasted customer revenues, while ignoring all other changes. (AG IB at 58-60)

The AG notes that IAWC attempts to compare this proposed revenue-guaranteeing device with riders that have been approved in other jurisdictions or other Commission dockets. According to the AG, these other riders are distinguishable and should not be considered persuasive by the Commission. (AG IB at 60-61, RB at 29 and 34)

In response to IAWC's comments about what other states have done, the AG asserts that the Commissions in those states did not want to penalize the utilities for the State's mandated, aggressive water conservation programs, and allowed the revenue requirement to be decoupled from the volume of water sold. The AG says Illinois is not engaging in any mandatory conservation efforts, particularly aggressive efforts. The AG also disputes IAWC's efforts to compare its situation to that addressed Docket Nos. 07-0241/07-0242 (Cons.) and 11-0280/11-0281 (Cons.). (AG IB at 60-61, RB at 30-33)

The AG asserts that the purposes for which a water utility may file an information sheet are referenced in section 8-306(c) of the Act, which requires water utilities to notify consumers when rates are changed pursuant to a Section 9-201 rate case or an information sheet. The AG states that Section 8-306(c) recognizes that information sheets are allowed for a purchased water surcharge, purchased sewer treatment surcharge, or qualifying infrastructure plant surcharge. The AG insists that it is inappropriate to expand that list of automatic rate adjustments in light of the legislature's specific requirement that consumers must be notified if the enumerated information sheets change rates. (AG IB at 62-63)

The AG says IAWC provides a lengthy string of cites to numerous orders for the proposition that recovery of fixed costs through fixed charges is an important issue before the Commission. The AG asserts that the Commission did not approve a revenue-adjusting rider in any of these cited cases. The AG asserts that although the Commission did approve certain straight fixed-variable surcharges in some of these cases, these were largely rate design issues and still require the utility to recover a portion of fixed charges through a volumetric rate. The AG insists IAWC's proposed RAC is not comparable to these rate design riders because it focuses solely on guaranteeing IAWC's revenue. (AG RB at 33)

E. The Municipalities' and Bolingbrook's Positions

The Municipalities contend that the Act does not guarantee that the utility will earn its revenue requirement. The Municipalities assert that the Act is designed to permit the utility to have an opportunity to earn its revenue requirement. In the Municipalities' view, the Act does not grant an entitlement to the utility to earn its approved revenue requirement. (Municipalities IB at 2, RB at 1-2)

According to the Municipalities, IAWC has presented no credible evidence that its rider is justified in this docket. The Municipalities assert that IAWC has not demonstrated that its revenues are subject to unpredictable, highly fluctuating factors that require rider treatment. (Municipalities IB at 2) The Municipalities state that nothing has changed since IAWC's last rate case that supports IAWC's contention that changing business realities warrant the RAC. The Municipalities say there always has been variability in weather, and customer usage has been declining for some time. (Municipalities RB at 2)

The Municipalities assert that IAWC erroneously attempts to justify the RAC rider by arguing that its water sales have been declining and will continue to decline because customers are installing more efficient plumbing fixtures and appliances. To offset this alleged decline in usage, IAWC argues that the Commission should decrease test-year projected sales when computing the rates in this docket and implement the RAC rider to protect the Company from further reductions in usage. (Municipalities IB at 4)

IAWC contends that, because the Energy Policy and Conservation Act of 1992 ("EPCA") mandated the manufacture of more efficient toilets, showerheads, faucet

fixtures, and appliances, that water usage will decline in its service territories thereby requiring approval of the RAC as well as an adjustment downward in consumer usage in the test year. According to the Municipalities, IAWC offers no explanation as to why suddenly, two decades after passage of the EPCA, that declining water usage has become unexpected and volatile requiring the extraordinary remedy of a rider. (Municipalities IB at 4)

The Municipalities believe IAWC's assumption concerning the replacement of plumbing fixtures and appliances is flawed. IAWC argues that all homes constructed before the mid-1980s will have new fixtures and appliances installed in the next several years, thereby causing water usage to decrease and necessitating the RAC rider to recover lost sales revenue. The Municipalities contend that IAWC ignores the fact that newer, water-conserving fixtures and appliances already have been installed in much of the housing stock in IAWC's service territory. The Municipalities believe IAWC's argument that there will be volatile, unanticipated decreases in water consumption in the future to justify a rider is flawed. (Municipalities IB at 4-5)

The Municipalities also believe the RAC should be rejected because it is bad public policy. They believe the rider sends the wrong signal to customers who take measures to conserve water usage. The Municipalities state that under the RAC, IAWC is free to increase annually its rates to make up for any "shortfall" in its revenue requirements. The Municipalities states that if a customer engages in water conservation and the conservation results in IAWC receiving less revenue, then IAWC will increase the charge to the customer in the next year. Rather than being rewarded for water conservation by seeing a lower bill, the Municipalities say IAWC would increase the customer's bill. (Municipalities IB at 5)

The Municipalities contend that IAWC is wrong when it argues that the RAC will not discourage voluntary water conservation efforts. Contrary to IAWC's argument, the Municipalities assert that customers who engage in water conservation, which could result in a decrease of IAWC's actual revenues, would pay higher bills the following year if the RAC were adopted. The Municipalities say this result would occur because the RAC allows IAWC to surcharge customers for any revenue shortfall. The Municipalities state that increasing the cost of water to customers who are conserving water sends a price signal to the customer that conservation only results in a higher bill, a result that discourages water conservation. (Municipalities RB at 2-3)

In its Reply Brief, Bolingbrook urges the Commission to deny IAWC's proposed rider RAC. In support of its position, Bolingbrook cites testimony offered by the AG. (Bolingbrook RB at 8-9)

Bolingbrook contends that the RAC, if implemented, would shift risk to the ratepayer and get rid of price certainty for the ratepayer. Bolingbrook claims IAWC sets forth no compelling evidence or reason for this dramatic change. (Bolingbrook RB at 9)

Bolingbrook asserts that for customers in the Chicago Metro service area, which includes users within Bolingbrook, IAWC's residential production costs are much lower than they are elsewhere in the State. Bolingbrook says IAWC's proposed rate to Chicago Metro is different from its proposed rates to other service areas. Bolingbrook states that despite the fact that Chicago Metro has the lowest residential production cost, it does not receive the lowest proposed rate. Bolingbrook also states that IAWC's profit margins vary in the differing service areas, but the RAC does not take this into account such that members of the Chicago Metro service area may end up paying for a decrease in usage in other service areas despite the fact that the usage in Chicago Metro stayed the same or increased. (Bolingbrook RB at 9)

Bolingbrook also argues that the RAC violates the Commission's test year rules and established ratemaking principles, which are based upon an overall evaluation of each aspect of a utility's cost of service and each source of revenue. Bolingbrook states that a just and reasonable rate does not ensure that the business shall produce net revenues. (*Id.*)

F. Conclusions

IAWC has proposed a mechanism, the Revenue Adjustment Clause or "RAC," which would "decouple" its recovery of fixed costs in providing water utility service to its customers from the volume of water it actually sells. IAWC says the proposed RAC would provide it with a measure of revenue stability which would enable it to champion water conservation measures without the fear of undermining business interests in the face of the declining usage trend IAWC has and expects to continue to experience.

Under the proposed RAC, the levels of revenue and production expense authorized by the Commission constitute "base" levels. IAWC proposes that the actual monthly levels of revenue and production expense be booked and compared to those base levels. IAWC says that at the end of 12 months, the difference between the base revenue level, net of base production costs, and the actual revenue level, net of actual production costs, would be determined. Under its plan, IAWC indicates it would then file with the Commission, on an annual basis, a request to issue a refund to customers or to collect a surcharge, as the case may be, reflecting that difference.

Under IAWC's proposal, metered customers would receive the corresponding refund or surcharge in its entirety on their next monthly bill. IAWC says the refund or surcharge would not exceed -5% or +5% of any customer's water bill for the applicable 12-month period. To the extent the difference exceeds the 5% cap, IAWC proposes for the excess to be deferred to a future period with interest at the AFUDC rate.

The proposed RAC is opposed by Staff, IAWC/FEA, the AG, the Municipalities and Bolingbrook. These parties argue, among other things, that the proposed RAC is unlawful, unnecessary, inconsistent with traditional ratemaking in Illinois, and unfair to ratepayers. The extensive arguments on this issue are summarized above and are not

repeated in this conclusion. The Commission has, however, carefully reviewed the testimony and arguments regarding this issue.

The purpose of utility regulation is to substitute for competition in markets where government has determined that monopolies are either natural, or more efficient than a competitive marketplace. An important aspect of utility regulation involves balancing the competing interests of ratepayers and utility investors. Generally, the Commission believes that the interests of water/wastewater ratepayers and investors in Illinois have been well served by the traditional regulatory scheme. Having said that, it is important to constantly monitor the regulatory environment and, when necessary, make appropriate modifications or accommodations that are in the public interest.

The Commission notes, for example, that Public Act 91-638 added Section 9-220.2 to the Act. Through Section 9-220.2, which became effective January 1, 2000, the General Assembly added a provision whereby the Commission may authorize a water or sewer utility to file a surcharge which adjusts rates and charges to provide for recovery of (i) the cost of purchased water, (ii) the cost of purchased sewage treatment service, (iii) other costs which fluctuate for reasons beyond the utility's control or are difficult to predict, or (iv) costs associated with an investment in qualifying infrastructure plant, independent of any other matters related to the utility's revenue requirement. These surcharges are essentially exceptions to test-year ratemaking, and Section 9-220.2 protects ratepayers by requiring a reconciliation process where recoveries are limited to "prudently incurred costs."

As discussed above, IAWC proposes a mechanism which would decouple the recovery of fixed costs from the volume of water sold. IAWC's underlying basis for proposing the RAC is a trend of declining water usage by residential customers. It appears that IAWC does not suggest that the proposed RAC falls within the provisions of Section 9-220.2 of the Act.

That a decoupling mechanism, such as the proposed RAC, is not explicitly authorized by the Act does not necessarily make it unlawful, but should not be ignored. Clearly, Section 9-220.2 already provides water utilities with several mechanisms that provide them with levels of revenue stability and investment recovery between rate cases. In its water operations, IAWC is in fact benefitting from two of those mechanisms authorized in Section 9-220.2. As such, IAWC is experiencing a reduction of the uncertainties and risks that it would otherwise be facing between rate cases. Whether the record in this case supports the approval of an additional mechanism providing protections beyond those already in place is the question before the Commission. In the Commission's opinion, it does not.

IAWC claims that residential water sales are projected to decline each year. However, the record does not indicate why water sales are more difficult to predict than other elements in a forecasted test year. Test-year sales volume is one of the many variables that in combination produce the test year revenue requirement and ultimately, utility rates. There is uncertainty associated with most of these variables, including

sales volume. The entire test-year ratemaking concept is premised on the fact that these uncertainties exist and will offset one another to some extent during the period rates are in effect.

Further, under IAWC's formula, the RAC as proposed would remove the proper price signals that customers currently receive. If the target revenues do not match the actual revenues, the resulting percentage from the RAC formula would be added to each metered water customer's bill for one year. Thus, future customer bills will not necessarily decline or increase as a direct result of respectively using less or more water.

In conclusion, the Commission finds that approval of the proposed RAC is not supported by the record and is not in the public interest, and will not be granted.

XII. AFFILIATED INTEREST ISSUES

Staff has concerns regarding affiliated interest arrangements between or affecting IAWC, American Water Works Service Company ("AWWSC") and American Water Resources ("AWR"), as discussed below.

A. Staff Position

1. Overview

IAWC's current agreement with its affiliated service company, AWWSC, was approved in Docket No. 04-0595. The preceding agreement with AWWSC was approved in Docket 88-0303. These agreements outlined services that AWWSC could provide to IAWC, established the method of cost recovery for AWWSC, and provided certain restrictions on the behavior of AWWSC in its actions with other companies. (Staff IB at 78)

In Docket No. 02-0517, IAWC requested Commission approval of an agreement with another affiliate, American Water Resources. This agreement would have authorized IAWC (and AWWSC) support of AWR through letters, mailings, billing and repair service initiation. In its Order on Reopening, the Commission declined to approve any assistance to AWR and denied approval of the agreement. (Staff IB at 79; Staff Ex. 7.0 at 3-4)

According to Staff, "Despite the Commission's refusal to approve the proposed agreement above, IAWC has ignored and circumvented this prohibition by allowing its affiliated service company, AWWSC, to interact with AWR on its (i.e. IAWC's) behalf." (Staff IB at 79) AWWSC has entered into several agreements that enable AWR to benefit from its indirect association with IAWC. Specifically, AWWSC has set forth methods of allocating costs to AWR "that do not adequately reflect AWWSC's own incursion of these costs." (*Id.*)

**PUBLIC SERVICE COMMISSION
OF WEST VIRGINIA
CHARLESTON**

At a session of the PUBLIC SERVICE COMMISSION OF WEST VIRGINIA, in the City of Charleston, on the 18th day of April 2011.

CASE NO. 10-0920-W-42T

WEST VIRGINIA-AMERICAN WATER COMPANY,
a private utility, Charleston, Kanawha County.

Rule 42T application to increase water
rates and charges.

**COMMISSION ORDER ON THE REQUEST
FOR INCREASED RATES AND CHARGES**

considers the AFFAC to be a variation of the existing terminal rate base treatment that has been allowed in recent WVAWC rate proceedings.

Staff and CAD proposed allowing WVAWC the opportunity to implement an AFFAC instead of DSIC. The Commission is disappointed that WVAWC showed such little interest in an AFFAC. The focus of WVAWC on gaining cash flow through DSIC came at the cost of the Company not supporting a timely net income benefit that would result from AFFAC accounting. In spite of the fact that WVAWC did not request or describe the accounting that could be used for recording AFFAC, the Commission concludes that a streamlined accounting mechanism for an AFFAC can be structured. We believe that the income flowing from AFFAC accounting, although non-cash earnings, will provide relief for WVAWC between rate cases without the need for the quarterly rate adjustments required by the Company DSIC proposal. We will allow an accounting procedure that includes recording an AFFAC debit in a single account rather than to individual plant accounts. The accumulated AFFAC debits may be depreciated through the application of an average depreciation rate on the accumulated AFFAC balance. The Commission may consider further refinements to this accounting in future rate cases, or will consider modification and refinement on petition by WVAWC if it wishes to propose a modification to this procedure, including multiple AFFAC debits to functional plant categories, such as Transmission AFFAC, Distribution AFFAC, Meter AFFAC, etc.

The AFFAC should provide a current return on all qualified plant investment and will eliminate the current regulatory lag between the date that the qualified plant goes into service and the effective date of rates in the Company's next rate case. The Commission will allow AFFAC for ratemaking purposes for all qualified plant placed into service beginning January 2011. If WVAWC elects to adopt this accounting mechanism and wishes to book AFFAC, it must file a description of the accounting procedure and accounts it will use for implementing AFFAC no later than sixty days from the entry of this Order as a closed entry in this case.

The Commission is charged to investigate and consider alternative concepts in utility regulation and management. W.Va. Code §24-1-1(c). Although we do not at this time believe that the benefits of implementing DSIC are outweighed by the detriments that we perceive, we are willing to authorize WVAWC to use AFFAC as an alternative under the circumstances we have discussed above. The AFFAC may be booked until further Order of the Commission. The Commission places the Company on notice that it may modify or require cessation of the AFFAC procedure in future rate cases, after reviewing its effectiveness, or lack thereof.

B. PROPOSALS FOR FURTHER INVESTIGATION

1. WVAWC Proposals

In its direct testimony, WVAWC requested that the Commission open several general investigations regarding various water rate mechanisms. WVAWC proposed a Water Revenue Adjustment Mechanism (WRAM), an addition to water bills that would decouple water sales from water revenue, and a Purchased Power Adjustment Clause (PPAC). Ex. WDM-D at 19-22.

WVAWC argued that the WRAM would allow it to maintain its authorized ROR despite declining water sales, (*Id.* at 20), while PPAC would address the increasing share of costs attributable to purchased power. *Id.* at 22. WVAWC also advocated for a change in the manner of calculating unaccounted for water (UFW) arguing that an Infrastructure Leak Index (ILI) is a superior method of loss measurement. *Id.* at 14-17.

Staff opposed the proposed general investigations, arguing that if the Company desired to implement these practices, it should do so inside a Rule 42 proceeding. Ex. DLK-D at 25. Staff also noted that purchased power costs represent a relatively small proportion, approximately three percent, of the WVAWC revenue requirements. Staff also argued that current measurements of UFW are adequate. *Id.*

The Commission has reviewed the testimony suggesting the various mechanisms WVAWC proposed and declines to open either of the requested general investigations. The WRAM concept departs from the traditional approach the Commission has used to determine rates in the past, severing the connection between rates and water usage. The Commission is concerned that such a mechanism to guarantee a ROR is unnecessary and could provide a disincentive to the efficient utility operation that is sorely needed in the current economic climate.

The Commission also rejects the request to open a general investigation into the PPAC mechanism. While purchased power is a significant cost to WVAWC, purchased power is not a dominant component of the WVAWC cost of service. The Commission has also included the rate increase from the most recent APCo rate case in the revenue requirement calculation in this matter. A further investigation into the PPAC mechanism is unnecessary, and the Commission will reject it.

2. UWUA Proposals

UWUA witness Gregory Lanham filed testimony expressing concern that staffing reductions in the Huntington District will impair the ability of WVAWC to provide safe and reliable water service to its customers. Ex. GL-D at 4. Mr. Lanham was specifically concerned that the Huntington District (i) has been without any maintenance mechanics over the past several months, (ii) has not had a full complement of maintenance mechanics for roughly two years, (iii) has an open vacancy for a "relief operator" position and (iv) has a High Service Operator who is approaching retirement. *Id.* at 10-12. He believes that needed preventative maintenance will likely be left undone, increasing the likelihood of breakdowns and interruptions in plant operations. *Id.* at 11. Mr. Lanham expressed concern that it may be difficult for the Company to fill the High Service Operator position because of the stringent educational and training requirements, and while this position is not filled, there will be no replacement to run the plant if more than one operator is unavailable. *Id.* at 11, 12. Mr. Lanham is also concerned that the reduction in staffing may lead to reduced valve maintenance activities to ensure proper functioning. *Id.* at 5, 16, 17.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

Witness: Keith Cartier

63. a. Provide a monthly comparison of Kentucky-American's projected to actual purchased power expense for the calendar years 2008 through 2012.
- b. Provide a monthly comparison of Kentucky-American's projected to actual chemical expense for the calendar years 2008 through 2012.
- c. Provide a schedule that separately lists each chemical and its contract price for 2008, 2009, 2010, 2011, and 2012.

Response:

The 2012 pricing for each chemical listed in part c., which is based upon competitive bids, is confidential information. Therefore, the Company has filed a Petition for Confidential Treatment contemporaneously with these responses. The Company will provide copies of the requested documents to all parties in this case upon execution of an appropriate confidentiality agreement.

a.

Purchased Power		
Year	Budget	Actual
2008	\$2,756,000	\$3,198,000
2009	\$3,958,000	\$2,974,000
2010	\$4,008,000	\$3,696,000
2011	\$4,045,000	\$3,663,000
2012	\$4,029,000	\$3,849,000

b.

Chemicals		
Year	Budget	Actual
2008	\$ 1,637,082	\$ 1,749,092
2009	\$ 2,606,698	\$ 2,216,654
2010	\$ 2,386,876	\$ 1,816,316
2011	\$ 1,848,860	\$ 1,885,466
2012	\$ 1,855,222	\$ 1,789,687

c.

RICHMOND ROAD STATION					
	2008 Price	2009 Price	2010 Price	2011 Price	2012 Price
AMMONIA	\$0.269	\$0.338	\$0.380	\$0.510	
CARBON	\$0.760	\$0.865	\$0.860	\$0.919	
CHLORINE	\$0.230	\$0.180	\$0.190	\$0.189	
COPPER SULFATE	\$1.550	\$1.360	\$1.360	\$1.360	
CORROSION INHIBITOR	\$0.273	\$0.555	\$0.459	\$0.415	
FERRIC CHLORIDE	\$0.097	\$0.114	\$0.108	\$0.095	
FLUORIDE	\$0.188	\$0.380	\$0.320	\$0.290	
PACL	\$0.138	\$0.148	\$0.144	\$0.147	
POLYMERS NO 1	\$0.340	\$0.260	\$0.273	\$0.289	
POTASSIUM PERMANGANATE	\$2.200	\$3.080	\$2.570	\$2.470	
SODIUM CHLORIDE	\$0.140	\$0.170	\$0.180	\$0.140	
SODIUM HYDROXIDE 50%	\$0.120	\$0.077	\$0.080	\$0.132	
KENTUCKY RIVER STATION					
	2008 Price	2009 Price	2010 Price	2011 Price	2012 Price
AMMONIA	\$0.269	\$0.338	\$0.380	\$0.510	
CARBON	\$0.720	\$0.850	\$0.850	\$0.860	
CHLORINE	\$0.230	\$0.180	\$0.190	\$0.189	
CORROSION INHIBITOR	\$0.273	\$0.555	\$0.459	\$0.415	
FERRIC CHLORIDE	\$0.097	\$0.114	\$0.108	\$0.095	
FLUORIDE	\$0.188	\$0.380	\$0.320	\$0.290	
PACL	\$0.138	\$0.148	\$0.144	\$0.147	
POLYMERS NO 1	\$0.310	\$0.260	\$0.273	\$0.289	
POLYMERS NO 2	\$0.980	\$0.765	\$0.795	\$1.030	
POTASSIUM PERMANGANATE	\$0.000	\$3.080	\$2.600	\$0.000	
SODIUM CHLORIDE	\$0.140	\$0.170	\$0.180	\$0.140	
SODIUM HYDROXIDE 50%	\$0.120	\$0.077	\$0.080	\$0.132	
SODIUM PERMANGANATE	\$0.980	\$0.940	\$0.955	\$0.000	
NORTHERN DIVISION - OWENTON PLANT					
	2008 Price	2009 Price	2010 Price	2011 Price	2012 Price

CARBON	\$0.630	\$0.850	\$0.850	\$0.850	
CHLORINE	\$0.420	\$0.400	\$0.400	\$0.430	
COPPER SULFATE	\$0.000	\$1.697	\$1.748	\$1.748	
FERRIC CHLORIDE	\$0.260	\$0.450	\$0.310	\$0.220	
FLUORIDE	\$0.167	\$0.380	\$0.430	\$0.420	
POLYMERS NO 1	\$0.910	\$0.840	\$0.865	\$0.980	
POTASSIUM PERMANGANATE	\$2.200	\$3.080	\$2.600	\$2.470	
SODIUM HYDROXIDE 30%	\$0.130	\$0.150	\$0.150	\$0.190	
SODIUM HYDROXIDE 50%	\$0.170	\$0.170	\$0.160	\$0.210	
SODIUM PERMANGANATE	\$1.170	\$1.250	\$0.955	\$1.250	
SULFURIC ACID (38%)	\$0.310	\$0.200	\$0.220	\$0.280	
KENTUCKY RIVER POOL 3 PLANT					
	2008 Price	2009 Price	2010 Price	2011 Price	2012 Price
AMMONIA	\$0.000	\$0.000	\$0.150	\$0.150	
CARBON	\$0.000	\$0.000	\$0.860	\$0.919	
CHLORINE	\$0.000	\$0.000	\$0.190	\$0.189	
CORROSION INHIBITOR	\$0.000	\$0.000	\$0.459	\$0.415	
FERRIC CHLORIDE	\$0.000	\$0.000	\$0.330	\$0.095	
FLUORIDE	\$0.000	\$0.000	\$0.320	\$0.290	
PACL	\$0.000	\$0.000	\$0.179	\$0.147	
POLYMERS NO 1	\$0.000	\$0.000	\$0.000	\$0.960	
POTASSIUM PERMANGANATE	\$0.000	\$0.000	\$2.550	\$2.470	
SODIUM CHLORIDE	\$0.000	\$0.000	\$0.180	\$0.140	
SODIUM HYDROXIDE 25%	\$0.000	\$0.000	\$0.060	\$0.095	

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: **Linda C. Bridwell**

64. State whether Kentucky-American has since 1995 actively participated in any administrative proceedings involving its electric power suppliers' request for rate adjustments. If no, explain why not.

Response:

No, Kentucky American has not. Kentucky American trusts that the Commission's regulatory process only permits electric power suppliers to charge just and reasonable rates. Further, Kentucky American recognizes the role of the Attorney General as an advocate for all consumers in rate case proceedings. To date, Kentucky American has not determined that participation in the proceedings would provide any additional operational savings through reduced electric costs and would therefore be an unnecessary additional expense for Kentucky American ratepayers.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: **Gary M. VerDouw**

65. At page 29 of his written direct testimony, Mr. VerDouw states: “Cost over-recovery or under-recovery is possible due to the above factors, creating the possibility of a detrimental impact on customers or shareholders.” Provide all studies and analyses that quantify the detrimental impact that could occur to the customers or shareholders.

Response:

The statement is based not on a particular study or analysis, rather it reflects the reality that all other things being equal, decreases or increases in the level of expense actually incurred by the Company versus the level authorized and established in Base Rates, will directly result in customers having been overcharged in rates for these expenses or undercharged. A quantification of such impact would necessarily depend on the amount of the difference. That said, a sample calculation of how the PPACC Tariff Rider would function is provided in Exhibit PPACC-1.1, Page 1 of 1 to my testimony.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: **Gary M. VerDouw**

66. On page 37 of his written direct testimony, Mr. VerDouw states that the total cost of the Business Transformation Program (“BT Program”) is \$320.3 million and the cost to be allocated to Kentucky-American is \$12.3 million.
- a. Provide the total costs of the JD Edwards program and the Customer Service and Information System.
 - b. Provide the cost of the JD Edwards program and the Customer Service and Information System that was allocated to Kentucky-American.
 - c. Provide a schedule showing the amount of the BT Program that will be allocated to each regulated and non-regulated American Water subsidiary.

Response:

- a. The JD Edwards Program costs for American Water are \$12,911,703.90. The legacy Customer Service Information System costs for American Water are \$56,695,793.39.
- b. The cost JD Edwards Program for Kentucky-American is \$512,355.62. The cost of the legacy Customer Service Information System for Kentucky-American is \$3,353,720.81.
- c. Please refer to the attachment.

Kentucky-American Water Company
CASE NO. 2012-00520
Response to Commission's Second Request for Information, Item 66 Attachment

Business Transformation Total	<u><u>\$320,281,153</u></u>
California American	17,599,253
Illinois American	31,278,628
Indiana American	28,938,712
Iowa American	6,200,333
Kentucky American	12,290,381
Maryland American	509,046
Michigan American	380,933
Missouri American	46,281,122
New Jersey American	65,673,226
New Mexico American	176,426
Ohio American	586,669
Arizona American	1,612,356
Pennsylvania American	66,537,238
Tennessee American	7,624,267
Virginia American	5,852,234
West Virginia American	17,491,447
Hawaii American	1,001,629
Long Island American	7,531,587
Virginia East American	27,233
Texas American	54,465
NY American	<u>2,633,967</u>
Total	<u><u>\$320,281,153</u></u>

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: **Gary M. VerDouw**

67. At page 41 of his written direct testimony, Mr. VerDouw states that SAP and Accenture were selected through a competitive bidding process.
- a. Provide copies of each bid received.
 - b. Provide all correspondence, electronic mail, analyses, notes, memoranda, studies, and related documents that discuss or review submitted bids or contain recommendations regarding the bids.
 - c. For each of the following groups participating in the review process identify each employee participating in the group, his or her position title, and American Water subsidiary at which he or she was employed.
 - (1) BT Program Team;
 - (2) Advisory Counsel;
 - (3) Other American Employees
 - d. Provide for each group listed above a detailed description of its role in evaluating the BT Program and the level of responsibility that it was given.

Response:

- a. Due to the voluminous and confidential nature of the information requested, the information is being provided on a separate electronic thumb drive. All of the information provided on the thumb drive contains confidential information. Therefore, the Company has filed a Petition for Confidential Treatment contemporaneously with these responses. The Company will provide copies of the requested documents to all parties in this case upon execution of an appropriate confidentiality agreement.
- b. Please refer to the response to part a.
- c. (1) BT Program Team;
 - Andrew Twadelle – VP Business Transformation
 - Franco Boffice – Record to Report Lead
 - Sue Cole - Record to Report Lead

- Kim Legg – Hire to Retire Lead
- Jim Kennedy – Procure to Pay Lead
- Tammy McLaughlin – Order to Cash Lead
- Craig O'Connell – Plan to Build Lead
- Tom Slook – Technical Lead
- Andrew Clarkson – Request to Close Lead
- Richard Powers - Technical Lead
- Carol McMichael – Project Management Office

(2) Other American Employees

- Emily Ashworth - CIO
- Mark S Smith – ITS - Senior Director, Business Application Development & Project Management Office
- Robert P Schreiber – ITS Director of Client Services and Security Operations

(3) Advisory Council;

- Walter Lynch - President and Chief Operating Officer of Regulated Operations
- Ellen Wolf - Senior Vice President and Chief Financial Officer
- Kellye Walker - Chief Administrative Officer and General Counsel
- John Young (former Chief Operating Officer)
- Don Correll (former CEO)
- Jeff Sterba - President and Chief Executive Officer

d. Provide for each group listed above a detailed description of its role in evaluating the BT Program and the level of responsibility that it was given.

- BT Program Team - adherence to business requirements
- Other American Employees (includes the ITS department) - adherence to system requirements
- Advisory Council - review and approval of recommendations

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: **Gary M. VerDouw**

68. At page 42 of his written direct testimony, Mr. VerDouw describes the process used to select a solution implementer.
- a. Provide copies of each bid submitted.
 - b. Provide all correspondence, electronic mail, analyses, notes, memoranda, studies, and related documents that were prepared as part of the review process or that discusses or review submitted bids or contain recommendations regarding the bids of potential solution implementer.
 - c. Provide the report containing the recommendation to accept the Accenture bid.
 - d. Identify each group that participated in the review process.

Response:

- a. Due to the voluminous and confidential nature of the information requested, the information is being provided on a separate electronic thumb drive, all of which contains confidential information. Therefore, the Company has filed a Petition for Confidential Treatment contemporaneously with these responses. The Company will provide copies of the requested documents to all parties in this case upon execution of an appropriate confidentiality agreement.
- b. Please refer to the response to part a.
- c. Please refer to the response to part a.
- d. Identify each group that participated in the review process.

Business Transformation Vice President
Chief Information Officer
Business Transformation Process Leads
Business Transformation Steering Committee
IT Directors
Internal Controls Group

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: **Gary M. VerDouw**

69. a. State whether American Water or Kentucky-American has performed any studies or analyses of the financial effects on Kentucky-American of the BT Program or of the benefits that BT Program provides specifically to Kentucky-American.
- b. If the response to Item 69(a) is yes, provide all studies or analyses that were prepared.
- c. If the response to item 69(a) is no, explain why the allocated cost of the BT Program of \$12 million to Kentucky-American is reasonable.
- d. Explain why it is reasonable for a company of Kentucky-American's size to spend \$12 million on a software package.
- e. Quantify the benefits Kentucky-American receives from the BT Group. Show all calculations and state all assumptions made to quantify these benefits.

Response:

- a. Neither American Water nor Kentucky-American has performed any studies or analyses of the financial effects of the BT program on Kentucky-American. The benefits that BT Program will provide to Kentucky-American are described in the testimony of Gary VerDouw. Kentucky-American's IT systems were implemented in the early 1990s and 2000s. Those systems are used by the Company's various business departments, but are not integrated. In addition, they have limited automation and functionality. Accordingly, American Water undertook a comprehensive analysis of its current information technology systems, the results of which indicated it has fully maximized the software and systems used by its operating companies by implementing significant customizations or workarounds, in part, to meet requirements and expectations the original software is not equipped to support. This analysis is provided in response to Item 168 of the Attorney General's First Request for Information. That comprehensive analysis further demonstrated the current IT systems have reached a point where additional customizations would be inefficient and increasingly costly to maintain. As such, wholesale replacement of those antiquated IT systems is warranted. Replacement is necessary for another reason. Kentucky-American's customers today expect more functionality than they once did, and more functionality than Kentucky-American's existing IT systems can readily support. Business Transformation will enable Kentucky-American to meet the demand. The BT systems are anticipated to provide a host of benefits to Kentucky-American and its customers.

- b. See also the American Water Information Technology Infrastructure Comprehensive Planning Study Report attached to the response to Item 168 of the Attorney General's First Request for Information.
- c. The level of Business Transformation costs is reasonable. American Water conducted extensive analyses of potential service providers, used competitive bidding processes to select key service providers and negotiated "not to exceed" fixed fee arrangements to ensure effective cost control. American Water has carefully managed the BT costs at every stage to provide customers and other stakeholders with the greatest value at a reasonable cost. Further, Kentucky-American is an active participant in the Business Transformation program. Kentucky-American employees are necessarily involved to ensure Kentucky-American's business needs are properly served at all stages of the program. See also the American Water Information Technology Infrastructure Comprehensive Planning Study Report attached to the response to Item 168 of the Attorney General's First Request for Information.
- d. Kentucky-American is not spending \$12 million on a "software package" but a comprehensive and integrated replacement of its outdated IT systems as well as integrating new systems to improve customer service and overall productivity. Please refer to part c. above and the Direct Testimony of Gary VerDouw.
- e. Please see the response to part a. above. Moreover, As Mr. VerDouw states in his direct testimony, the Business Transformation program is necessary to improve Kentucky-American Water's outdated information technology systems. Therefore, an information technology upgrade is necessary. The assets to be replaced as part of the BT program can be analogized to replacement of a water treatment facility or a pump necessary to maintain appropriate pressure in the distribution system. At some time, whether after 10 or 20 years and many hours of running for the treatment and movement of water through a system, these items must be replaced for maintenance or safety reasons or simply because they no longer provide the level of required service. Quite probably, the replacements will cost more than the original facilities did and may or may not provide savings that can offset that cost. In any case, the water treatment facility and the pump must be replaced to maintain basic customer service, regardless of whether they produce savings. It is not reasonable to expect quantification of potential financial benefits of BT before implementation of BT. Even the Financial Accounting Standards Board recognizes this reality:

62. Paragraph 25 in FASB Concepts Statement No. 6 defines assets as "probable future economic benefits obtained or controlled by a particular entity as a result of past transactions or events." Footnote 18 to FASB Concepts Statement No. 6 states that "probable is used with its general meaning, rather than in a specific accounting or technical sense, . . . and refers to that which

can reasonably be expected or believed on the basis of available evidence or logic but is neither certain nor proved”

Paragraph 26 states: "An asset has three essential characteristics: (a) it embodies a probable future benefit that involves a capacity, singly or in combination with other assets, to contribute directly or indirectly to future net cash inflows, (b) a particular entity can obtain the benefit and control others' access to it, and (c) the transaction or other event giving rise to the entity's right to or control of the benefit has already occurred."

...66. One of the characteristics of an asset in FASB Concepts Statement No. 6 is that it must contribute directly or indirectly to future net cash inflows, thus providing probable future economic benefits. AcSEC recognizes that the specific future economic benefits related to the costs of computer software will sometimes be difficult to identify. However, AcSEC believes that this is also true for some other assets. For example, computer hardware or furniture used in back-office operations are indirectly related to future benefits. Likewise, corporate office facilities do not result in identifiable future benefits, but the facilities do support the operations of the company.

FASB Accounting Standards Executive Committee's Statement of Position 98-1, Account for the Costs of Computer Software Developed or Obtained for Internal Use.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: Linda C. Bridwell

70. Refer to Kentucky-American's Response to Commission Staff's First Request for Information, Item 3(a), W/P-3 at 85, Pro Forma Adjustment to Support Services Expenses.
- a. Kentucky-American's forecasted support services fees in this case are \$9,324,233. Provide a breakdown of this forecasted amount using the categories listed below:
 - (1) Belleville Lab;
 - (2) Call Center/National Customer Care Center;
 - (3) Corporate;
 - (4) ITS Shared Service;
 - (5) Shared Service;
 - (6) Central Region Charges.
 - b. Confirm that the \$120,497 that was misclassified as miscellaneous expense in the chart of accounts has been deducted from the miscellaneous expense category.
 - c. Kentucky-American proposes to adjust the base year support service expense by \$382,055 to reflect "Call Center and IT" labor increases.
 - (1) State whether the referenced wage increases are 3 percent. If not, state the level of the increase.
 - (2) Provide the negotiated union contract referenced in the work paper.
 - d. There is a \$415,023 adjustment to other non-labor costs. Provide a breakdown of the adjustment of \$415,023 to other non-labor costs into the following categories with a detailed description for each adjustment category:
 - (1) IT Maintenance;
 - (2) Consulting;
 - (3) Depreciation;

- (4) Interest;
 - (5) Inflation Adjustments
- e. List each business development cost included in the forecasted Support Services Fees of this case. State whether the cost is directly assignable or allocated and describe the services associated with the cost.

Response:

- a. Please see the response to Item 94 of the Attorney General's First Request for Information which shows Kentucky-American's forecasted support services fees in this case by function and business unit after adjustments removing incentive pay. Corporate charges are contained in the Admin section. Service Company Central Region was replaced by the current divisional structure, and is therefore not available.
- b. The \$120,497 of Service Company charges that was misclassified as miscellaneous expense in the chart of accounts has been deducted from the miscellaneous expense category. Please see Exhibit 37, C-2 line #274 from the original filing. The Excel location is cell O286.
- c.
 - 1. Labor and labor-related amounts were adjusted by 3% in 2013 for all functions with the exception of Call Center union employees in Alton, Illinois and Pensacola, Florida. Those employees were adjusted by the prorated amount of the negotiated wage increases in the recent contracts attached in part 2 of the response below. 2014 labor and related costs were adjusted by 3% for the prorated period from April to July 2014 for all employees except the Alton and Pensacola union employees. The union employees were adjusted by the prorated wage increase amounts of their negotiated contracts. In addition to the proposed merit increase adjustments, labor and related amounts were also adjusted to reflect additional ITS labor and related costs pertaining to Business Transformation, as well as additional Call Center labor and related costs reflecting the increased direct charges to Kentucky American based on call handling volumes.
 - 2. Please see the attached union contracts for Alton and Pensacola union employees.
- d. Please see the attached files.
- e. Business development costs included in the case are \$94,707 after removal of incentive pay. It is not possible to segregate the future test year costs into directly assignable or allocated, because the budgeted Service Company numbers used to

produce the future test year costs are based on historical figures with budgeted merit and inflation assumptions, not on the type of allocation used (direct charge or allocation). The services provided by the Business Development function include providing coordination, tools, training, and support to American Water subsidiaries by assisting in identifying acquisition opportunities that facilitate the orderly and continued growth of the Company.

COLLECTIVE BARGAINING AGREEMENT

BETWEEN

AMERICAN WATER WORKS SERVICE COMPANY, INC.

AND

UTILITY WORKERS UNION OF AMERICA, AFL-CIO, LOCAL 640

ALTON, IL

2011-2014

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SCOPE OF AGREEMENT

This Agreement has been entered into October 12, 2011, by and between American Water Works Service Company, Inc., hereinafter referred to as the “Employer” or the “Company,” and the Utility Workers Union of America, AFL-CIO, Local 640, hereinafter referred to as the “Union.”

PREAMBLE

The Company is engaged in furnishing an essential public service which vitally affects the health, safety, comfort and general well-being of a large number of people in the communities furnished water service by the Company.

The Company and the Union agree that the existence of the Company is conditioned upon it carrying out its responsibilities and obligations to the public served.

The parties agree further that the responsibility to the public is a mutual responsibility of employees and management that requires that any disputes arising between them shall be settled in an orderly manner without interruption of water service.

The Union is in agreement with the objectives of achieving the highest level of service to the public, the highest level of employee performance and efficiency consistent with safety, good health and sustained effort.

ARTICLE 1

RECOGNITION

Section 1.1

The Company recognizes the Union, and its successors, as the exclusive collective bargaining representative in matters of wages, hours, working and other conditions of employment for all customer service representatives as listed in Attachment A, employed at the Company’s Alton, Illinois facility, excluding office clerical and professional employees, guards and supervisors as defined in the Act.

Section 1.2

It is recognized by the parties hereto that based upon the Company’s responsibilities and obligations to the public to at all times furnish a safe and adequate water supply, there can be no division of responsibility. It is agreed, therefore, that the Company must be

unhampered in its selection of employees to meet its operational needs. It is further agreed that the Company may assign employees from outside the bargaining unit to perform work covered by this collective bargaining agreement, so long as such assignment is for training and development or is temporary (no more than ninety (90) days) to efficiently perform the necessary work.

Section 1.3 Temporary Transfers and Step-Up Pay

Nothing in this Agreement shall prevent the temporary transfer of bargaining unit employees to non-bargaining unit work or to work in any lower classification to promote efficiency, facilitate training or fill up their time. Employees will receive their regular hourly rate of pay for all such work. For all time actually worked in excess of one hour in a higher classification at the direction of the Company, the employee will receive the greater of Seventy-Five Cents (\$.75) per hour or the respective hourly rate of pay for the higher union classification.

Section 1.4 Use of Part-time & Temporary Employees

Nothing in this Agreement shall limit the right of the Company to employ part-time, seasonal or temporary employees including employees from temporary labor services. It is agreed that the number of regular part-time employees utilized by the Company will not exceed twenty percent (20%) of the total number of employees employed and that once each month, upon request, the Company will verify to the Union that it is in compliance with this restriction. Part-time employees will not be scheduled to work in such a way that, individually or collectively, they are regularly scheduled to work the equivalent hours that one full-time employee would work in a normal straight time week; however, part-time employees shall be permitted to work scheduled or call-out overtime if no qualified full time employees accept said overtime and said hours shall not be counted toward working the equivalent hours that one or several full-time employees would work in a normal straight time week. In the event the Company regularly schedules part-time employees to work the equivalent hours that one full-time employee would work in a normal straight time week, the Company agrees to hire a full-time employee in lieu of the part-time employee(s). If the Company determines that a full-time vacancy exists, it will consider qualified regular part-time employees for the opening(s) before recruiting from outside the Company. Part-time, seasonal and temporary employees will not be eligible for any benefits of any kind unless specifically set forth in this Agreement. Regular part-time employees are those who are regularly scheduled more than sixteen (16) but less than thirty-five (35) hours in a workweek.

No seasonal or temporary employee will be retained for more than ninety (90) days without a break in employment. No seasonal or temporary employee will be retained when a member of the bargaining unit is qualified to perform the same work is being laid off. Employment through a temporary employment service shall not be considered to be employment by or service with the Company for any purpose under this Agreement. The Company shall notify the Local 640 President in writing within 7 days of employment of any seasonal or temporary employees including employees from temporary labor services. That notification shall include the name and specific start dates and type of work being performed; for each seasonal or temporary employee including employees from temporary labor services employed by the Alton Call Center.

Section 1.5 Part Time Benefits

Part-time employees will earn five (5) vacation days per calendar year. These employees will be included in the vacation bid in order of seniority as outlined in Article 7. Part-time employees will earn three (3) sick days per calendar year. The Company will consider on a case-by-case basis any full-time employee with need to go to part time.

Section 1.6

The Company is committed to maintaining more than one (1) Customer Service Center for the foreseeable future. If during the term of this Agreement, the Company elects to close the Customer Service Center covered by this Agreement, all affected employees will be given an opportunity for continued employment at the new location.

ARTICLE 2

NON DISCRIMINATION

Section 2.1

The Company and the Union agree that they will not discriminate against any employee or applicant for employment for or on account of, or because of sex, creed, race, color, religion, age, marital status, national origin, union activity, or handicap to the extent covered by law provided the employee is capable of performing his job. It is understood that wherever in this Agreement employees or jobs are referred to in the masculine gender, it shall be recognized as referring to both male and female.

ARTICLE 3

UNION SECURITY

Section 3.1 Conditions of Employment

As a condition of continued employment, all employees included in the collective bargaining unit shall, prior to ninety-one (91) days after the start of their employment with the Company, or the effective date of this Agreement, whichever is later, become members of the Union and pay to the Union the periodic monthly dues and initiation fees uniformly required of all Union members. The Union shall certify to the Company the amount that constitutes periodic monthly dues.

Section 3.2 Discharge of Non-members

The failure of any person to become or remain a member of the Union at such required time by paying initiation fees and regular monthly dues uniformly required as a condition of membership shall obligate the Company, upon written notice from the Union to such effect and to the further effect that Union membership was available to such person on the same terms and conditions generally available to other members, to discharge such individual within ten (10) working days following the receipt of such notice.

Section 3.3 Hold Harmless

The Union recognizes and accepts sole responsibility for any action arising out of any Union demand for the discharge of any employee pursuant to the terms of this Agreement. In any and all cases where the Company complies with the Union demand in reliance upon a written notice respecting membership in the Union, the Union shall indemnify and hold the Company harmless for any resulting liability, including, but not limited to, back pay, lost benefits, other damages, interest, costs, expenses, and reasonable attorney's fees.

ARTICLE 4

CHECK-OFF

Section 4.1 Bi-weekly Deduction

When individually authorized in writing by an employee, the Company agrees to deduct on a bi-weekly basis from the pay of the employee an amount equal to the dues and initiation fees as required from all employees in the bargaining unit. All amounts so deducted shall be remitted on or before the last day of the same month to the Union. A list showing all employees from whom deductions were made will accompany the remittance of money collected.

Section 4.2 Hold Harmless

The Union agrees to hold the Company harmless for any action or actions growing out of these deductions commenced by an employee against the Company, and assumes

full responsibility for the disposition of the funds so deducted, once the money is in the hand of the Union. Errors made by the Company in making deductions and remitting same shall not be considered a violation of this provision, but correction of any errors shall be made within a reasonable time.

Section 4.3 Successor Clause

It is agreed that in the event the Employer during the term of the Agreement shall transfer the control and/or operation of the facility to another corporation, person or firm by assignment, lease, sale or other transfer, the Employer will require the transferee to assume the obligations of this Agreement for a twelve (12) month period after the transfer by specific provision in the agreement of transfer and upon the assumption of this Agreement by such transferee all obligations to be performed hereunder on the part the Employer shall cease and be terminated.

ARTICLE 5

NO STRIKE OR LOCKOUTS

Section 5.1

During the term of this Agreement, the Union agrees on behalf of itself and each of its members that it and they shall not engage in, participate in or encourage any stoppage of work, strike, sitdown, slowdown, picketing, sympathy strike, safety strike, boycott, strike in protest of any unfair labor practices or any other form of concerted or improper interference of any kind with the business or operations of the Company or its service to the public.

Section 5.2

If an employee or group of employees engaged in violation of Section 1, above, the Union will give written notice to the Company as soon as possible, in no event more than two (2) hours after notification by the Company, copies of which notice by the Union shall be posted immediately by the Union on the bulletin boards, that it has not authorized the stoppage, slowdown, or suspension of work.

Section 5.3

Any employee engaging in, participating in, or encouraging a violation of Section 5.1 may be disciplined or discharged by the Company in its discretion, subject to the grievance procedure on the sole issue of whether or not the employee or employees so disciplined or discharged in fact engaged in conduct in violation of this Article.

Section 5.4

The Company agrees that during the term of this Agreement it will not cause or call

any lockout of its employees.

ARTICLE 6
MANAGEMENT RIGHTS

Section 6.1

Except as limited by a specific provision of this Agreement, the Company retains and shall continue to have the sole and exclusive right to manage its business and direct the working forces, including, but not limited to, the right to plan, direct and control operations, the right to hire or to suspend, discipline, demote, or discharge for just cause, the right to maintain order and efficiency, transfer or promote, or to relieve employees from active duty because of lack of work or other legitimate reasons, the right to study, determine and regulate the methods, quantity and quality of work, and the sources and kinds of merchandise, materials, parts, facilities and equipment used, handled or sold, the right to schedule and reschedule work hours, work shifts, shift hours and overtime requirements and the assignments thereto, the right to select customers, the right to extend, limit or curtail operations or any part thereof when and in such manner as it deems advisable to do so, the right to establish, modify, publish and enforce reasonable rules and regulations for discipline, dress, safety and any other business-related concerns, the right to close, sell, liquidate or move, relocate or transfer the business in its entirety or any part thereof, the right to expand, reduce, alter, combine, move, transfer, relocate or terminate any job, job content, department, operation or service, and to subcontract any work, maintenance or otherwise, and the right to determine the number, location and operation of its facilities as well as the right to make decisions to do any of the foregoing. Provided, further, that any of the rights the Company had prior to the execution of the Agreement are retained exclusively by the Company, except as may be limited by the terms and provisions of this Agreement or Supplemental Agreements hereto after agreed to. The Company Agrees to notify the Union leadership prior to any general announcement.

Section 6.2

Due to the nature of the Company's business and its responsibility to furnish a safe and adequate water supply to its customers at all times, supervisors employed by the Company may perform work that is normally performed by employees covered by this Agreement. It is not the Company's intention to use supervisors to displace or replace bargaining unit employees. No employee will be laid off as a direct result of a supervisor performing bargaining unit work.

Section 6.3

The Company does not by this Agreement waive any rights, legal or equitable, which it would otherwise have except as specifically defined and provided in this Agreement which sets forth all understandings and agreements arrived at by the parties.

ARTICLE 7

SENIORITY

Section 7.1

The term seniority as used in this Agreement shall mean length of continuous service as an employee of American Water;

Unless specifically set forth in this Agreement, in all cases involving the principle of seniority including, but not limited to, layoff, recall, promotion, transfer and job assignment, an employee's demonstrated skill, competency and ability to perform the assigned duties required will govern. An employee's demonstrated skill, competency and ability shall include, but not be limited to, performance evaluations and counselings or more severe discipline. When the Company determines that two or more employees have relatively equal skill, competency and ability to perform the assigned duties required, seniority will govern. When two or more employees have identical seniority will be determined by lottery consistent with the Memorandum of Agreement between the parties on this issue.

Section 7.2

The Company reserves the right to temporarily fill any vacancy consistent with the provisions of Article 1, Section 4 of this Agreement.

Section 7.3 Part-time Seniority

Part-time employees will be given credit for all time worked for the Company on the basis of one (1) hour for every two (2) hours worked. Part-time seniority will be computed and adjusted on a quarterly basis.

Section 7.4 Probationary Employment

During their first ninety (90) days of continuous service with the Company, full-time employees shall be considered to be probationary employees and shall not be entitled, except as otherwise expressly provided, to any benefits conferred by this Agreement; and such employees may be discharged or disciplined at the discretion of the Company for any reason without recourse by the Union. Regular part-time employees must successfully complete a ninety (90) day probationary period. After completion of such probationary period, the length of service date of such employees shall be deemed to commence from the

date upon which they entered the service of the Company.

Section 7.5 Length of Service List

A list of employees in the bargaining unit with their date of hire shall be posted on the bulletin board with a copy sent to the Union. The Company will furnish to the Union a revised seniority list monthly.

Section 7.6 Layoff and Recall

If the Company determines that it is necessary to lay off employees, regular, full-time employees will be given preference in accordance with Section 7.1. Employees shall be recalled in reverse order of layoff.

When an employee who would otherwise be laid off has a greater length of service and that senior employee is immediately capable of efficiently performing the work expected to be available, then such employee shall be offered the opportunity to replace the less senior employee and perform the work at the appropriate rate for the position. There shall be no up-grading in a layoff or recall. Employees shall be recalled in accordance with their seniority as defined in Section 1, above.

Section 7.7 Termination of Seniority

The employment relationship and length of continuous service of an employee shall be considered terminated, and subsequent reemployment shall be deemed new employment in the following events:

- (a) Voluntary quit or retirement;
- (b) Discharge for cause;
- (c) Absence in excess of a leave of absence;
- (d) Failure to come to work or to call and speak to the Absence Supervisor for three (3) consecutive days of work unless good cause is shown to the satisfaction of the Company;
- (e) Failure to return to work from a layoff within five (5) work days following the receipt of notice to return to work sent by registered or certified mail to the employee's last known address or following the date of telephone notice to him. It shall be the sole responsibility of an employee to keep the Company advised as to his current address and telephone number provided that if he should fail to do so, then the five (5) work days shall be deemed to have commenced from the sending of the registered or certified mail or from the date of attempted telephone notice to him;
- (f) Working for another employer during a leave of absence without specific written permission from the Company in advance;
- (g) Not performing any work for the Company for any reason for a period of Fifteen (15) months. Any individual on Long-Term Disability (LTD) prior to ratification of this Agreement will be "grandfathered" into LTD benefits.

- (h) When a layoff exceeds the following periods:
- | | |
|----------------------------------------|--------------------------------------------|
| If Accrued Seniority is: | Seniority shall be lost if Layoff exceeds: |
| Less than 1 year | 6 Months |
| More than 1 year but less than 5 years | 12 Months |
| More than 5 years | 18 Months |

It is further agreed, that under no circumstances will an employee's recall rights exceed their actual length of employment.

Section 7.8 Job Bidding

All full-time job vacancies shall be posted for bid for a period of seven (7) calendar days. Such posting shall contain the job opening and the shift involved. Employees shall be entitled to bid on such vacancy and the opening(s) shall be awarded based on seniority as defined in Section 7.1, above. If no employees bid on the vacancy, the Company may fill the vacancy with a new employee. An employee awarded an opening shall be given a fair trial for a period not to exceed sixty (60) days. If at the end of the trial period the Company decides that such employee has not successfully performed the duties of the new position, he or she shall be returned to his or her former position. If at any time within fifteen (15) work days in the new position the employee decides that they do not like their new position, the employee can return to their former position. A regular employee who accepts an opening cannot bid on another position for 6 months after their start date in the new position, unless they have been involuntarily returned to their former position by management. Probationary employees may not bid on a job for 6 months after successfully completing their probationary period.

Section 7.9 Shift Bids

When a vacancy occurs within a work group other than general Call Handling the vacant position will be filled based on length of service of the employees in the work group where the vacancy occurs. The Company agrees to hold shift bids twice annually (in April and October) in all applicable work groups (i.e., those with multiple shifts). These dates can be modified and additional shift bids can be conducted by mutual agreement between the Company and the Union. The Company also has the right to hold shift bids more often based on business needs upon 30 days' notice to the Local Union.

Section 7.10

It is agreed that for the purpose of layoff and recall only, the Local's President, Vice-President, Secretary-Treasurer, Chief Steward, and Recording Secretary will be granted super-seniority.

ARTICLE 8
HOURS OF WORK

Section 8.1

Employees who are regularly scheduled to work forty (40) hours per week are considered to be full-time employees. Because of the nature of the work being performed, the Company cannot guarantee any of its employees any standard number of hours of work per day or per week or amount of earnings per day or per week. Employees will be provided with at least one (1) week notice of a change in their work schedule.

Section 8.2

The normal workweek shall start Monday morning at 12:00 a.m. and run through Sunday at 11:59 p.m. Employees may be scheduled for staggered starting times. The Company agrees not to utilize split shifts without the consent of the employee(s) affected. Employees will be given as much notice of changes in their starting time as is reasonably practicable under the circumstances.

Section 8.3 Overtime Rate

All hours actually worked in excess of forty (40) hours per week shall be considered overtime and shall be paid for at the rate of time and one-half the employee's regular, basic straight-time rate. Time paid but not worked will not count toward the computation of weekly overtime except for vacation, holiday and personal time. When an employee actually works 48 hours in a period of six (6) consecutive days, the employee will be paid double time for all hours actually worked on the seventh (7th) consecutive day. Company-paid union time (e.g., grievance meetings, labor-management meetings and shift bid observation) shall count as hours worked when calculating weekly overtime.

Section 8.4 Lunch Periods

There shall be an unpaid lunch period not to exceed thirty (30) minutes each day. Any employee required by the Company to work during lunch will be paid for all time worked.

Section 8.5 Rest Breaks

There shall be a paid rest break of fifteen (15) minutes for every four (4) hours of consecutive work scheduled.

Section 8.6 Overtime

Overtime may be required when in the Company's judgment it is necessary. Daily overtime assignments required to finish work assigned for that day will be performed by the employee(s) assigned such work during regular shift time. When other overtime situations

occur, the Company will canvass qualified and available employees in order of length of service to determine if the employee(s) desires to the work the needed overtime. If all qualified and available employees refuse, the employee(s) with the least length of continuous service who is both qualified and available will be required to work the overtime assignment. Employees shall not be mandated to work one of their two regularly designated days off. When using any pre-approved time off in conjunction with a regular day off, employees will not be required to work overtime from the end of their regularly scheduled shift prior to the days off through the start of the next regularly scheduled shift. Employees who have a prescheduled doctor's appointment shall not be required to work overtime during the time of that prescheduled doctor's appointment. Employees shall be given at least eight (8) hours of uninterrupted rest time.

Section 8.7 Moonlighting

No employee in the bargaining unit shall work on any other job for any other employer, including himself, who is in competition with one of the Company's businesses or if such work interferes with his performance of Company's work due to fatigue, unavailability for overtime when pre-arranged and/or mandatory. Violation of this provision may subject such employee to immediate discharge if for working for a competitor and to discharge after one (1) written warning if due to interference with his performance of Company's work.

Section 8.8 Absenteeism

No employee, except in cases of authorized illness or injury, shall be absent without prior written permission from their supervisor. In case of illness or injury, the employee must call the designated office prior to the employee's starting time unless the employee can establish they are incapacitated and therefore unable to call. The employee will not be paid for time lost, absent unusual circumstances, unless the Company is properly notified prior to the employee's starting time. An absent employee, whose job requires relief by another employee will make every effort to give the Company at least eight (8) hours notice of his/her intent to return to work.

Section 8.9 Call-In

Employees who are called to report to work outside of their normal schedule will be guaranteed two (2) hours of work or pay. The Company will maintain a call-in list of employees, listed by length of continuous service, who volunteer to be called in. The list will be updated on a quarterly basis. When a call-in situation occurs, the Company will first attempt to call-in qualified employees on the list. If the Company is unable to satisfy its needs

from the individuals listed, then the Company will require the least senior available qualified employee(s) to come in and perform the work.

Section 8.10 Releasing of Employees

During times of slack work, the Company may elect to send employees home early or rearrange the existing schedule. In these situations, the Company will first seek volunteers in order of length of continuous service in the affected work groups as long as the employees remaining are qualified to perform the work necessary. Affected employees can be paid for any previously scheduled time lost to any paid time off they have available other than sick leave.

ARTICLE 9

GRIEVANCE PROCEDURE

Section 9.1 Grievance Steps

A grievance is defined as any dispute that reasonably concerns the application, interpretation or violation of any express or specific provision of this Agreement.

The Union agrees to present and appeal any grievance within the time limits set out in the respective steps of the grievance procedure, unless a mutual extension of time limits is agreed to. The Employer agrees that it will meet with an employee and union representative and subsequently respond within the time limits set out in the respected steps of the grievance procedure. Grievances that affect all or a large group of employees, or which have general application, may be presented directly for handling at step two. Any grievance arising over the application or interpretation of the provisions of this Agreement shall be settled as soon as possible in the following manner:

Step 1. An employee having a grievance shall submit a written grievance specifying the specific provisions of this Agreement that the employee believes has been violated to his/her immediate supervisor within fifteen (15) work days of the date on which the Local Union and/or the affected employee(s) knew or should have known of the occurrence of the incident giving rise to the grievance. The supervisor shall answer the grievance within ten (10) work days of receipt thereof.

Step 2. The grievance may be processed further by notifying the Center Director, within ten (10) work days of the decision of the Supervisor, of the Union's desire to discuss the matter further with the Center Director or her or his designee. The Local Union Officers and the Center Director or her or his designee then shall meet and attempt to resolve the dispute. The meeting shall occur within twenty (20) days after

the appeal is received. The Company shall respond to the Local Union within twenty (20) days from this meeting.

Step 3. Either party shall have the right to submit the grievance to arbitration. Any party wishing to submit a grievance to arbitration must file for arbitration with FMCS within ninety (90) days after the Company's response in Step 2.

Section 9.2 Individual Grievances

Nothing contained herein shall be construed to circumvent the right of an employee to take a grievance up with the Company and have the same settled without the intervention of the Union; provided the settlement is not inconsistent with any of the provisions of this Agreement, and further provided the Union has been given the opportunity to have a representative present at the time of the settlement.

ARTICLE 10

ARBITRATION PROCEDURE

Section 10.1

If the Employer and the Union agree on a single arbitrator, the grievance shall be presented to the arbitrator. Should the Employer and the Union fail to agree on a single arbitrator, they shall immediately request that the Federal Mediation and Conciliation Service submit a panel of seven (7) arbitrators. Either party may reject one (1) panel in which case a new panel shall be requested. Each party shall alternatively strike one (1) name from the list, and the one (1) remaining name shall be the arbitrator. The decision of the Arbitrator shall be final and binding on both parties.

Section 10.2

The Arbitrator shall not have the power to add to, subtract from, or modify in any way the terms of this Agreement or to substitute her or his discretion for that of the Company in matters of discipline and its penalties (including discharge), or to require a burden of proof on any issue greater than a preponderance of the evidence. The Arbitrator shall have no power to establish new jobs, to change existing wage rates, to set work methods or standards, to waive the time limits of this grievance and arbitration procedure. The Arbitrator shall be limited in jurisdiction to the application and interpretation of the specific provisions of this Agreement. Each party shall bear one-half (1/2) the fee of the Arbitrator and any other expenses jointly incurred incident to the arbitration hearing. All other expenses shall be borne by the party incurring them, and neither party shall be responsible for the expenses of

witnesses called by the other party.

Section 10.3

It is agreed that the individual grievant and one (1) Local Union Representative will not lose scheduled paid work time in order to attend the actual arbitration hearing.

ARTICLE 11

MISCELLANEOUS

Section 11.1 Health and Safety

The Company will continue to make reasonable provisions for the safety and health of its employees during the hours of their employment as is consistent with the requirements of applicable federal, state or local laws. Employees shall be required to comply with all rules, regulations or policies required by law or the Company to insure safety and healthful conditions at the work site. The Company may also prohibit all smoking in any of its facilities, vehicles, and in job sites and customers' facilities.

Section 11.2 Safety Committee

The parties shall establish a safety committee which will meet quarterly or as otherwise mutually agreed, to discuss safety issues. There shall be equal representation of bargaining unit employees and management on this committee.

Section 11.3 Voting Time

The Company shall observe the provisions of State law with respect to voting time. The Company may require proof of voting. Any person who absents himself for the purpose of voting and who does not actually attempt to vote in the election shall be subject to discipline up to and including discharge.

Section 11.4 Bulletin Board

The Company agrees to furnish bulletin board space and the Union representative or stewards shall have the right to post notices of social gatherings or Union notices which do not impugn management or pertain to the strike or boycott of other employers on the bulletin board furnished by the Company.

Section 11.5 Union Access

After first checking in with a designated management official and obtaining the Company's permission, an authorized representative of the Union shall have access to the Company's facility when necessary and with as little interruption of the work as possible during regular working hours for the purpose of conferring with the stewards, Company officials and officers of the Union employed by the Company.

Section 11.6 Medical Examinations

If medical examinations are required by the Company for an employee, they shall be at the Company's expense. Written reports of such examinations will be given to an employee, upon request from the employee, except where the examination is a routine pre-hire examination for someone new to the Company, or an examination to determine if an employee who has been absent is ready to return to work, or in first-aid situations not requiring medical attention beyond first-aid.

Section 11.7 Committees

The parties are committed to establishing joint committees for: (1) the purpose of studying the application of pay for performance in the Customer Service Center; (2) training and development of bargaining unit employees; and (3) how to improve Customer Service Center communications. Provided either party creates an agenda, each Committee shall meet quarterly beginning in the first quarter of 2009.

Section 11.8 Labor-Management Meetings

As an integral part of their most recent discussions to promote their effective partnership, the Parties pledge their continued commitment to open and honest communications with a mutual goal of direct and timely communications, including the timely dissemination of important information, news or changes. In an effort to achieve this goal, each Party commits itself to engage in the following consultative process: Monthly meetings will be held between the Local Union Executive Officers (not to exceed four (4) persons) and Company management, provided an agenda exists. The Union Executive Officers shall be paid for their time in attendance at these Labor Management meetings. It shall be the goal of the Labor-Management meetings to foster cooperative and collaborative efforts between the Local Union and the Company.

Section 11.9 Union Business

The Company will consider the Union's request for time off from work for Union officers and stewards on a non-paid basis which does not interfere with the Company's operations.

ARTICLE 12**DISCIPLINE AND DISCHARGE****Section 12.1**

The Union recognizes the Company's right to discharge, suspend, demote or otherwise discipline an employee for cause. In the event of Company action in such cases, the Union and the employee shall be limited to the right to present the case solely as a grievance under the grievance procedure. No employee shall be discharged without having been given appropriate progressive discipline except in cases justifying termination on the first offense. All counselings will not be utilized for advancement of discipline in the progressive disciplinary process after six (6) months of being given. All other discipline will remain active for up to twelve (12) and inactive discipline will remain in the employee's file but will only be given such weight as is reasonable under all the circumstances.

Section 12.2

If an employee is discharged, suspended or demoted for cause, the Union shall be notified of such action promptly in writing by the Company. Notice will be addressed to the local union president. If the employee is not probationary, the employee or the Union may within five (5) days of notice to the Union, file a written grievance directly at the second (2nd) step. It is recognized that such a grievance should be heard at the earliest possible time and take precedence over grievances of a different nature.

ARTICLE 13**DRUG AND ALCOHOL TESTING****Section 13.1**

The Company may continue its current position of requiring drug and alcohol testing of all applicants and of employees upon reasonable suspicion or after accidents when employee negligence, lack of good judgment, or lack of coordination or proper reactions is reasonably suspected. Such testing shall be conducted by a reputable, certified testing laboratory and, except as otherwise mutually agreed by the Company and the Union, shall apply the standards for a positive test recommended by the National Institute of Drug Abuse.

Any employee who tests positive after testing, who refuses to consent to or to take such test, or who attempts to circumvent or frustrate the test results shall be subject to immediate discharge unless the employee agrees to enter a Company approved rehabilitation program, sign rehabilitation agreement in accordance with the treatment plan defined by the Company's EAP provider and agrees to eighteen (18) months of unscheduled substance abuse testing. Any employee injured on the job, who is tested when provided above and who tests positive for drug or alcohol at the time of such injury shall have his Workers' Compensation benefits reduced or eliminated to the maximum extent permitted by law.

ARTICLE 14

LEAVES OF ABSENCE

Section 14.1

Any employee may be granted a medical leave of absence from his employment for reasons satisfactory to the Company and shall secure such leave of absence in writing. Leaves of absence must be approved by the Center Director and may be conditioned upon such reasonable requirements as the Company may make such as furnishing periodic doctor's reports, calling the Company to discuss current status, etc. The Union shall be given notice of any grant or extension of a leave of absence.

Section 14.2

Any leave taken under the Federal or any other applicable Family and Medical Leave Law may not be extended or otherwise taken in addition to leave under this provision so as to extend the time away from work. There will be no pyramiding of leave. The Company reserves the right to count the time taken under the Federal, or any other applicable Family and Medical Leave Laws, as time taken under this policy and to require employees to substitute available paid time off for FMLA leaves. The parties recognize the Company's responsibility to address the issues raised by the Federal Family and Medical Leave Law and accordingly, the Company may adopt and/or modify a Family and Medical Leave Policy that is done so pursuant to and as allowed by the provisions of the Federal Family and Medical Leave Law.

Section 14.3

Consistent with American Water policy, regular employees who leave the service of the Company to enter the United States Armed Forces, the U.S. Maritime Commission, the National Guard, or for other selective or compulsory civilian service shall, upon their return, be granted such rights as are provided under applicable federal and state law.

ARTICLE 15
JURY LEAVE

Section 15.1

When regular full-time employees are required to perform jury service, they shall immediately notify their supervisor upon receipt of notice of call to such service. This Article shall not be applicable to jury service on more than ten (10) work days in any twelve (12) month period.

Section 15.2

The Company shall reimburse employees for the difference between their regular pay and any pay they receive as a result of performing jury service, not to exceed eight (8) hours per day for a maximum of ten (10) days absent extenuating circumstances as agreed to by the Company. In order to receive such pay, the employee must present to the Company a statement of jury service and pay received issued by the applicable court. Employees whose jury duty does not require them to be absent an entire duty shall immediately report their availability for work that day to their supervisor. Whenever considered necessary by the Company because of operational needs, an employee shall cooperate with Company in requesting a postponement of jury service.

ARTICLE 16
FUNERAL LEAVE

Section 16.1

The Company shall provide Funeral Leave to full time employees without suffering a loss of pay in order for them to handle their obligations.

Section 16.2 Close Relatives

An employee will be excused from work with pay for a maximum of 4 days (32 hours) upon the death of the employee's spouse, domestic partner, child, step-child, brother, step-brother, sister, step-sister, parent, step-parent, or person "in loco parents," parents-in-law, grandparents or grandchildren.

Section 16.3 Distant Relatives

An employee will be excused from work with pay for 1 day (8 hours) upon the death of the employee's aunt, uncle, niece, nephew, brother-in-law, sister-in-law, grandmother-in-law or grandfather-in-law.

Section 16.4 Documentation

It is agreed that a notice from the Funeral Home and a signed bereavement form must

be submitted by the employee seeking funeral leave to Human Resources within 10 days of the last day of the funeral leave. The bereavement form will include, at a minimum, the Employee's name, the name of the decedent, the relationship of the decedent to the Employee and a notice that the information is accurate and that if it is not, the employee will be subject to discipline up to and including termination of employment.

Section 16.5

Should additional time be needed, the employee may use available Personal or vacation time. However, the employee must let the appropriate supervisor know if additional time is needed in order for the time off to be considered as an approved absence. Each request for additional time off will be considered on an individual basis. Funeral Leave is considered approved time off before or after a holiday and therefore would still allow for a paid holiday if off for this reason on the day before or day. The Company reserves the right to require proof of documentation for this absence.

ARTICLE 17
HOLIDAYS

Section 17.1

Each regular full-time employee who has been in the continuous service of the Company for at least ninety (90) days prior to any of the holidays hereinafter listed, irrespective of what day of the week on which the holiday may fall, shall receive eight (8) hours of pay at his or her regular basic straight-time hourly rate of pay for each such holiday, provided, however, that such employee shall have worked the scheduled shift on the last scheduled work day before and on the first scheduled work day after the holiday or the day or days celebrated by the Company as such. The holidays shall be:

New Year's Day	Thanksgiving Day
Independence Day	Christmas Day

Section 17.2

The Customer Service Center will operate on a skeleton crew for these specific holidays. It is the Company's intention that its employees would be off on these four (4) holidays unless otherwise notified. Employees will receive at least twenty-four (24) hours advance notice if they are required to work on a holiday. The Company's staffing requirements on these four (4) holidays will first be offered to volunteers of those who are regularly scheduled to work on the holiday. If there are not enough volunteers from those who are regularly scheduled to work that holiday, the Company will ask for volunteers who

are not scheduled to work on the holiday. If the Company is not able to meet the staffing requirements with volunteers for these holidays, employees who are regularly scheduled to work on the specific holiday will be required to work in reverse order of their length of service based on our staffing needs. No Holiday Pay will be paid to an employee absent from work on the work day before or after any holiday, unless the absence is an approved in advance paid absence, such as vacation or personal leave but not sick leave. No employee may receive holiday pay and sick pay for the same day. Employees who may be laid off for lack of work in a work week containing a holiday or the week before or after such holiday shall not thereby be rendered ineligible for holiday pay.

Section 17.3

In addition to the above, the following three (3) holidays will be recognized as floating holidays:

- Memorial Day
- Labor Day
- Day After Thanksgiving

Employees normally scheduled to work any of the three (3) floating holidays will get paid holiday pay plus time and a half (1-1/2) for all hours worked on the holiday. Employees not normally scheduled to work any of the three (3) floating holidays, who actually work the holiday will be paid at time and one half (1-1/2) for all hours worked on the holiday and will be allowed to schedule another day off at a later time. All time off for floating holidays must be approved in writing and in advance by the employee's supervisor. Floating holidays must be used by the end of the year or be forfeited. No Holiday Pay will be paid to an employee absent from work on the work day before or after any holiday, unless the absence is an approved in advance paid absence, such as vacation or personal leave but not sick leave. No employee may receive holiday pay and sick pay for the same day. Employees who may be laid off for lack of work in a work week containing a holiday or the week before or after such holiday shall not thereby be rendered ineligible for holiday pay.

Section 17.4

Employees who work on a holiday shall be paid for such work at time and one half (1-1/2) of their regular basic hourly straight-time rate of pay for all hours of work performed on the holiday together with, if eligible, the holiday pay provided for above.

Section 17.5

If a holiday designated above falls on a Saturday it will be observed on the previous

Friday or if it falls on a Sunday it will be observed on the following Monday.

Section 17.6

If a holiday falls within an employee's scheduled vacation period, the employee shall receive holiday pay.

ARTICLE 18

VACATIONS

Section 18.1

Full-time employees will be granted paid vacations as follows:

Beginning January 1 of each year, all full time employees shall earn vacation time within the calendar year based upon the employee's "Completed Years of Continuous Service" during that calendar year as follows:

Completed Years of Continuous Service	Vacation
1 year	10 days
2 years	11 days
3 years	12 days
4 years	13 days
5 years	15 days
6 years	15 days
7 years	16 days
8 years	16 days
9 years	17 days
10 years	17 days
11 years	18 days
12 years	18 days
13 years	19 days
14 years	19 days
15 years	20 days
16 years	20 days
17 years	21 days
18 years	21 days
19 years	22 days
20 years	22 days
21 years	23 days
22 years	23 days
23 years	24 days
24 years	24 days
25 years plus	25 days

In the January following an employee's hire date, the employee will have ten (10) vacation days available beginning January 1. The vacation amount is based on the

anniversary the employee will recognize in that calendar year. For example: if an employee was hired on May 15th 2007 and completed their first full year of continuous service on May 15th 2008. In January of 2008 they received ten (10) vacation days since they will complete one (1) year of continuous service in the calendar year of 2008. This employee would receive eleven (11) vacation days in January of 2009 since they will complete two (2) years of service in the calendar year 2009.

Employees hired during the current vacation year will earn one (1) day of vacation for each “completed month of continuous service” up to ten (10) days. Completed month of service is defined as: actively employed on the first and last day of the month. Vacation days may be taken in four (4) hour increments.

See following chart:

Hire Date	Eligible for Vacation as of	Days to use before 12/31
January 2 – February 1	April 1	10 days (80 hrs)
February 2 – March 1	May 1	10 days (80 hrs)
March 2 – April 1	June 1	9 days (72 hrs)
April 2 – May 1	July 1	8 days (64 hrs)
May 2 – June 1	August 1	7 days (56 hrs)
June 2 – July 1	September 1	6 days (48 hrs)
July 2 – August 1	October 1	5 days (40 hrs)
August 2 – September 1	November 1	4 days (32 hrs)
September 2 – October 1	December 1	3 days (24 hrs)
October 2 – November 1	December 31	2 days (16 hrs)

Vacation time is earned based on the number of months completed/worked. If an employee resigns or is terminated and has taken more vacation than was earned, the final paycheck will be reduced accordingly.

Section 18.2 Scheduling Vacations

The vacation period will be from January 1 to December 31 and must be taken during the calendar year in which they were granted or will be forfeited. The annual vacation scheduling process will begin no earlier than November 1st and shall end no later than December 15th. Employees may make a request for the vacation period of their choice and where conflict occurs between two or more employees in a given classification who desire the same vacation period, their length of service shall be the determining factor

Section 18.3

For all vacations not on the approved vacation schedule, employees must give the Company at least thirty (30) day's written notice for a vacation request of one (1) week of

their intention to take vacation and such requests must be approved in writing. The Company will notify the employee at least two (2) weeks prior to the requested vacation as to the status of their request. For less than one (1) week, the employee must give as much notice as possible and granting them are subject to the Company's needs.

ARTICLE 19
PERSONAL DAYS

Section 19.1

Regular full-time employees who have been in the continuous service of the Company for at least ninety (90) days will be granted personal days as follows: employees will accrue up to six (6) personal days (48 hours), based on the following schedule:

January 1	1 day	July 1	1 day
March 1	1 day	September 1	1 day
May 1	1 day	November 1	1 day

Section 19.2 Emergency Personal Days

Employees are able to use personal days to have more flexibility in scheduling time off from work and to support their outside interests. Personal days must be scheduled in advance, approved in writing by your supervisor, and will be granted in accordance with business necessities. Employees may be allowed to use up to three (3) personal days that they are scheduled to receive in the current year in advance. Three (3) times per year employees may use their personal days, if available, for emergency situations ("Emergency Occurrence"). An employee will be charged an Emergency Occurrence each time he utilizes any portion of a personal day without prior approval as defined above. Employees may utilize one Emergency Occurrence before May 1st; one between May 1st and August 31st; and one after August 31st. Employees may carry-over unused Emergency Occurrences within the same calendar year. The employee will be required to call in as set forth in Section 8.8. All such time shall be considered approved, but unscheduled time, provided the employee complies with the notification requirements. Approved, but unscheduled time shall not be used in determining excessive occurrences. Employees are encouraged to use their personal days for appointments that cannot be scheduled during non-working times or for

family illnesses. Personal Time may be taken in one (1) hour increments and must be taken during the calendar year in which they were given or be forfeited.

Section 19.3

Unused personal days may not be taken once an employee has submitted his or her resignation. At time of separation from employment, earned and unused personal days will be treated in accordance with applicable State laws. If an employee resigns or is terminated and has taken more personal time than was earned, the employee's final paycheck will be adjusted accordingly.

ARTICLE 20

SICK DAYS

Section 20.1 Annual Sick Leave

Sick time is not earned time off. It is a benefit to be used only if an employee is legitimately ill. American Water recognizes that employees may be ill or injured and unable to attend work. Beginning January 1, 2013, regular full-time employees who have been in the continuous service of the Company for at least 90 days will be eligible for up to ten (10) days of sick leave per year, which shall be granted as follows: employees may use up to forty (40) hours of sick time between January 1st and March 31st of each year. The remaining forty hours will be made available on April 1st of each year. Employees hired on or after July 1st will be eligible to receive five (5) sick days.

Employees may use up to 40 hours to care for their ill spouse, child or parent. Sick time is for short and long term illness. If an employee will be absent or late for whatever reason, they must notify the Company as set forth in Section 8.8. If an employee is absent due to illness (for their own illness) for 3 consecutive days they are required to complete the Return to Work form. If an employee is absent due to the illness (of a child or dependent) for 3 consecutive days, they are required to provide appropriate medical documentation, but need not complete a Return to Work form.

Subject to the same provisions above (e.g., using sick days only when legitimately ill), regular full-time employees will be permitted to use the remainder of any unused 2008 allotted sick days.

Section 20.2 Unapproved Absences

The Union recognizes that unplanned absence impacts the business and individual performance. Sick time that is protected by federal, state or local law will not count as an

occurrence. An employee approved for Short Term Disability leave will receive no more than one (1) occurrence for all consecutive days on said leave. Falsification of an illness or reason for using sick time may result in disciplinary action.

Section 20.3

After an employee exhausts his or her sick leave benefits during a calendar year, the employee must return to work and work for at least twenty (20) consecutive work days before the employee is again eligible for benefits during the next calendar year as set forth above. If the covered illness occurs at the end of a calendar year and continues to be a covered illness as of January 1 of the next year, the absent employee will be credited with the ten (10) day allotment they are entitled to in the new calendar year.

Section 20.4 Sick Leave Buy-Back

Employees who do not use all of their annual accrued sick leave and who are employed on December 31st of said year, will have the option: (a) to be paid out up to five of the unused sick days (40 hours) during January of the following year at the employee's then current base rate of pay starting with a payout in 2009; or (b) to roll unused days into a sick bank to be used in the event of a serious illness prior to going on short term disability; or (c) a combination of (a) and (b).

In lieu of the sick time buy-back/rollover options listed above, if an employee does not use any sick time or Emergency Occurrences in an entire calendar year, the Company will pay the employee an amount equal to the unused sick time at 1½ times the employee's then current base rate of pay.

To be eligible to receive paid leave from the sick bank, the employee will be required to notify the company's designated short term disability provider per the terms of the short term disability plan and must be approved for short term disability benefits. The Company agrees that it will sustain pay using the sick time bank pending approval from the short term disability provider. The Company will provide the membership with the 800 number annually, but employees also may call local Human Resources for the number.

Section 20.5

Full-time employees who are eligible for short-term disability under the terms of the National Benefits Memorandum of Agreement dated August 1, 2005 plan will be eligible for up to fifty-two (52) weeks of eligible disability.

ARTICLE 21**WAGES AND MISCELLANEOUS ECONOMIC ITEMS****Section 21.1 Wages**

	Effective 1st payday after Ratification	Effective 10/11/12 (Effective 1st payday after above date)	Effective 10/11/13 (Effective 1st payday after above date)	Job Titles	Notes
Call Handling Department					
CSR 1 - Call Handling	\$12.37	\$12.62	\$12.90	CSR 1 - Call Handling Representative	Start -- \$11.01 After training and satisfactory performance. -- \$11.26 After 90 days and satisfactory performance. -- \$11.51 After 6 months and satisfactory performance. -- CSR 1 – Call Handling Rate
CSR 2 - Call Handling	\$14.03	\$14.31	\$14.63	CSR 2 - Call Handling Representative	CSR 2 - Call Handling Representative identified as: (a) individuals previously grandfathered into position; (b) individuals who have previously received SAP training; or (c) CSR 1 - Call Handling Representatives with more than 2 years experience in Call Handling within the CSC who demonstrate requisite skills and performance commensurate with CSR 2 - Call Handling Representative title (as determined by the Company).
CSR 3 - Call Handling	\$15.85	\$16.17	\$16.53	CSR 3 - Call Handling Representative CSR 3 - Specialty Desk	CSR 3 - Call Handling Representative identified as: (a) individuals awarded position of CSR 3 - Time Critical Representative; (b) individuals awarded position of CSR 3 - Specialty Desk position; or (c) CSR 2 - Call Handling Representatives with more than 5 years experience in Call Handling within the CSC who demonstrate requisite skills and performance commensurate with CSR 3 - Call Handling Representative title (as determined by the Company).
CSR 4 - Call Handling	\$17.66	\$18.01	\$18.42	CSR 4 - Customer Service Specialist	Job Bid
Collections Department					
CSR 1 - Collections	\$12.37	\$12.62	\$12.90	CSR 1 - Collections Representative Bankruptcy	New Hire
CSR 2 - Collections	\$14.03	\$14.31	\$14.63	CSR 2 - Collections Representative Bankruptcy	CSR 2 - Collections Representative identified as: (a) individuals who bid for and are awarded position of CSR 1 -- Collections Representative (Bankruptcy or Disconnect); or (b) CSR 1 - Collections Representatives with more than 1 year experience in Collections who demonstrate requisite skills and performance commensurate with CSR 2 - Collection Representative title (as determined by the Company)
CSR 3 - Collections	\$15.85	\$16.17	\$16.53	CSR 3 - Collections Representative Bankruptcy CSR 3 - Collections Representative Dispute Resolution Charge Offs Notice Batch Processing	CSR 3 - Collections Representative identified as: (a) individuals who bid for and are awarded position of CSR 3 - Collections Representative (Dispute Resolution, Charge Offs, Notice Batch Processing); or (b) CSR 2 - Collections Representatives with more than 3 years experience in Collections who demonstrate requisite skills and performance commensurate with CSR 3 - Collection Representative title (as determined by the Company)
CSR 4 - Collections	\$17.66	\$18.01	\$18.42	CSR 4 - Collections Technical Coordinator	Job Bid
Billing Department					
CSR 1 - Billing	\$12.37	\$12.62	\$12.90	CSR 1 - Billing Specialist Processing Special Accounts	New Hire
CSR 2 - Billing	\$14.03	\$14.31	\$14.63	CSR 2 - Billing Specialist Processing Special Accounts	CSR 2 - Billing Specialist identified as: (a) individuals who bid for and are awarded position of CSR 1 -- Billing Specialist; or (b) CSR 1 - Billing Specialist with more than 1 year experience in Billing who demonstrates requisite skills and performance commensurate with CSR 2 - Billing Specialist title (as determined by the Company)
CSR 3 - Billing	\$15.85	\$16.17	\$16.53	CSR 3 - Billing Specialist Account Resolution Processing Special Accounts	CSR 3 - Billing Specialist identified as (a) individuals who bid for and are awarded position of CSR 3 -- Billing Specialist - Account Resolution; or (b) CSR 2 - Billing Specialist with more than 3 years experience in Billing within the CSC who demonstrate requisite skills and performance commensurate with CSR 3 - Billing Specialist title (as determined by the Company)
CSR 4 - Billing	\$17.66	\$18.01	\$18.42	CSR 4 - Billing Technical Coordinator	Job Bid

All employees will receive a lump sum payment in lieu wages of \$400.00 at ratification, an annual increase of 2% in the second year (10/12/12) and an annual increase of 2.25% in the third year (10/12/13). In the event an employee who is red circled bids to a higher level job, he will be paid the greater of: (a) his current red circled wage; or (b) the established hourly rate of pay of the higher level job. Any employee (regardless of whether or not they are red circled) who bids to a lower level job will be paid the established hourly rate of pay for that job.

Section 21.2 Shift Premium

Employees who are regularly scheduled to work between the hours of 7 p.m. and 7 a.m., Monday through Sunday, will receive a shift premium of One Dollar (\$1.00) per hour in addition to their regular hourly rate. Shift premium shall only be paid for hours actually worked. Shift premium will be included in the calculation of pensions and the calculation of employee contributions to the Section 401(k) plan. Shift premium will not be included in the Company's contribution to the Section 401(k) plan.

Section 21.3 Tuition Reimbursement Program

Regular full-time employees who have been in the continuous service of the Company for at least ninety (90) days will be eligible to participate in the Company's Tuition Reimbursement Program on the same terms as all other non-bargaining unit employees.

Section 21.4 Economic Minimum Standards

It is agreed that all economic terms contained in the Agreement are minimum standards only. It is agreed that at any time during the term of the Agreement the Company may, at its discretion, increase any economic related item contained in the Agreement for group of employees or the entire bargaining unit in order to remain competitive in the market place, retain employee(s), or for any other reason. The Company will notify the Union prior to any such adjustments.

ARTICLE 22

BENEFITS

Section 22.1 Benefits

Except as specifically set forth below all regular full time employees having continuous service with the Company for at least ninety (90) days will be eligible to participate in the American Water benefit plans as set forth in the Company's benefit plans and as modified by the National Benefits Memorandum of Agreement. The benefits and plans referred to above may be amended, modified, or terminated through the national negotiation process between

American Water and the Utility Workers Union of America. The Company and the Union agree to be bound by any modification to the National Benefits Memorandum of Agreement made via the national negotiation process. With the following local exceptions, none of these benefits shall be subject to any local negotiations:

Section 22.2 Pensions

- A) All employees hired prior to December 31, 2012 will be eligible to participate in the Company's current Defined Benefit Pension Plan.
- B) All employees hired on or after January 1, 2013 will participate in the Company's Defined Contribution Plan.

Section 22.3 401K Plan

Employees hired prior to December 31, 2012 will be eligible to participate in the Section 401 (K) Plan. The Company will match fifty cents (\$.50) of every dollar contributed by the employee up to a maximum of 5% of the employee's base pay. Employees hired on or after January 1, 2013 who will no longer be eligible to participate in the Defined Benefit Pension Plan as stated above, will be entitled to a Company match equal to 100% on the first three percent (3%) of base pay contributed by the Employee and 50% on the next two percent (2%) of base pay contributed by the Employee. These employees will also commence participation in the Defined Contribution Account within the Savings Plan with a Company contribution of 5.25% of base hourly pay each pay period.

Section 22.4 Life Insurance

The employee will be eligible for basic life insurance in accordance with the National Benefits Memorandum of Agreement.

Section 22.5 Accidental Death and Dismemberment

The employee will be eligible for accidental death and dismemberment insurance in accordance with the National Benefits Memorandum of Agreement.

Section 22.6 STD Benefits

Alton CSC employees will receive 52 weeks STD benefits in accordance with the National Benefits Memorandum of Agreement.

ARTICLE 23

LEGALITY

Section 23.1

If any part of this Agreement or any application thereof shall be rendered or declared invalid because of any law, regulation, order or decree of any court or board, then only that

part, provision or application rendered or declared invalid shall be considered null and void, and the remainder of this Agreement shall remain in full force and effect according to its original terms; provided, however, that in such event the parties shall agree to negotiate in good faith for such modified provisions as will most closely and lawfully effectuate the original intention of the parties.

ARTICLE 24

TOTALITY OF AGREEMENT

Section 24.1 Totality of Agreement

This Agreement contains all the provisions agreed to between the Company and the Union concerning wages, hours and other terms and conditions of employment. All prior agreements, understandings and past practices that are inconsistent with or contrary to the language contained in this Agreement (including those written and signed by the Company and the Union) shall terminate upon the effective date of this Agreement. No understandings, undertakings, practices, amendments or modifications of this Agreement shall be valid unless it is agreed to by the Company and the Union, reduced to writing and properly signed by both parties.

ARTICLE 25

TERMINATION OF AGREEMENT

Section 25.1


This Agreement shall become effective as of the 12th day of October, 2011, and shall remain in full force and effect through the 11th day of October, 2014, and each year thereafter, unless written notice of termination or desired modification is given at least sixty (60) days prior to the expiration date or any subsequent anniversary thereof by either of the parties hereto.

IN WITNESS WHEREOF, the parties hereto have signed and executed this and several copies this 31st day of July, 2012, effective as of the 12th day of October, 2011, subject, however, to ratification by members of the Union covered by this Agreement.

UTILITY WORKERS UNION OF AMERICA, A.F.L.-C.I.O., LOCAL 640

AMERICAN WATER WORKS SERVICE COMPANY, INC.

By: 
Phillip Green, President
Date: 07/31/12

By: 
Date: 8/2/12

By: Mandi Motley
Mandi Motley, Treasurer

Date: 7/31/12

By: Marc Farrell
Marc Farrell, Vice President, Alton

Date: 7/31/12

By: Beth Stickler
Beth Stickler, Chief Steward, Alton

Date: 07/31/12

By: Barbara Urban
Barbara Urban, Recording Secretary, Alton

Date: 07/31/12

By: Jim Gemett
Jim Gemett UWU National Representative Region IV

Date: 7/31/12

Date: _____

By: Sharon K Daughen

Date: 8/3/12

By: Clare Trumbull

Date: 8/3/12

By: _____

Date: _____

By: _____

Date: _____

By: _____

Date: _____

By: _____

Date: _____

By: _____

Date: _____

MEMORANDUM OF AGREEMENT
BETWEEN
AMERICAN WATER WORKS SERVICE COMPANY, INC.
AND
UTILITY WORKERS UNION OF AMERICA, AFL-CIO, LOCAL 640
Alton, Illinois
June 26, 2012

Utility Workers Union of America AFL-CIO, LOCAL 640 ("Union") and American Water Works Service Company, Inc. ("Company") collectively referred to as "Parties" mutually agree that the following process shall be utilized when conducting shift bids and overtime bids at the Alton Customer Service Center. **This memorandum supersedes any previous memorandum between the parties.**

To this end the parties have agreed to the following process:

Seniority List

For purposes of this Memorandum of Agreement, an employee's Seniority date is defined as the date the bargaining unit employee began continuous service with American Water.

A list of employees in the bargaining unit (generally and by work group) with their date of hire shall be posted on the bulletin board with a copy sent to the Union. When two or more employees have identical seniority dates, preference shall be determined by lottery (witnessed by the Union) and evidenced on the seniority list. **The seniority list will be updated and furnished to the Union monthly.**

Shift Bidding

- Semi-annual shift bids in general Call Handling and other applicable work groups (i.e. those with multiple shifts) will begin in April and October each year to assure that shift preferences are in accordance with the seniority list.
- The Company agrees to notify the Local Union leadership 7 days in advance of a general announcement.
- Shift bids will be based on full-time and part-time work groups; all employees will bid based on their preference.
- Auctions will be open in order of seniority. A Local Union representative will witness the shift bid process.
- All assignments will be made to qualified employees based on the continuous length of service of those employees who placed bids.
- Employees will have at least one (1) week notice prior to the effective date of their new schedule.
- Available schedules for upcoming bids will be posted **Two (2)** weeks in advance on the bulletin board in the break area.
- If an employee is not available during bidding, due to ATO/STD/Leave or any other reason, they should leave their preferences with their Team supervisor.
 - Request must be in writing with the employee's signature and dated
- Any employee absent on the day of the scheduled shift bid is responsible for making their preferences known to their supervisor or may, at their option, provide contact information so that they can participate over the phone.
- Any employee who does not provide a bid or refuses to place a bid will be placed at the bottom of the list and will receive whatever schedule is available at that time. The employee will remain in that schedule until the next shift bid.
- Should a shift bid take longer than a single day, the company will provide employees who have not yet bid with a list of all available schedules.
- Seating assignments (i.e., Team Assignments) assignments will be based on schedules received.

The Parties mutually acknowledge that the scope of future shift bids and the shift bid process are subject to change. The parties agree that they will meet and discuss any changes to the scope and/or the process before any changes are made. The Parties further agree that this Agreement shall remain in effect unless and until the parties mutually decide to change it at which time the modified process shall be deemed incorporated into the Collective Bargaining Agreement in effect at that time.

Call-Out Overtime

- Any employee interested in working call-out overtime will be afforded the opportunity to sign up for the work group Call-Out List for any work group in which they are qualified to work. Employees will be given the opportunity to sign up for the Call-Out List at the same time as the semi-annual shift bid auction.
- Any employee wanting to add his or her name to the Call-Out List may do so by advising Human Resources in writing of their desire to be added to the Call-Out List.
- For purposes of call-out overtime only, an employee will be considered qualified to work in a work group if they have worked in the respective work group for at least 100 hours during the prior twelve (12) months and have met the minimum performance metrics for that work group.
- To the extent the Company determines a need for call-out overtime, Employees will be contacted in the following order:
 - Employees on the Call-Out List who currently work in the applicable Work Group;
 - Employees on the Call-Out List for the applicable Work Group;
 - Employees in the applicable work group who are not on the Call-Out List.
- In the event of an emergency (e.g., a main break or water quality issue), the Company may choose to seek volunteers for overtime first from those employees already on site.

Work Groups

Call Handling Department

General Call Handling
Help Queue
Specialty Desk

Billing Department

Account Resolution
Billing Processing
Billing Technical
Coordinators
Special Accounts

Collections Department

Bankruptcy
Collection Technical Coordinators
Charge Offs
Dispute Resolution
Notice Batch Processing

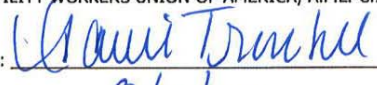
While the Union recognizes the Company's right to amend, modify, eliminate or create additional work groups at its sole discretion, the Company agrees to bargain the effects of any such change with the Union.

AMERICAN WATER WORKS SERVICE COMPANY, INC.

By: 

Date: 07/31/12

UTILITY WORKERS UNION OF AMERICA, A.F.L.-C.I.O., LOCAL 640

By: 

Date: 8/3/12

COLLECTIVE BARGAINING AGREEMENT

BETWEEN

AMERICAN WATER SERVICE COMPANY INC.

and

LOCAL 640, UTILITY WORKERS OF AMERICA, AFL-CIO

2012-2015

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SCOPE OF AGREEMENT

This Agreement has been entered into this 1st day of November 2012, by and between American Water Service Company Inc., hereinafter referred to as the Employer or Company, and Utility Workers of America, AFL-CIO, hereinafter referred to as the Union.

PREAMBLE

The Company is engaged in furnishing an essential public service which vitally affects the health, safety, comfort and general well-being of a large number of people in the communities furnished water service by the Company.

The Company and the Union agree that the existence of the Company is conditioned upon it carrying out its responsibilities and obligations to the public served.

The parties agree further that the responsibility to the public is a mutual responsibility of employees and management that requires that any disputes arising between them shall be settled in an orderly manner without interruption of water service.

The Union is in agreement with the objectives of achieving the highest level of service to the public, the highest level of employee performance and efficiency consistent with safety, good health and sustained effort

ARTICLE 1
RECOGNITION

Section 1. The Company recognizes the Union, and its successors, as the exclusive collective bargaining representative in matters of wages, hours, working and other conditions of employment for all customer service representatives employed at the Company's Pensacola, Florida facility, excluding office clerical and professional employees, guards and supervisors as defined in the Act.

Section 2. It is recognized by the parties hereto that based upon the Company's responsibilities and obligations to the public to at all times furnish a safe and adequate water supply, there can be no division of responsibility. It is agreed, therefore, that the Company must be unhampered in its selection of employees to meet its operational needs. It is further agreed that the Company may assign employees from outside the bargaining unit to perform work covered by this collective bargaining agreement, so long as such assignment is for training and development or is temporary (no more than ninety (90) days) to efficiently perform the necessary work.

Section 3. Nothing in this Agreement shall prevent the temporary transfer of bargaining unit employees to non-bargaining unit work or to work in any lower classification to promote efficiency, facilitate training or fill up their time. Employees will receive their regular hourly rate of pay for all such work. For all time actually worked, if in a higher classification at the direction of the Company, the employee will receive at least Seventy-Five Cents (\$.75) per hour or the minimum rate of pay for the higher classification, whichever is higher.

Section 4. Nothing in this Agreement shall limit the right of the Company to employ part-time or temporary employees including employees from temporary labor services. It is

agreed that the number of regular part-time employees utilized by the Company will not exceed Twenty-five percent (25%) of the total number of employees employed, and that once each quarter, upon request, the Company will verify to the Union that it is in compliance with this restriction. If the Company determines that a full-time vacancy exists, it will consider qualified regular part-time employees for the opening(s) before recruiting from outside the Company. Part-time and temporary employees will not be eligible for any benefits of any kind unless specifically set forth in the Agreement. Regular part-time employees are those who are regularly scheduled more than sixteen (16) but less than thirty-five (35) hours in a work week. No temporary employee will be retained for more than ninety (90) days without a break in employment. No temporary employee will be retained when a member of the bargaining unit is qualified to perform the same work is being laid off. Employment through a temporary employment service shall not be considered to be employment by or service with the Company for any purpose under this Agreement.

Section 5. Part-time employees will earn five (5) vacation days per calendar year. These employees will be included in the vacation bid in order of seniority as outlined in Article 6. Part-time employees will earn three (3) sick days per calendar year. Part-time employees will participate in a part-time shift bid twice annually. The Company will consider on a case-by-case basis any full-time employee with a need to go to part time.

Section 6. The Company is committed to maintaining more than one (1) Customer Service Center for the foreseeable future. If during the term of this Agreement, the Company elects to close the Customer Service Center covered by this Agreement; all affected employees will be given an opportunity for continued employment at the new location.

ARTICLE 2
NON DISCRIMINATION

Section 1. The Company and the Union agree that they will not discriminate against any employee or applicant for employment on account of or because of sex, creed, race, color, religion, age, marital status, national origin, union activity, or handicap to the extent covered by law provided the employee is capable of performing his job.

It is understood that wherever in this Agreement employees or jobs are referred to in the masculine gender; it shall be recognized as referring to both male and female.

ARTICLE 3
CHECK-OFF

Section 1. Bi-weekly Deduction. When individually authorized in writing by an employee, the Company agrees to deduct on a bi-weekly basis from the pay of the employee an amount equal to the dues and initiation fees as required from all employees in the bargaining unit. All amounts so deducted shall be remitted on or before the last day of the same month to the Union. A list showing all employees from whom deductions were made will accompany the remittance of money collected.

Section 2. Hold Harmless. The Union agrees to hold the Company harmless for any action or actions growing out of these deductions commenced by an employee against the Company, and assumes full responsibility for the disposition of the funds so deducted, once the money is in the hand of the Union. Errors made by the Company in making deductions and remitting same shall not be considered a violation of this provision, but correction of any errors shall be made within a reasonable time.

Section 3. Successor Clause. It is agreed that in the event the Employer during the term of the Agreement shall transfer the control and/or operation of the facility to another

corporation, person or firm by assignment, lease, sale or other transfer, the Employer will require the transferee to assume the obligations of this Agreement upon the assumption of this Agreement by such transferee all obligations to be performed hereunder on the part the Employer shall cease and be terminated.

ARTICLE 4
NO STRIKE OR LOCKOUTS

Section 1. During the term of this Agreement, the Union agrees on behalf of itself and each of its members that it and they shall not engage in, participate in or encourage any stoppage of work, strike, sit-down, slowdown, picketing, sympathy strike, safety strike, boycott, strike in protest of any unfair labor practices or any other form of concerted or improper interference of any kind with the business or operations of the Company or its service to the public.

Section 2. If an employee or group of employees engaged in violation of Section 1, above, the Union will give written notice to the Company as soon as possible but in no more than two (2) hours after notification by the Company, copies of which notice by the Union shall be posted immediately by the Union on the bulletin boards, that it has not authorized the stoppage, slowdown, or suspension of work.

Section 3. Any employee engaging in, participating in, or encouraging a violation of Article 4, Section 1 may be disciplined or discharged by the Company at its discretion, subject to the grievance procedure on the sole issue of whether or not the employee or employees so disciplined or discharged in fact engaged in conduct in violation of this Article.

Section 4. The Company agrees that during the term of this Agreement it will not cause or call any lockout of its employees.

ARTICLE 5
MANAGEMENT RIGHTS

Section 1. Except as limited by a specific provision of this Agreement, the Company retains and shall continue to have the sole and exclusive right to manage its business and direct the working forces, including, but not limited to, the right to plan, direct and control operations, the right to hire or to suspend, discipline, demote, or discharge for just cause, the right to maintain order and efficiency, transfer or promote, or to relieve employees from active duty because of lack of work or other legitimate reasons, the right to study, determine and regulate the methods, quantity and quality of work, and the sources and kinds of merchandise, materials, parts, facilities and equipment used, handled or sold, the right to schedule and reschedule work hours, work shifts, shift hours and overtime requirements and the assignments thereto, the right to select customers, the right to extend, limit or curtail operations or any part thereof when and in such manner as it deems advisable to do so, the right to establish, modify, publish and enforce reasonable rules and regulations for discipline, dress, safety and any other business-related concerns, the right to close, sell, liquidate or move, relocate or transfer the business in its entirety or any part thereof, the right to expand, reduce, alter, combine, move, transfer, relocate or terminate any job, job content, department, operation or service, and to subcontract any work, maintenance or otherwise, and the right to determine the number, location and operation of its facilities as well as the right to make decisions to do any of the foregoing. Provided, further, that any of the rights the Company had prior to the execution of the Agreement are retained exclusively by the Company, except as may be limited by the terms and provisions of this Agreement or Supplemental Agreements hereto after agreed to. The Company agrees to notify the Union leadership prior to any general announcement.

Section 2. Due to the nature of the Company's business and its responsibility to furnish a safe and adequate water supply to its customers at all times, supervisors employed by the Company may perform work that is normally performed by employees covered by this Agreement. It is not the Company's intention to use supervisors to displace or replace bargaining unit employees. No employee will be laid off as a direct result of a supervisor performing bargaining unit work.

Section 3. The Company does not by this Agreement waive any rights, legal or equitable, which it would otherwise have except as specifically defined and provided in this Agreement which sets forth all understandings and agreements arrived at by the parties.

ARTICLE 6 **SENIORITY**

Section 1. The term seniority as used in this Agreement shall mean length of continuous service as an employee of American Water;

Unless specifically set forth in this Agreement, in all cases involving the principle of seniority including, but not limited to, layoff, recall, promotion, transfer and job assignment, an employee's demonstrated skill, competency and ability to perform the assigned duties required will govern. An employee's demonstrated skill; competency and ability shall include, but not be limited to, performance evaluations and counseling or more severe discipline. When the Company determines that two or more employees have relatively equal skill, competency and ability to perform the assigned duties required, seniority will govern. When two or more employees have identical seniority, seniority will be determined by lottery between the parties on this issue.

Section 2. The Company reserves the right to temporarily fill any vacancy

consistent with the provisions of Article 1, Section 4 of this Agreement.

Section 3. Part-time Seniority. Part-time employees will be given credit for all time worked for the Company on the basis of one (1) hour for every two (2) hours worked. Part-time seniority will be computed and adjusted on a quarterly basis.

Section 4. Probationary Employment. During their first ninety (90) days of continuous service with the Company, full-time employees shall be considered to be probationary employees and shall not be entitled, except as otherwise expressly provided, to any benefits conferred by this Agreement; and such employees may be discharged or disciplined at the discretion of the Company for any reason without recourse by the Union. Regular part-time employees must successfully complete a ninety (90) working day probationary period. After completion of such probationary period, the length of service date of such employees shall be deemed to commence from the date upon which they entered the service of the Company.

Section 5. Length of Service List. A list of employees in the bargaining unit with their date of hire shall be posted on the bulletin board with a copy sent to the Union. The Company will furnish to the Union and steward monthly a revised seniority list.

Section 6. Layoff and Recall. If the Company determines that it is necessary to lay off employees, regular, full-time employees will be given preference in accordance with their length of service and their ability to perform the additional work required without additional training.

When an employee who would otherwise be laid off has a greater length of service and that senior employee is immediately capable of efficiently performing the work expected to be available, then such employee shall be offered the opportunity to replace the less

senior employee and perform the work at the appropriate rate for the position. There shall be no up-grading in a layoff or recall. Employees shall be recalled in accordance with their seniority as defined in Section 1, above.

Section 7. Termination of Seniority. The employment relationship and length of continuous service of an employee shall be considered terminated, and subsequent reemployment shall be deemed new employment in the following events:

- (a) Voluntary quit or retirement;
- (b) Discharge for cause;
- (c) Absence in excess of a leave of absence;
- (d) Failure to come to work or to call and speak to the Absence Supervisor for three (3) consecutive scheduled days of work unless good cause is shown to the satisfaction of the Company;
- (e) Failure to return to work from a layoff within five (5) work days following the receipt of notice to return to work sent by registered or certified mail to the employee's last known address or following the date of telephone notice to him. It shall be the sole responsibility of an employee to keep the Company advised as to his current address and telephone number provided that if he should fail to do so, then the five (5) work days shall be deemed to have commenced from the sending of the registered or certified mail or from the date of attempted telephone notice to him;
- (f) Working for another employer during a leave of absence without specific written permission from the Company in advance;
- (g) When a layoff exceeds the following periods:

If Accrued Seniority is:	Seniority shall be lost if Layoff exceeds:
Less than 1 year	6 Months
More than 1 year but less than 5 years	12 Months
More than 5 years	18 Months

It is further agreed, that under no circumstances will an employee's recall rights exceed their actual length of employment.

Section 8. Job Bidding. All full-time job vacancies shall be posted for bid for a period of seven (7) calendar days. Such posting shall contain the job opening and the shift involved. Employees shall be entitled to bid on such vacancy and the opening(s) shall be awarded based on seniority as defined in Section 1, above. If no employees bid on the vacancy, the Company may fill the vacancy with a new employee. An employee awarded an opening shall be given a fair trial for a period not to exceed sixty (60) days, but if it shall, at the end of the trial period be decided by the Company that such employee cannot adapt to the new position, he or she shall be returned to his or her former position and pay rate. If at any time within forty-five (45) working days in the new position the employee decides that they do not like their new position, the employee can return to their former position and pay rate. An employee who voluntarily disqualifies him or herself will not be eligible to bid on any position for a period of three (3) months.

Section 9. It is agreed that for the purpose of layoff and recall only, the Local's President, Vice- President, Secretary and Treasurer will be granted super-seniority.

ARTICLE 7
HOURS OF WORK

Section 1. Employees who are regularly scheduled to work forty (40) hours per week are considered to be full-time employees. Employees will be provided with at least one (1) week notice of a change in their work schedule.

Section 2. The normal workweek shall start Monday morning at 12:00 a.m. and run through Sunday at 11:59 p.m. The standard workday shall consist of eight (8) working hours, consecutive except as interrupted by lunch periods, and the standard work week shall consist of five (5) regularly scheduled eight (8) hour work periods on as many workdays. The two (2) remaining days in the pay week of seven (7) consecutive days from Monday through Sunday shall be known as "off-days". Employees may be scheduled for staggered starting times. The Company agrees not to utilize split shifts without the consent of the employee(s) affected. Employees will be given as much notice of changes in their starting time as is reasonably practicable under the circumstances.

Section 3. All hours actually worked in excess of forty (40) hours per week shall be considered overtime and shall be paid for at the rate of time and one-half the employee's regular, basic straight-time rate. Time paid but not worked will not count toward the computation of weekly overtime except for vacation, holiday and personal time. When an employee actually works forty eight (48) hours in a period of six (6) consecutive days, the employee will be paid double time for all hours actually worked on the seventh (7th) day.

Section 4. Shift Bids. The Company agrees to hold a shift bid twice annually, in April and in October. These dates can be modified and additional shift bids can be conducted by mutual agreement between the Company and the Union. The Company also

has the right to hold shift bids more often if business need deems necessary with thirty (30) days notice to the Union.

Section 5. Lunch Periods. There shall be an unpaid lunch period not to exceed sixty (60) minutes each day. Any employee required by the Company to work during lunch will be paid for all time worked.

Section 6. Rest Breaks. There shall be a paid rest break of fifteen (15) minutes for every four (4) hours of work scheduled.

Section 7. Overtime. Overtime may be required when in the Company's judgment it is necessary; however the Company agrees that it will keep such overtime to a minimum. Daily overtime assignments required to finish work assigned for that day will be performed by the employee(s) assigned such work during regular shift time, this overtime will not be included in the calculation of the maximum requirement of mandated overtime as defined below. When other overtime situations occur, the Company will canvass qualified and available employees in order of length of service to determine if the employee(s) desires to the work the needed overtime. If all qualified and available employees refuse, the employee(s) with the least length of continuous service who is both qualified and available will be required to work the overtime assignment. Employees shall not be mandated to work one of their two regularly designated days off. When using any pre-approved time off in conjunction with a regular day off, employees will not be required to work overtime from the end of their regularly scheduled shift prior to the days off through the start of the next regularly scheduled shift. Employees who have a prescheduled doctor's appointment shall not be required to work overtime during the time of that prescheduled doctor's appointment. Employees shall be given at least eight (8) hours of uninterrupted rest time. For the purposes

of this provision of the contract only, employees mean both full-time and part-time employees. When overtime is required by the Company, all employees will be required to work overtime, up to 20% of their scheduled work week hours. Employees, who do not volunteer for overtime, can be mandated, as set forth above, up to the maximum requirement set forth above. At no time can a part-time employee work more than thirty-five (35) hours per week. If all employees have completed the overtime requirement as stated above, and the Company requires additional overtime, employees can be required to work additional overtime up to, an additional 10% of their scheduled work week in additional overtime. Voluntary overtime must be cancelled twenty-four (24) hours prior to the start of the scheduled time for overtime. All full-time employees that are required to work beyond the agreed upon limits of the required overtime will be paid double time for all time worked.

Section 8. Moonlighting. No employee in the bargaining unit shall work on any other job for any other employer; including himself, who is in competition with one of the Company's businesses or if such work interferes with his performance of Company's work due to fatigue, unavailability for overtime when pre-arranged and/or mandatory. Violation of this provision may subject such employee to immediate discharge if working for a competitor and to discharge after one (1) written warning if due to interference with his performance of Company's work.

Section 9. Absenteeism. No employee, except in cases of authorized illness or injury, shall be absent without prior written permission from their supervisor. In case of illness or injury, the employee must call the designated office at least thirty (30) minutes prior to the employee's starting time. The employee will not be paid for time lost, absent unusual circumstances, unless the Company is properly notified no later than the thirty (30) minutes

prior to the employee's starting time. An absent employee, whose job requires relief by another employee will make every effort to give the Company at least eight (8) hours notice of his/her intent to return to work.

Section 10. Call-In. Employees who are called to report to work outside of their normal schedule will be guaranteed two (2) hours of work or pay. The Company will maintain a call-in list of employees, listed by length of continuous service, who volunteer to be called in. The list will be updated on a quarterly basis. When a call-in situation occurs, the Company will first attempt to call-in qualified employees on the list. If the Company is unable to satisfy its needs from the individuals listed, then the Company will require the least senior available qualified employee(s) to come in and perform the work.

Section 11. Releasing of Employees. During times of slack work, the Company may elect to send employees home early or rearrange the existing schedule. In these situations, the Company will first seek volunteers as long as the employees remaining are qualified to perform the work necessary. Affected employees can be paid for any previously scheduled time lost; with paid time off they have available other than sick leave.

ARTICLE 8 **GRIEVANCE PROCEDURE**

Section 1. A grievance is defined as any dispute that reasonably concerns the application, interpretation or violation of any express or specific provision of this Agreement.

The Union agrees to present and appeal any grievance within the time limits set out in the respective steps of the grievance procedure, unless a mutual extension of time limits is agreed to.

The Employer agrees that it will meet with an employee and union representative and

subsequently respond within the time limits set out in the respected steps of the grievance procedure.

If the union does not process the grievance within the time limits, the grievance shall not be entitled to consideration. Should the "Company's" representatives fail to answer any grievance within the allotted time as specified in the specific step, the "Company" shall forfeit said grievance in favor of the "Union".

Grievances that affect all or a large group of employees, or which have general application, may be presented directly for handling at Step 2.

Any grievance arising over the application or interpretation of the provisions of this Agreement shall be settled as soon as possible in the following manner:

Step 1. An employee having a grievance shall submit a written grievance specifying the specific provisions of this Agreement that the employee believes has been violated to his/her immediate supervisor within ten (10) work days of knowledge of the occurrence of the incident, who shall answer it within ten (10) work days of receipt.

Step 2. The grievance may be processed further by notifying the Center Director, within ten (10) work days of the decision of the Supervisor, of the Union's desire to discuss the matter further with the Center Director or her or his designee. The Business Representative of the Union and the Center Director or her or his designee then shall meet and attempt to resolve the dispute. The meeting shall occur within twenty (20) days after the appeal is received. The Center Director or her or his designee shall submit a written decision to the Union within ten (10) work days of the Step 2 meeting.

Step 3. Either party shall have the right to submit the grievance to arbitration. Notification in writing of a desire to submit a grievance to arbitration must be given within thirty (30) working days after completing Step 2.

Section 2. Nothing contained herein shall be construed to circumvent the right of an employee to take a grievance up with the Employer and have the same settled without the intervention of the Union; provided settlement is not inconsistent with any of the provisions of this Agreement, and further provided the Union has been given the opportunity

to have a representative present at the time of the settlement.

ARTICLE 9
ARBITRATION PROCEDURE

Section 1. If the Employer and the Union agree on a single arbitrator, the grievance shall be presented to the arbitrator. Should the Employer and the Union fail to agree on a single arbitrator, they shall immediately request that the Federal Mediation and Conciliation Service submit a panel of seven (7) arbitrators. Either party may reject one (1) panel in which case a new panel shall be requested. Each party shall alternatively strike one (1) name from the list, and the one (1) remaining name shall be the arbitrator. The decision of the Arbitrator shall be final and binding on both parties.

Section 2. The arbitration should be effected within 12 months of the date of the notice of intent. If the case involves a termination of employment the maximum time will not exceed 16 months. Any needed extensions to the above dates will not be unreasonably withheld by either party.

Section 3. The Arbitrator shall not have the power to add to, subtract from, or modify in any way the terms of this Agreement or to substitute her or his discretion for that of the Company in matters of discipline and its penalties (including discharge), or to require a burden of proof on any issue greater than a preponderance of the evidence. The Arbitrator shall have no power to establish new jobs, to change existing wage rates, to set work methods or standards, to waive the time limits of this grievance and arbitration procedure. The Arbitrator shall be limited in jurisdiction to the application and interpretation of the specific provisions of this Agreement. Each party shall bear one-half (1/2) the fee of the Arbitrator and any other expenses jointly incurred during the arbitration hearing. All other expenses shall be borne by the party incurring them, and neither party shall be responsible

for the expenses of witnesses called by the other party.

Section 3. It is agreed that the individual grievant and one (1) Local Union Representative will not lose scheduled paid time in order to attend the actual arbitration hearing.

ARTICLE 10
MISCELLANEOUS

Section 1. Health and Safety. The Company will continue to make reasonable provisions for the safety and health of its employees during the hours of their employment as is consistent with the requirements of applicable federal, state or local laws. Employees shall be required to comply with all rules, regulations or policies required by law or the Company to insure safety and healthful conditions at the work site. The Company may also prohibit all smoking in any of its facilities, vehicles, and in job sites and customers' facilities.

Section 2. Safety Committee. The parties shall establish a safety committee which will meet quarterly or as otherwise mutually agreed to discuss safety issues. There shall be equal representation of bargaining unit employees and management on this committee.

Section 3. Voting Time. The Company shall observe the provisions of State law with respect to voting time. The Company may require proof of voting. Any person who absents himself for the purpose of voting and who does not actually attempt to vote in the election shall be subject to discipline up to and including discharge.

Section 4. Bulletin Board. The Company agrees to furnish bulletin board space and the Union representative or stewards shall have the right to post notices of social gatherings or Union notices which do not impugn management or pertain to the strike or boycott of other employers on the bulletin board furnished by the Company.

Section 5. Union Access. After first checking in with a designated management official and obtaining the Company's permission, an authorized representative of the Union shall have access to the Company's facility when necessary and with as little interruption of the work as possible during regular working hours for the purpose of conferring with the stewards, Company officials and officers of the Union employed by the Company.

Section 6. Medical Examinations. If medical examinations are required by the Company for an employee, they shall be at the Company's expense. Written reports of such examinations will be given to an employee, upon request from the employee, except where the examination is a routine pre-hire examination for someone new to the Company, or an examination to determine if an employee who has been absent is ready to return to work, or in first-aid situations not requiring medical attention beyond first-aid.

Section 7. Labor Management Meetings. As an integral part of their most recent discussions to promote their effective partnership, the Parties pledge their continued commitment to open and honest communications with a mutual goal of direct and timely communications, including the timely dissemination of important information, news or changes. In an effort to achieve this goal, each Party commits itself to engage in the following consultative process:

Quarterly meetings between the Local Union Executive Officers not to exceed four (4) representatives as designated by the Union and relevant Company Management. These meetings will be held on Company time and the key focus of these meetings will be to discuss significant non-contractual matters that impact the business, its customers, and the Union's membership. It is understood that no commitments or assent to any particular matter will be reached at these meetings.

Section 8. Union Business. The Company will consider the Union's request for time off from work for Union officers and stewards on a non-paid basis which does not interfere with the Company's operations.

Section 9. During the term of this agreement the company agrees to compensate up to four (4) employee representatives designated by the Union to attend negotiations meetings: and when such meetings are scheduled and held during regular working hours, said employee representatives shall be paid regular base rate of pay as though they were working their regularly scheduled work day. Pay shall not be allowed for such time as might be scheduled for meetings either before or after the employee's regular work day unless otherwise mutually agreed to by the parties.

ARTICLE 11 **DISCIPLINE AND DISCHARGE**

Section 1. The Union recognizes the Company's right to discharge, suspend, demote or otherwise discipline an employee for cause. In the event of Company action in such cases, the Union and the employee shall be limited to the right to present the case solely as a grievance under the grievance procedure. No employee shall be discharged without having been given appropriate progressive discipline except in cases justifying termination on the first offense. (Progressive discipline is defined as follows: Level I Performance Verbal Warning, Level II Performance Written Warning, Level III Performance Final Written Warning, and Termination.)

Level I Performance Verbal Warning will remain active for six (6) months (180 days) from the date of issuance, after which all such discipline shall not be considered for advancement for any future disciplinary action.

Level II Performance Written Warning will remain active for nine (9) months (270 days) from the date of issuance, after which all such discipline shall not be considered for advancement for any future disciplinary action.

Level III Performance Final Written Warning will remain active for twelve (12) months (360 days) from the date of issuance, after which all such discipline shall not be considered for advancement for any future disciplinary action.

Section 2. If an employee is discharged, suspended or demoted for cause, the Union shall be notified of such action promptly in writing by the Company. Notice will be addressed to the local union president. If the employee is not probationary, the employee or the Union may within ten (10) days of notice to the Union, file a written grievance directly at the second (2nd) step. It is recognized that such a grievance should be heard at the earliest possible time and take precedence over grievances of a different nature.

ARTICLE 12 **DRUG AND ALCOHOL TESTING**

Section 1. The Company may continue its current position of requiring drug and alcohol testing of all applicants and of employees upon reasonable suspicion or after accidents when employee negligence, lack of good judgment, or lack of coordination or proper reactions is reasonably suspected. Such testing shall be conducted by a reputable, certified testing laboratory and, except as otherwise mutually agreed by the Company and the Union, shall apply the standards for a positive test recommended by the National Institute of Drug Abuse. Any employee who tests positive or who refuses to consent to or to take such test, or who attempts to circumvent or frustrate the test results shall be subject to immediate discharge unless the employee agrees to enter a Company approved

rehabilitation program, sign rehabilitation agreement in accordance with the treatment plan defined by the Company's EAP provider and agrees to eighteen (18) months of unscheduled substance abuse testing. Any employee injured on the job, who is tested as stated above and who tests positive for drug or alcohol at the time of such injury shall have his Workers' Compensation benefits reduced or eliminated to the maximum extent permitted by law.

ARTICLE 13 **LEAVES OF ABSENCE**

Section 1. Any employee may be granted a medical leave of absence from his employment for reasons satisfactory to the Company and shall secure such leave of absence in writing. Leaves of absence must be approved by the Center Director and may be conditioned upon such reasonable requirements as the Company may make such as furnishing periodic doctor's reports, calling the Company to discuss current status, etc. The Union shall be given notice of any grant or extension of a leave of absence.

Section 2. Any leave taken under the Federal or any other applicable Family and Medical Leave Law may not be extended or otherwise taken in addition to leave under this provision so as to extend the time away from work. There will be no pyramiding of leave. The Company reserves the right to count the time taken under the Federal, or any other applicable Family and Medical Leave Laws, as time taken under this policy and to require employees to substitute available paid time off for FMLA leaves. The parties recognize the Company's responsibility to address the issues raised by the Federal Family and Medical Leave Law and accordingly, the Company may adopt and/or modify a Family and Medical Leave Policy that is done so in pursuant to and as allowed by the provisions of the Federal Family and Medical Leave Law.

Section 3. Consistent with American Water policy, regular employees who leave

the service of the Company to enter the United States Armed Forces, the U.S. Maritime Commission, the National Guard, or for other selective or compulsory civilian service shall, upon their return, be granted such rights as are provided under applicable federal and state law.

ARTICLE 14 **JURY LEAVE**

Section 1. When regular full-time employees are required to perform jury service, they shall immediately notify their supervisor upon receipt of notice of call to such service. This Article shall not be applicable to jury service on more than ten (10) work days in any twelve (12) month period.

Section 2. The Company shall reimburse employees for the difference between their regular pay and any pay they receive as a result of performing jury service, not to exceed eight (8) hours per day for a maximum of ten (10) days absent unless extenuating circumstances are agreed to by the Company. In order to receive such pay, the employee must present to the Company a statement of jury service and pay received issued by the applicable court. Employees whose jury duty does not require them to be absent an entire day shall immediately report their availability for work that day to their supervisor. Whenever considered necessary by the Company because of operational needs, an employee shall cooperate with Company in requesting a postponement of jury service.

ARTICLE 15 **FUNERAL LEAVE**

Section 1. The Company shall provide Funeral Leave to full time employees without suffering a loss of pay in order for them to handle their obligations.

Section 2. An employee will be excused from work with pay for a maximum of 4

days (32 hours) upon the death of the employee's spouse, domestic partner, child, step-child, brother, step-brother, sister, step-sister, parent, step-parent, or person "in loco parents," parents-in-law, grandparents or grandchildren.

Section 3. An employee will be excused from work with pay for 1 day (8 hours) upon the death of the employee's aunt, uncle, niece, nephew, brother-in-law, sister-in-law, grandmother-in-law or grandfather-in-law.

Section 4. Should additional time be needed, the employee may use available personal or vacation time. However, the employee must let the appropriate supervisor know if additional time is needed in order for the time off to be considered as an approved absence. Each request for additional time off will be considered on an individual basis. Funeral Leave is considered approved time off before or after a holiday and therefore would still allow for a paid holiday if off for this reason on the day before or day after. The Company reserves the right to require proof of documentation for this absence.

ARTICLE 16 **HOLIDAYS**

Section 1. Each regular full-time employee who has been in the continuous service of the Company for at least ninety (90) days prior to any of the holidays hereinafter listed, irrespective of what day of the week on which the holiday may fall, shall receive eight (8) hours of pay at his or her regular basic straight-time hourly rate of pay for each such holiday.

The holidays shall be:

New Year's Day	Thanksgiving Day
Independence Day	Christmas Day
Day After Thanksgiving	Memorial Day
Labor Day	

Section 2. Staffing requirements on these holidays will be first offered to volunteers from within the work group in seniority order. If there are not enough volunteers within the work group the remaining schedules will be offered to all other qualified employees in other work groups and filled in seniority order. If the Company is not able to meet the staffing requirements with volunteers for these holidays, employees within the work group will be required to work in reverse order of seniority based on staffing needs. Holiday pay will not be paid to an employee absent from work or misses more than two (2) hours where the absence results in extension of the holiday, unless the absence is an approved in advance paid absence, such as vacation or personal leave but not sick leave. No employee may receive holiday pay and sick pay for the same day. Employees who may be laid off for lack of work in a work week containing a holiday or the week before or after such holiday shall not thereby be rendered ineligible for holiday pay.

Section 3. Employees who work on a holiday shall be paid for such work at time and one half (1-1/2) of their regular base hourly straight-time rate of pay for all hours of work performed on the holiday together with, if eligible, the holiday pay provided above.

Section 4. If a holiday designated above falls on a Saturday it will be observed on the previous Friday or if it falls on a Sunday it will be observed on the following Monday.

Section 5. If a holiday falls within an employee's scheduled vacation period, the employee shall receive holiday pay.

ARTICLE 17 **VACATIONS**

Section 1. Full-time employees will be granted paid vacations as follows:

Beginning January 1 of each year, all full time employees shall earn vacation time

within the calendar year based upon the employee's "Completed Years of Continuous Service" during that calendar year as follows:

Completed Years of Continuous Service	Vacation
1 year	10 days
2 years	11 days
3 years	12 days
4 years	13 days
5 years	15 days
6 years	15 days
7 years	16 days
8 years	16 days
9 years	17 days
10 years	17 days
11 years	18 days
12 years	18 days
13 years	19 days
14 years	19 days
15 years	20 days
16 years	20 days
17 years	21 days
18 years	21 days
19 years	22 days
20 years	22 days
21 years	23 days
22 years	23 days
23 years	24 days
24 years	24 days
25 years plus	25 days

In the January following an employee's hire date, the employee will have ten (10) vacation days available beginning January 1. The vacation amount is based on the anniversary the employee will recognize in that calendar year. For example: if an employee was hired on May 15th 2009 and completed their first full year of continuous service on May 15th 2010. In January of 2010 they received ten (10) vacation days since they will complete one (1) year of continuous service in the calendar year of 2010. This employee would receive eleven (11) vacation days in January of 2011 since they will complete two (2) years

of service in the calendar year 2011.

Employees hired during the current vacation year will earn one (1) day of vacation for each “completed month of continuous service” up to ten (10) days. Completed month of service is defined as: actively employed on the first and last day of the month. Vacation days may be taken in four (4) hour increments.

See following chart:

Hire Date	Eligible for Vacation as of	Days to use before 12/31
January 2 – February 1	April 1	10 days (80 hrs)
February 2 – March 1	May 1	10 days (80 hrs)
March 2 – April 1	June 1	9 days (72 hrs)
April 2 – May 1	July 1	8 days (64 hrs)
May 2 – June 1	August 1	7 days (56 hrs)
June 2 – July 1	September 1	6 days (48 hrs)
July 2 – August 1	October 1	5 days (40 hrs)
August 2 – September 1	November 1	4 days (32 hrs)
September 2 – October 1	December 1	3 days (24 hrs)
October 2 – November 1	December 31	2 days (16 hrs)

Vacation time is earned based on the number of months completed/worked. If an employee resigns or is terminated and has taken more vacation than was earned, the final paycheck will be deducted accordingly.

Section 2. The vacation period will be from January 1 to December 31. An annual vacation scheduling process will be conducted prior to the vacation year. Employees may make a request by work group for a full week vacation period of their choice. Where conflict occurs between two (2) or more employees who desire the same vacation period, their length of service shall be the determining factor.

Section 3. For all vacations not approved during the annual vacation scheduling

process, employees must give the Company at least thirty (30) day's written notice for a vacation request of one (1) week of their intention to take vacation and such requests must be approved in writing. The Company will notify the employee at least two (2) weeks prior to the requested vacation as to the status of their request. For any vacation request of less than one (1) week, the employee must give as much notice as possible and granting them are subject to the Company's need. Should the employee wish to cancel an amount of approved vacation of less than one (1) week, one (1) day advanced notice is required.

ARTICLE 18 **PERSONAL DAYS**

Section 1. Regular full-time employees who have been in the continuous service of the Company for at least ninety (90) days will be granted personal days as follows: employees will accrue up to six (6) personal days (48 hours), based on the following schedule:

January 1 – 1 day	July 1 – 1 day
March 1 – 1 day	September 1 – 1 day
May 1 – 1 day	November 1 – 1 day

Section 2. Employees are able to use personal days to have more flexibility in scheduling time off from work and to support their outside interests. Personal days must be scheduled in advance, approved in writing by your supervisor, and will be granted in accordance with business necessities. Employees may be allowed to use up to one (1) personal day that they are scheduled to receive in the current year in advance. One (1) time per year employees may use their personal days, if available, for emergency situations (“Emergency Occurrence”). An employee will be charged an Emergency Occurrence each time he utilizes any portion of a personal day without prior approval as defined above.

Employees may utilize one (1) Emergency Occurrence starting January 1st through December 31st in that calendar year. The employee will be required to call in as set forth in Article 7 Section 9. All such time shall be considered approved, but unscheduled time, provided the employee complies with the notification requirements. Approved, but unscheduled time shall not be used in determining excessive occurrences. Employees are encouraged to use their personal days for appointments that cannot be scheduled during non-working times or for family illnesses. Personal time may be taken in one (1) hour increments and must be taken during the calendar year in which they were given or be forfeited.

Section 3. Unused personal days may not be taken once an employee has submitted his or her resignation. At time of separation from employment, earned and unused personal days will be treated in accordance with applicable State laws. If an employee resigns or is terminated and has taken more personal time than was earned, the employee's final paycheck will be adjusted accordingly.

ARTICLE 19 **SICK DAYS**

Section 1. Sick time is not earned time off. It is a benefit to be used only if an employee is legitimately ill. American Water recognizes that employees will be ill or injured and unable to attend work. Regular full-time employees who have been in the continuous service of the Company for at least ninety (90) days will be granted sick days as follows: employees will be eligible for ten (10) days of sick leave per year. Employees may use up to forty (40) hours to care for their ill spouse, child or parent. Sick time is for short and long term illness. If an employee will be absent or late for whatever reason, they must notify the Company as set forth in Article 7, Section 8. If an employee is absent due to illness (for their

own illness) for three (3) consecutive days they are required to complete the Return to Work form. If an employee is absent due to the illness (of a child or dependent) for three (3) consecutive days they are required to provide appropriate medical documentation, but need not complete a Return to Work form.

Section 2. The Union recognizes that unplanned absence impacts the business and individual performance. Sick time that is not part of an approved leave of absence (i.e. FMLA, Short Term Disability) will count as an occurrence. Falsification of an illness or reason for using sick time may result in disciplinary action.

Section 3. Employees who do not use all of their annual accrued sick leave and who are employed on December 31st of said year, will have the option: (a) to be paid out up to five of the unused sick days (40 hours) during January of the following year at the employee's current base rate of pay starting with a payout in 2011; or (b) to roll unused days into a sick bank to be used in the event of a serious illness prior to going on short-term disability; or (c) a combination of (a) and (b).

In lieu of the sick time buy-back/rollover options listed above, if an employee does not use any sick time in an entire calendar year, the Company will pay the employee an amount equal to the unused sick time at 1 ½ times the employee's current base rate of pay.

To be eligible to receive paid leave from the sick bank, the employees will be required to notify the company's designated short-term disability provider per the terms of the short-term disability plan and must be approved for short-term disability benefits. The Company agrees that it will sustain pay using the sick time bank pending approval from the short-term disability provider. The Company will provide the membership with the 800 number annually,

but employees also may call local Human Resources for the number.

Section 4. Short-Term Disability Benefit shall be consistent with and as set forth in the Company's benefit plans and as modified by the National Benefits Memorandum of Agreement Dated August 1, 2005. This benefit may be amended, modified, or terminated through the national negotiation process between American Water and the Utility Workers Union of America. The Company and the Union agree to be bound by any modification to the National Benefits Memorandum of Agreement made via the national negotiation process.

ARTICLE 20
WAGES AND MISCELLANEOUS ECONOMIC ITEMS

Section 1. Wages.

Start.....\$11.00 per hour

After 6 months of employment and satisfactory performance.....\$11.50 per hour

Effective November 1, 2012 each employee will receive a two and one quarter (2.25) percent increase. Effective November 1, 2013 each employee will receive a two (2.00) percent increase. Effective November 1, 2014 each employee will receive a two and one quarter (2.25) percent increase.

Any individual who is under the maximum of the range at the time of the increase will receive the full increase in base pay. Any individual who is over the maximum of the range at the time of the increase will receive the same amount as a lump sum payment.

Salary Rates

Range	Minimum	2012 Maximum	2013 Maximum	2014 Maximum
CSC1	\$11.00 \$22,880.00	\$14.71 \$30,597.00	\$15.00 \$31,200.00	\$15.34 \$31,907.00
CSC2	\$11.20 \$23,300.00	\$14.80 \$30,784.00	\$15.10 \$31,408.00	\$15.44 \$32,115.00
CSC3	\$12.50 \$26,000.00	\$16.36 \$34,029.00	\$16.69 \$34,715.00	\$17.07 \$35,506.00
CSC4	\$14.42 \$30,000.00	\$18.46 \$38,397.00	\$18.83 \$39,166.00	\$19.25 \$40,040.00

*Wage increases as stated above will include a wage survey provided by the Company.

Section 2. Quarterly Bonus. Employees will be eligible for a quarterly bonus of one and a half (1.5) percent of their total quarterly base pay (actual hours worked, vacation, holiday, personal, funeral, jury duty) and overtime earnings as determined by the criteria outlined below:

In 2012: Employee must take a minimum of four thousand (4000) calls per quarter with an average handle time of five minutes (5:00) or lower.

For the first three quarters of 2013: Employee must take a minimum of four thousand (4000) calls per quarter with an average handle time of four minutes and forty-five seconds (4:45) or lower.

Prior to the end of 2013 the company and the union will meet to discuss the measures used to reward quarterly bonus for the remainder of the agreement.

Section 3. Shift Premium. Employees who are regularly scheduled to work between the hours of 7 p.m. and 7 a.m., Monday through Sunday, will receive a shift premium of One Dollar (\$1.00) per hour in addition to their regular hourly rate. Shift premium shall only be paid for hours actually worked. Shift premium will be included in the calculation of pensions and the calculation of employee contributions to the Section 401(k) plan. Shift

premium will not be included in the Company's contribution to the Section 401(k) plan.

Section 4. Tuition Reimbursement Program. Regular full-time employees who have been in the continuous service of the Company for at least ninety (90) days will be eligible to participate in the Company's Tuition Reimbursement Program on the same terms as all other similarly situated employees.

Section 5. Economic Minimum Standards. It is agreed that all economic terms contained in the Agreement are minimum standards only. It is agreed that at any time during the term of the Agreement the Company may, at its discretion, increase any economic related item contained in the Agreement for group of employees or the entire bargaining unit in order to remain competitive in the market place, retain employee(s), or for any other reason. The Company will notify the Union prior to any such adjustments.

Section 6. Promotions. Any employee who is promoted from one level to another will receive an increase of twenty-five cents per hour (\$.25) increase in their base pay or will be adjusted to the minimum of the new grade, whichever is the greater of the two.

ARTICLE 21 **BENEFITS**

Section 1. Health Care Benefits. Except as specifically set forth below all regular full-time employees having continuous service with the Company for at least ninety (90) days will be eligible to participate in the American Water benefit plans as set forth in the Company's benefit plans and as modified by the National Benefits Memorandum of Agreement dated. The benefits and plans referred to above may be amended, modified, or terminated through the national negotiation process between American Water and the Utility

Workers Union of America. The Company and the Union agree to be bound by any modification to the National Benefits Memorandum of Agreement made via the national negotiation process. These benefits shall not be subject to any local negotiations except for local exceptions set forth in sections 2, 3 and 4 listed below.

Section 2. Pensions.

A) All employees hired prior to December 31, 2012 will be eligible to participate in the Company's current Defined Benefit Pension Plan.

B) All employees hired on or after January 1, 2013 will participate in the Company's Defined Contribution Plan.

Section 3. Section 401 (K Plan). Employees hired prior to December 31, 2012 will be eligible to participate in the Section 401 (K) Plan. The Company will match fifty cents (\$.50) of every dollar contributed by the employee up to a maximum of 5% of the employee's base pay.

Employees hired on or after January 1, 2013 who will no longer be eligible to participate in the Defined Benefit Pension Plan as stated above, will be entitled to a Company match equal to 100% on the first three percent (3%) of base pay contributed by the Employee and 50% on the next two percent (2%) of base pay contributed by the Employee. These employees will also commence participation in the Defined Contribution Account within the Savings Plan with a Company contribution of 5.25% of base hourly pay each pay period.

Section 4. VEBA. Employees will not participate in the annual \$500 VEBA.

Section 5. STD Benefits. Pensacola CSC employees will receive 52 weeks STD benefits in accordance with the National Benefits Memorandum of Agreement.

ARTICLE 22
LEGALITY

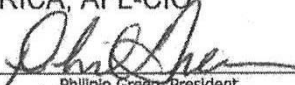
Section 1. If any part of this Agreement or any application thereof shall be rendered or declared invalid because of any law, regulation, order or decree of any court or board, then only that part, provision or application rendered or declared invalid shall be considered null and void, and the remainder of this Agreement shall remain in full force and effect according to its original terms; provided, however, that in such event the parties shall agree to negotiate in good faith for such modified provisions as will most closely and lawfully effectuate the original intention of the parties.

ARTICLE 23
TERMINATION OF AGREEMENT

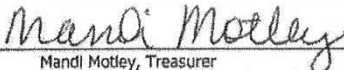
Section 1. This Agreement shall become effective as of the first day of November 2012 and shall remain in full force and effect through October 31, 2015 at 11:59 pm, and each year thereafter, unless written notice of termination or desired modification is given at least sixty (60) days prior to the expiration date or any subsequent anniversary thereof by either of the parties hereto.

IN WITNESS WHEREFORE, the parties have signed and executed this and several copies this 30th day of October 2012 effective as of November 1st 2012, subject, however, to ratification by members of the Union covered by this Agreement.

LOCAL 640, UTILITY WORKERS OF AMERICA, AFL-CIO

By: 
Phillip Green, President

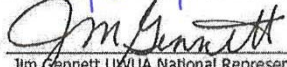
Date: 10-30-12

By: 
Mandi Motley, Treasurer

Date: 10-30-12


By: 
Courtney Brown, Vice President, Pensacola

Date: 10/30/2012

By: 
Jim Gennett UAW National Representative Region IV

Date: 10.30.12

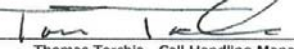
AMERICAN WATER SERVICE COMPANY INC.

By: 
Robert McKeage, Director of Labor

Date: 11/6/12

By: 
Tracie Beckwith, Director of Human Resources

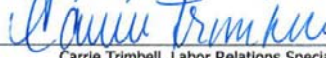
Date: 10/29/12

By: 
Thomas Torchia, Call Handling Manager

Date: 10/29/12

By: 
Preston Pallas, HR Business Partner,

Date: 10/29/12

By: 
Carrie Trimbell, Labor Relations Specialist

Date: 11/2/12

Kentucky American Water
Response to KAW_R_PSCDR2_NUM70 - Part D
Service Company Other Costs Adjustment Details

Function	Amount	Description	Category
Call Center	25,930	Adjustment to other expenses to bring Call Center function in line with 2013 budget amount due to direct charging Kentucky based on customer call activity.	Call Center
Belleville Lab	161	2013 Laurel Oak Properties Lease interest - additions net expires based on the budgeted capital lease file	Cap Lease interest
Belleville Lab	105	2014 Laurel Oak Properties Lease interest - additions net expires based on the budgeted capital lease file	Cap Lease interest
Business Transformation	136	2013 Laurel Oak Properties Lease interest - additions net expires based on the budgeted capital lease file	Cap Lease interest
Business Transformation	11	2014 Laurel Oak Properties Lease interest - additions net expires based on the budgeted capital lease file	Cap Lease interest
Central Division	(39)	2013 Laurel Oak Properties Lease interest - additions net expires based on the budgeted capital lease file	Cap Lease interest
Central Division	(33)	2014 Laurel Oak Properties Lease interest - additions net expires based on the budgeted capital lease file	Cap Lease interest
CSC - Alton	(12)	2013 Laurel Oak Properties Lease interest - additions net expires based on the budgeted capital lease file	Cap Lease interest
CSC - Alton	48	2014 Laurel Oak Properties Lease interest - additions net expires based on the budgeted capital lease file	Cap Lease interest
CSC - Pensacola	(107)	2013 Laurel Oak Properties Lease interest - additions net expires based on the budgeted capital lease file	Cap Lease interest
CSC - Pensacola	(114)	2014 Laurel Oak Properties Lease interest - additions net expires based on the budgeted capital lease file	Cap Lease interest
ITS	5,299	2013 Laurel Oak Properties Lease interest - additions net expires based on the budgeted capital lease file	Cap Lease interest
ITS	9,627	2014 Laurel Oak Properties Lease interest - additions net expires based on the budgeted capital lease file	Cap Lease interest
Operation Services	161	2013 Laurel Oak Properties Lease interest - additions net expires based on the budgeted capital lease file	Cap Lease interest
Operation Services	126	2014 Laurel Oak Properties Lease interest - additions net expires based on the budgeted capital lease file	Cap Lease interest
Property	4	2013 Laurel Oak Properties Lease interest - additions net expires based on the budgeted capital lease file	Cap Lease interest
Property	(119)	2014 Laurel Oak Properties Lease interest - additions net expires based on the budgeted capital lease file	Cap Lease interest
Total Capital Lease Interest	15,255		
Belleville Lab	844	2013 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
Belleville Lab	(242)	2014 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
Business Transformation	879	2013 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
Business Transformation	35	2014 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
Central Division	(66)	2013 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
Central Division	(99)	2014 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
CSC - Alton	(444)	2013 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
CSC - Alton	61	2014 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
CSC - Pensacola	(589)	2013 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
CSC - Pensacola	(15)	2014 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
External Affairs	(112)	2013 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
ITS	24,352	2013 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
ITS	53,646	2014 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
Mid-Atlantic Division	(6)	2013 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
Operation Services	10,008	2013 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
Operation Services	210	2014 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
Property	(469)	2013 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
Property	188	2014 depreciation - additions net expires based on the budgeted depreciation file	Depreciation
Total Depreciation	88,179		
All functions	49,455	Applicable inflation based on the global assumptions for 2013 1.80%. For the 2013, pro rated for 275 days/365 days since the test year ends 3/31/13.	Inflation
All functions	41,077	Applicable inflation based on the global assumptions for 2014 1.90%. Pro-rated 2014 for 212/365 days for the applicable pro forma period thru 7/31/14.	Inflation
Total Inflation	90,532		
ITS	154,651	ITS BT related costs for Consulting - See ITS Explanation of Costs Memo. KY's portion calculated based on their customer percentage of 3.85%. Pro-rated the 2013 for 275 days/365 days since the test year ends 3/31/13. Note the 2013 period was adjusted down by the 2013 inflation rate. Pro-rated 2014 for 212/365 days for the applicable pro forma period thru 7/31/14.	IT Consulting
ITS	40,477	ITS BT related costs for Maintenance - See ITS Explanation of Costs Memo. KY's portion calculated based on their customer percentage of 3.85%. Pro-rated the 2013 for 275 days/365 days since the test year ends 3/31/13. Note the 2013 period was adjusted down by the 2013 inflation rate. Pro-rated 2014 for 212/365 days for the applicable pro forma period thru 7/31/14.	IT Maintenance
Total Other Costs Adjustments	415,024		

INFORMATION TECHNOLOGY SERVICES



AMERICAN WATER

Business Transformation's Relationship to ITS Cost Increases

The term "Business Transformation" or "BT" refers to the development and system-wide deployment of new, integrated information technology systems and the process of implementing the new systems in a manner that properly aligns business processes with the increased capabilities of the new systems. The scope of the BT program includes a range of core functional areas, including: human resources, finance and accounting, purchasing and inventory management, capital planning, cash management, and customer and field services. There are four distinct areas of cost related to the Business Transformation project: (i) the initial planning studies (ii) physical assets (e.g., primarily servers, networking equipment, etc.), (iii) software licenses, and (iv) capitalized labor costs required to design, modify the base software package as required, develop transition routines to transfer historical data from existing systems, modify business processes to be compatible with the new software, implement the go-live use of the software, and train employees on the use of the new software, and (iv).

After the new BT information technology systems are deployed, there will be ongoing costs of operating and maintaining the new systems. The increase in ITS Department costs from the original 2012 - 2016 ITS Business Plan to the revised 2012 - 2016 ITS Business plan are a direct result of the ongoing costs required to operate and maintain the new IT systems implemented by BT. These O&M cost increases can be broken down into three areas: Consulting, Maintenance, and Labor. More detail on each area is provided below, starting with a summary of the costs, and followed by an explanation of each cost category in the summary.

Cost Summary**

	FY12	FY13	FY14	FY15	FY16
Consulting					
Backfill Resources	\$ 1,446	\$ 853	\$ -	\$ -	\$ -
SAP Support	\$ 3,855	\$ 9,818	\$ 10,795	\$ 10,574	\$ 10,574
Proof-of-Concepts	\$ 169	\$ 57	\$ 149	\$ -	\$ -
	\$ 5,470	\$ 10,728	\$ 10,944	\$ 10,574	\$ 10,574
Maintenance					
Software	\$ 95	\$ 394	\$ 541	\$ 541	\$ 541
Hardware	\$ 680	\$ 1,428	\$ 1,757	\$ 1,831	\$ 1,898
	\$ 775	\$ 1,822	\$ 2,298	\$ 2,372	\$ 2,439
Labor					
AW ITS	\$ 806	\$ 1,321	\$ 2,402	\$ 2,475	\$ 2,550
Total BT Costs (Opex Fees)	\$ 7,051	\$ 13,871	\$ 15,644	\$ 15,421	\$ 15,563

The costs of maintaining the new systems are allocated to each of the American Water regulated utilities based on the percentage of their customer counts to the overall regulated utility customer count of American Water, as provided for in the Service Company Agreement.

Consulting

Consulting is composed of three sub-areas: Backfill resources, Accenture Support, and Proof-of-Concepts:

Backfill Resource - Backfill resources are contract employees engaged in 2012 and 2013 to fill in the day-to-day functions of the ITS resources that moved to BT as full-time resources. There was not one-to-one replacement of backfill resources for ITS resources that moved to BT. Rather, some activities/projects were scaled back to accommodate for the reduced staffing level of ITS. The following list are the categories of backfill positions that are required in ITS during BT:

- Business Analysts
 - Project Managers
 - Programmer Analysts
 - Developers
 - Mobile Technology Lead
 - Engineers
 - Architects
- Beginning in late 2012, some resources will shift back to ITS from BT. As a result, the number of backfill resources required will decrease and will continue to decrease down to zero in 2014.
 - After completion of the EAM/CIS implementation (2013), most ITS resources will transition back from BT to ITS.

SAP Support - Accenture will provide a managed services/outsourced solution for application development and configuration management and help desk. Although the initial term of this agreement is 38 months, the Cost Summary includes cost projections through 2016 in the likely event that additional months of service will be needed to support SAP. The rationale for this arrangement includes the following:

- It is a cost effective means to provide experienced SAP Application functional consultants - via a telephone service (help) desk, secure remote data link or on-site visits. These caliber personnel are required to efficiently provide the day-to-day availability, reliability, and performance of the SAP processing capability and the delivery of its services.
- The services being provided require skills and experience that the existing staff do not have and/or do not have in the quantity required in order to provide application maintenance and help desk support. These skills are critical in providing the required support for the new SAP systems and developing these skills internally by the timeframe needed for SAP deployment is not practical. Additionally, due to the need to scale up and back for volume fluctuations in help desk calls, it is more cost effective to utilize service desk capabilities of Accenture as they can load balance between clients as required.
- The contract for these Accenture services is not signed yet but is expected to be signed by the end of November 2011.
- This arrangement covers incremental needs as a result of the SAP deployment.

Proof-of-Concepts - Proof-of-Concepts (PoCs) are performed by ITS to determine the strategy, roadmap and innovation for a specific technology(ies). In this case, there are three SAP-focused PoCs planned:

- The overall SAP upgrade roadmap,
- The implementation of the first SAP upgrade to ERP, and
- Assess the integration between SAP and Operational Reporting.

Maintenance

Maintenance includes Hardware and Software maintenance for both Core BT systems (e.g. ERP, CIS, and EAM) and BT Enabling systems (e.g. Kronos, myCareerSolutions, GIS).

Maintenance agreements serve as an insurance policy to protect American Water from the high costs of unexpected repairs. They keep American Water from being at the mercy of the market place in times of an emergency. The company carries maintenance contracts for 'Water Infrastructure Network Repairs' because pipes and hydrants break and valves inevitably fail. Similarly, we need maintenance agreements to prevent or correct technology system failures or ensure reasonable response times for vendor support and repair of OEM issues.

Contracts typically cover services from "around-the-clock" technical support and labor to next business day support, as well as immediately and locally available parts. Technology system maintenance takes the form of security patches to protect from newly released viruses, malicious code releases, and identified vulnerabilities, equipment monitoring, inspections, and security upgrades, as well as physical repairs and replacements. Such maintenance reduces our risks of not being able to provide customer information, issue bills and collect payments. Increased maintenance is a direct result of the additions of new applications and systems and is a contractual obligation both of the SAP and Accenture outsourcing agreements

Labor

The Labor amounts in the cost summary represent the American Water ITS resources needed to support SAP and the other non-SAP Enabling systems BT is implementing. This group is composed of resources that have been moved to BT and will be returning beginning in late 2012, as well as additional American Water ITS resources that do not currently exist at AW. These numbers **do not** represent the total American Water ITS staff needed to support the IT needs of American Water. Specifically, the following categories of resources are needed:

- Enterprise Infrastructure Engineer
- Business Analysts
- SAP Programmer Analysts
- Application Development Manager
- Middleware Programmer Analysts
- Business Intelligence Programmer Analyst
- Quality Analysts
- Data Architect
- Data Modelers
- Enterprise Architect (Midrange Systems)
- Application Enterprise Architect
- Service Support Specialist
- Basis/Environment Lead

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

Witness: **Linda C. Bridwell**

71. Provide a comparison of the support service fees charged to each American Water subsidiary for the calendar year 2012 using the categories listed in Item 70(a). This comparison should state the number of customers that each subsidiary served as December 31, 2012.

Response:

Please see the attached.

American Water Works Service Company
Service Company Costs by Affiliate and Function
For the Twelve Months Ended December 31, 2012

Company Number	5	9	10	11	12	13
Function	California	Illinois	Indiana	Iowa	Kentucky	Maryland
Administration	(\$329,241)	(\$572,923)	(\$535,084)	(\$113,880)	(\$228,360)	(\$10,170)
Audit	78,704	122,212	113,305	25,798	49,453	2,531
Business Development	104,350	190,141	171,829	36,280	80,631	4,859
Business Services	104,569	183,811	170,257	36,531	72,358	3,000
Business Transformation	1,000,246	762,139	757,365	151,801	322,503	12,570
Customer Service Center (CSC)	2,260,790	4,864,295	4,986,213	944,616	2,289,529	173,960
External Affairs	394,874	524,223	476,586	106,912	204,650	7,414
Finance	1,129,156	2,213,616	1,953,939	575,135	1,047,493	73,663
Human Resources	370,330	964,234	880,124	205,948	413,504	13,052
Informational Technology Systems (ITS)	3,262,891	6,266,057	5,578,766	1,207,053	2,415,459	109,480
Investor Relations	68,803	120,549	111,449	23,892	47,364	1,928
Laboratory	786,956	584,113	300,154	60,715	163,544	23,020
Legal	325,226	797,016	881,126	181,343	348,396	26,902
Operations Services	372,861	1,129,492	693,959	200,892	311,947	6,951
Property	491,213	746,101	680,440	163,408	301,892	19,028
Regulated Ops	210,707	841,396	1,110,968	186,092	343,545	120,917
Regulatory	39,152	69,972	64,766	13,910	27,464	1,104
Shared Services Center (SSC)	1,237,386	1,651,936	1,389,883	370,210	701,118	87,682
Supply Chain	281,716	523,315	472,113	103,321	202,424	8,256
Grand Total	\$12,190,692	\$21,981,696	\$20,258,157	\$4,479,976	\$9,114,913	\$686,147
12/31/2011 Customers (Water & Wastewater)	173,529	307,076	285,120	61,225	121,224	4,915
12/31/2012 Customers (Water & Wastewater)	174,188	308,014	289,068	61,612	123,783	4,934

Note:

The Service Company charges above consist of both direct charges and allocated costs.

The 2012 Service Company charges after direct charges that were allocated by customer allocation formulas use the previous year customer counts (12/31/2011) and are updated when acquisitions or divestitures occur. During 2012, we divested our Arizona, New Mexico and Ohio operations and acquired New York American.

Non-regulated companies are charged using Tier 1 formulas which do not use customer counts.

American Water Works Service Company
Service Company Costs by Affiliate and Function
For the Twelve Months Ended December 31, 2012

Company Number	16	17	18	19	22	23
Function	Michigan	Missouri	New Jersey	New Mexico	Ohio	Arizona
Administration	(\$6,773)	(\$851,475)	(\$1,249,041)	\$735	\$14,841	\$6,772
Audit	2,122	183,439	265,287	700	7,934	4,940
Business Development	2,353	267,480	379,995	829	11,371	7,647
Business Services	2,327	270,894	385,287	289	9,093	2,687
Business Transformation	9,857	1,128,532	1,609,819	8	27	74
Customer Service Center (CSC)	5,277	6,098,026	7,412,538	35,486	357,421	180,736
External Affairs	6,361	766,152	773,930	2,039	27,373	21,633
Finance	31,648	3,170,194	3,310,952	8,079	130,128	69,942
Human Resources	11,018	1,433,755	1,325,507	3,851	38,940	31,949
Informational Technology Systems (ITS)	70,559	8,776,441	12,448,421	23,475	318,301	216,304
Investor Relations	1,554	177,131	250,787	404	9,383	3,753
Laboratory	1,822	405,187	1,149,479	2,288	29,189	15,196
Legal	11,472	1,167,828	1,354,501	3,080	51,376	28,778
Operations Services	19,171	1,279,501	1,349,223	5,228	58,805	41,681
Property	19,393	1,055,953	1,495,366	5,219	49,944	32,133
Regulated Ops	12,361	1,143,873	1,201,302	3,672	48,771	25,706
Regulatory	883	102,994	145,387	281	4,148	2,591
Shared Services Center (SSC)	72,413	2,149,036	3,085,803	17,825	120,056	80,359
Supply Chain	6,402	764,622	1,078,072	1,517	33,977	15,223
Grand Total	\$280,222	\$29,489,561	\$37,772,616	\$115,005	\$1,321,076	\$788,104
12/31/2011 Customers (Water & Wastewater)	3,728	454,094	647,083	17,464	57,227	159,819
12/31/2012 Customers (Water & Wastewater)	3,533	455,730	639,838			

Note:

The Service Company charges above consist of both direct charges and allocated costs.

The 2012 Service Company charges after direct charges that were allocated by customer allocation formulas use the previous year customer counts (12/31/2011) and are updated when acquisitions or divestitures occur. During 2012, we divested our Arizona, New Mexico and Ohio operations and acquired New York American.

Non-regulated companies are charged using Tier 1 formulas which do not use customer counts.

American Water Works Service Company
Service Company Costs by Affiliate and Function
For the Twelve Months Ended December 31, 2012

Company Number	24	26	27	28	30	38
Function	Pennsylvania	Tennessee	Virginia	West Virginia	Hawaii	Long Island
Administration	(\$1,274,725)	(\$140,695)	(\$113,001)	(\$338,201)	(\$18,942)	(\$144,386)
Audit	296,869	30,691	27,304	71,404	4,896	31,066
Business Development	429,801	71,769	84,499	233,866	5,759	43,372
Business Services	387,387	44,675	34,413	100,494	5,760	43,577
Business Transformation	1,625,901	200,798	154,177	456,547	24,242	184,864
Customer Service Center (CSC)	8,862,149	1,645,468	1,090,336	3,306,603	185,432	1,023,300
External Affairs	1,006,062	124,899	88,354	233,229	10,564	89,559
Finance	4,547,244	534,228	877,615	1,263,815	57,553	383,046
Human Resources	1,679,010	256,780	158,990	465,233	20,869	153,393
Informational Technology Systems (ITS)	12,730,890	1,492,217	1,224,905	3,448,562	188,454	1,441,574
Investor Relations	252,545	29,183	22,626	65,219	3,750	28,428
Laboratory	832,915	100,583	185,227	135,696	1,566	123,666
Legal	1,391,471	208,410	157,062	458,312	21,069	174,873
Operations Services	1,479,102	209,003	132,345	336,458	51,691	164,860
Property	1,443,150	190,045	176,872	387,100	38,937	189,729
Regulated Ops	2,308,711	207,297	502,986	592,952	11,794	154,219
Regulatory	146,634	16,979	13,002	37,814	2,191	16,427
Shared Services Center (SSC)	2,942,422	467,960	509,565	971,871	130,437	488,916
Supply Chain	1,087,147	126,258	96,882	285,897	17,779	120,862
Grand Total	\$42,174,684	\$5,816,547	\$5,424,159	\$12,512,872	\$763,801	\$4,711,345
12/31/2011 Customers (Water & Wastewater)	655,291	75,054	57,915	171,898	9,912	73,954
12/31/2012 Customers (Water & Wastewater)	658,153	75,688	58,275	172,159	9,916	73,837

Note:

The Service Company charges above consist of both direct charges and allocated costs.

The 2012 Service Company charges after direct charges that were allocated by customer allocation formulas use the previous year customer counts (12/31/2011) and are updated when acquisitions or divestitures occur. During 2012, we divested our Arizona, New Mexico and Ohio operations and acquired New York American.

Non-regulated companies are charged using Tier 1 formulas which do not use customer counts.

American Water Works Service Company
Service Company Costs by Affiliate and Function
For the Twelve Months Ended December 31, 2012

Company Number	39		Total
	New York	Non-Regulated	
Function			
Administration	(\$96,245)	\$131,911	(\$5,868,882)
Audit	14,962	101,625	1,435,243
Business Development	19,941	1,230,100	3,376,873
Business Services	15,487	133,065	2,005,962
Business Transformation	132,627	332,813	8,866,909
Customer Service Center (CSC)	263,579	1,372,990	47,358,743
External Affairs	38,657	398,334	5,301,803
Finance	167,738	1,316,655	22,861,838
Human Resources	75,777	746,003	9,248,268
Informational Technology Systems (ITS)	533,371	776,946	62,530,125
Investor Relations	12,161	132,298	1,363,207
Laboratory	(296)	215	4,901,238
Legal	106,356	534,526	8,229,124
Operations Services	79,051	817,556	8,739,777
Property	58,889	710,461	8,255,273
Regulated Ops	68,788	108,897	9,204,955
Regulatory	7,458	14,882	728,037
Shared Services Center (SSC)	222,376	1,211,007	17,908,259
Supply Chain	50,951	38,329	5,315,063
Grand Total	\$1,771,628	\$10,108,613	\$221,761,815

12/31/2011 Customers (Water & Wastewater) 50,213 3,386,741

12/31/2012 Customers (Water & Wastewater) 50,213 3,158,941

Note:

The Service Company charges above consist of both direct charges and allocated costs.

The 2012 Service Company charges after direct charges that were allocated by customer allocation formulas use the previous year customer counts (12/31/2011) and are updated when acquisitions or divestitures occur. During 2012, we divested our Arizona, New Mexico and Ohio operations and acquired New York American.

Non-regulated companies are charged using Tier 1 formulas which do not use customer counts.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

Witness: Linda C. Bridwell

72. At page 17 of her written direct testimony, Linda Bridwell refers to “inflationary increases of 1.8% in 2013 and 1.9% in 2014 for other expenses.”
- a. Describe how Kentucky-American or American Water Works Service Company (“Service Company”) determined these increases.
 - b. Provide all work papers, show all calculations, and state all assumptions used to derive these “inflationary increases.
 - c. Explain why the use these “inflationary increases” is reasonable and should be considered in determining the level of Service Company charges.

Response:

- a. At the start of the annual budget process, the corporate finance department distributes a list of general assumptions for preparing the budget. Included in those guidelines are percentages to be used for merit increases, general inflation and other categories. In preparing the forecasted American Water Works Service Company costs for KAW for 2013 and 2014, the general merit and inflation guidelines that were used in the 2013 annual budget process were applied.
- b. Please see the attached file which shows the 2013 general assumptions used in the budgeting process.
- c. Other non-labor Service Company costs will experience price increases during the projected test period. Since historical costs are used as a basis to project future costs, the use of a reasonable and conservative inflation factor allows Kentucky American to reflect its Service Company costs in the future test year without the uncertainty of attempting to forecast changes in allocations due to growth in other operating companies.

Service Company
2013 Budget & Business Plan Global Assumptions

Account #	Description	Global Assumption Data				
		2013	2014	2015	2016	2017
GA0009	Bonus Calculation (as a % of target)	100.00%	100.00%	100.00%	100.00%	100.00%
GA0002	Merit Increase-Salary	3.00%	3.00%	3.00%	3.50%	3.50%
Input	Merit Increase-Hourly Non-Union	3.00%	3.00%	3.00%	3.50%	3.50%
Input	Alton Union Increase November	2.50%	2.50%	2.50%	2.50%	2.50%
Input	Pensacola Union Increase March	2.50%	2.50%	2.50%	2.50%	2.50%
GA0004	Group Insurance (Per person/Yr)	11,040	11,868	12,758	13,715	14,744
			7.50%	7.50%	7.50%	7.50%
	Group Insurance (Per person/Month)	\$920	\$989	\$1,063	\$1,143	\$1,229
GA0028	401K - Before 2006 (<= 12/31/05)	2.50%	2.50%	2.50%	2.50%	2.50%
GA0029	401K - After 2005 (> 12/31/05)	3.00%	3.00%	3.00%	3.00%	3.00%
GA0030	401K - Max Contribution Limit	15,500	15,500	15,500	15,500	15,500
GA0031	401K - Before 12/31/2005 Participation	72.00%	72.00%	72.00%	72.00%	72.00%
GA0032	401K - After 12/31/2005 Participation	65.00%	65.00%	65.00%	65.00%	65.00%
GA0033	DCP	5.25%	5.25%	5.25%	5.25%	5.25%
GA0034	DCP - Max Eligible Wages	255,000	260,000	260,000	270,000	270,000
GA0035	DCP Participation	100.00%	100.00%	100.00%	100.00%	100.00%
GA0036	FUTA	0.80%	0.80%	0.80%	0.80%	0.80%
GA0037	FUTA Limit	7,000	7,000	7,000	7,000	7,000
GA0005	FICA	6.20%	6.20%	6.20%	6.20%	6.20%
GA0006	FICA Limit	119,600	124,500	129,500	134,500	134,500
GA0007	FICA Medicare	1.45%	1.45%	1.45%	1.45%	1.45%
GA0001	Inflation Rate	1.80%	1.90%	2.00%	2.00%	2.10%
GA0003	Vacancy Factor / YR (Labor)	2.00%	2.00%	2.00%	2.00%	2.00%

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: **Linda C. Bridwell**

73. a. Provide the increase in Customer Call Center costs between the forecasted period in Case No. 2010-00036 to the forecasted period in this case.
- b. State whether Kentucky-American is being billed directly for each call to the Call Center.
- c. State whether Call Center costs are being allocated to each operating subsidiary based on call frequency and duration factors.
- d. State whether Kentucky-American's 1989 Agreement with the Service Company has been or will be revised to reflect the change in the factors used to allocate the Call Center costs.
- e. Provide a comparison of the allocated Call Center costs for the forecast test-period using the proportionate number of customers and the current allocation factors.
- f. Provide an analysis to show that the costs incurred at the Call Center are dependent on the number of calls received in a calendar year and call handling time.
- g. Provide for calendar year 2011 and 2012 the number of calls received at the Call Center for Kentucky-American that were related LFUCG's sewer, storm water or to garbage charges or operations.

Response:

- a. Kentucky American forecasted Call Center charges in Case No. 2010-00036 were \$1,781,169 and are projected to be \$2,608,506 (after adjustments) in the current case for an increase of \$827,337.
- b. Customer Service Center call handling costs are directly charged to Kentucky American and its affiliates based on the number of calls and average call handling time. The proportionate costs are adjusted monthly. Beginning in January, 2013, Billing and Collections expenses will be allocated based on the volume of work performed on behalf of the state. Any remaining expenses are allocated based on customer counts.
- c. See response to b.

- d. The 1989 Kentucky American Service Company Agreement will not be revised to reflect the change in Call Center allocation. Billing affiliates based on the number and duration of calls handled each month is a direct charge allocation.
- e. Call Center costs for Kentucky American Water Company (KAWC) for the forecasted test period ending July 2014 cannot be analyzed in the manner requested. KAWC Call Center projected costs for 2013 and 2014 were based on historical KAWC actual call handling ratio from January through May, 2012 on the projected 2013 budget Call Center costs. These amounts were then adjusted for projected merit increases and inflation, as well as other adjustments through July 2014. They were not projected based on the Call Center allocation formula applied. Another factor which prohibits the requested analysis is the lack of a board-approved total Service Company business plan for 2014, which would be needed to compare the charges to each affiliate based on customers and/or projected call volumes. Due to the implementation of the Business Transformation initiative in late 2012, Service Company only prepared a one-year 2013 budget which was board-approved. No future year business plans were prepared. Please refer to Exhibit LB-1 in the testimony of Linda Bridwell for an analysis of 2013 budgeted Call Center costs comparing call handling and customer allocation methods.
- f. Please see the attached file which is the most recent Call Handling Formula calculation spreadsheet that details the Call Center call handling costs. The number of calls and the related components including Average Handle Time (AHT) are tracked monthly by state. From this, a percentage of the Call Center's call handling by affiliate is derived. For December 2012 the results were 4.16% for Kentucky American. That result is then taken to the Formula Allocation tab where calls related to any municipal billing contracts are allocated to the appropriate state. The formula is then updated to provide a percentage of call handling to direct charge to each state. In December 2012, this resulted in direct charge of 4.11% of call handling costs to Kentucky American. The formula is updated monthly based on the previous month's call and AHT data.
- g. Each month the Call Center performs an analysis of calls related to O&M contracts. Please see the attached spreadsheet which shows the number of contacts in the Customer Information System (CIS) related to O&M contracts in KY in 2011 and 2012.

Date Submitted: 1.28.13

Service Company WBS Request Form

This form should be used when requesting a new/change Service Company WBS element. Typically, this will be for a special project where another WBS element cannot be used.

Procedure: Please read instructions below

1. Complete the Service Company WBS Request form by filling in all yellow shaded areas.
1. a To only add/delete a cost center(s), please complete information on Cost Center Additions/Deletions tab
2. Email completed excel form to Svc Co FP&A (**SSC Mailbox - FP&A Service Company/AWWSC@AWW**)
3. Service Company FP&A will review/approve accounting on form and provide allocation percentages.
3. a If there is a question in regards to accounting treatment, then the Svc Co Finance Manager will send a copy of the request form to the Controller for approval of accounting.
3. b If there is a question in regards to business partner distribution, then the Svc Co Finance Manager will send a copy of the request form to Corporate Rates for approval of allocation methodology.
3. c If the request form includes allocation to a Market Based company, then the Svc Co FP&A reviewer will send a copy of the request form to the AWE CFO for review of the allocation.
4. Once approved, the Svc Co FP&A Manager will send the WBS request form to SSC Accounting & Reporting (SSC A&R) for setup in SAP
5. Once setup is complete, SSC A&R will email the WBS number to the requestor and Svc Co FP&A

Tina Russell

Submitted By:

Meg Neafsey

Approved By: (Project Manager)

Title of WBS element (Project) and Start/End Dates

Request Type: **Allocation update**

WBS # **SE-8000-0088**

Title: **CSC Call Handling**

Title can only be 40 characters long, including spaces.

Start Date: **08/01/2012**

Please provide MM/DD/YYYY date.

End Date: **12/31/2017**

Please provide MM/DD/YYYY date.

Description of WBS element (Project)

Please provide a brief description for the purpose of the requested WBS element:

This WBS will allocated all CSC Call Handling costs to the states based on Call Answered and Average Handle Time by state

Suggested Allocation

Choose one:

- Regulated water companies only
 Regulated wastewater companies only
 All regulated companies (water & wastewater)
 All regulated and market based companies
 Other (please specify company/accounting or another WBS # to setup like):

> **CSC will provide allocation amount monthly.**

Cost Center Charging Needed:

To select appropriate cost center(s) required to charge to this WBS element, click X to be taken to approp. tab)



Please see Cost Center Additions-Deletions tab

Allocation and Accounting

Please specify with an X the	
* Possible Allocation Factors	
Water Customers	
Waste Water Customers	
Total Customers	
Revenue	
Employees	
Revenue / Employees	
Rev / Plant / Employ	
Capex	
Billed Premises	
Other (factor not specified above)	

*If WBS element is to allocate to regulated companies only, customers should be used as the Allocation Factor.

*If WBS element is to allocate to regulated and market based companies (AWPSG) an appropriate factor must be used.

SAP Co. #	Regulated Company Name	*Allocation Percentage	Cat Code	Settlement Receiver	Receiver Short Text
1010	Indiana-American	10.82			
1011	Iowa-American	1.90			
1012	Kentucky-American	4.11			
1013	Maryland-American	0.53			
1015	California-American	5.00			
1016	Michigan-American	0.00			
1017	Missouri-American	10.90			
1018	New Jersey-American	17.33			
1024	Pennsylvania-American	15.35			
1025	Illinois-American	11.67			
1026	Tennessee-American	4.66			
1027	Virginia-American	2.45			
1028	West Virginia-American	8.66			
1030	Hawaii-American	0.50			
1038	Long Island Water	1.75			
1039	New York American Water	1.55			
SAP Co. #	Market based/Non-Profit Company Name	*Allocation Percentage	Cat Code	Settlement Receiver	Receiver Short Text
1020	American Water (Parent)	0.00			
1021	American Water Resources	0.00			
1031	American Water Enterprises	1.90			
1054	Edison Water Company	0.38			
1055	Liberty Water Company	0.56			
1056	Etown Service LLC	0.00			
1080	Laurel Oak Properties	0.00			
Total Percentage		100.00			

SSC Only - Set up by:

WBS#:

Cost Center Charging Needed (at least one cost center needs to be selected):

 Request Type:

WBS # _____

Please place a "X" in the box(s) next to the Cost Center(s) which will need to charge this WBS number.

Functional Group	Cost Center	Cost Center Description	Functional Group	Cost Center	Cost Center Description
Audit	<input type="checkbox"/> 332060	CORP-Audit	Belleville Lab	<input type="checkbox"/> 334517	BVLAB-Central Lab
Bus Develop	<input type="checkbox"/> 332020	CORP-Corp Bus Dev	Business Services	<input type="checkbox"/> 332070	CORP - Shared Business Srvc Admin
	<input type="checkbox"/> 335220	CD - Business Dev		<input type="checkbox"/> 332605	CORP - Process Excellence
	<input type="checkbox"/> 335320	MAD - Business Dev		<input type="checkbox"/> 332606	CORP - Business Support Services
	<input type="checkbox"/> 335420	NED - Business Dev	Busn Transformation	<input type="checkbox"/> 332039	CORP-BT-Software
BT Controls/OI	<input type="checkbox"/> 332101	CORP-BT O/I - Admin		<input type="checkbox"/> 332040	CORP-Business Transformation
	<input type="checkbox"/> 332102	CORP-BT O/I - Procure to Pay		<input type="checkbox"/> 332051	CORP-BT - PTP
	<input type="checkbox"/> 332103	CORP-BT O/I - Hire to Retire		<input type="checkbox"/> 332052	CORP-BT - HTR
	<input type="checkbox"/> 332104	CORP-BT O/I - Record to Rpt		<input type="checkbox"/> 332053	CORP-BT - RTR
	<input type="checkbox"/> 332105	CORP-BT O/I - Order to Cash		<input type="checkbox"/> 332054	CORP-BT - OTC
	<input type="checkbox"/> 332106	CORP-BT O/I - Plan to Build		<input type="checkbox"/> 332055	CORP-BT - PTB
Central Division	<input type="checkbox"/> 335205	CD - Admin & Gen	<input type="checkbox"/> 332056	CORP-BT - RTC	
	<input type="checkbox"/> 335214	CD - Reg Ops Engineering	CSC Pensacola	<input checked="" type="checkbox"/> 337005	CCP-Administration
CSC Alton	<input checked="" type="checkbox"/> 334005	CCA-Administration		<input checked="" type="checkbox"/> 337070	CCP-Call Handling
	<input checked="" type="checkbox"/> 334070	CCA-Call Handling		<input checked="" type="checkbox"/> 337073	CCP-Oper & Support
	<input checked="" type="checkbox"/> 334071	CCA-Billing		<input checked="" type="checkbox"/> 337075	CCP-Education & Dev
	<input checked="" type="checkbox"/> 334072	CCA-Collections		<input checked="" type="checkbox"/> 337076	CCP-Quality & Rprtg
	<input checked="" type="checkbox"/> 334073	CCA-Oper & Performance	External Affairs	<input type="checkbox"/> 332085	CORP-External Communications
	<input checked="" type="checkbox"/> 334074	CCA-Business Services		<input type="checkbox"/> 332086	CORP-Internal Communications
	<input checked="" type="checkbox"/> 334075	CCA-Education & Devlpmnt		<input type="checkbox"/> 332087	CORP-Social Responsibility
	<input checked="" type="checkbox"/> 334076	CCA-Quality & Reporting		<input type="checkbox"/> 335225	CD - External Affairs
Finance	<input type="checkbox"/> 332007	CORP-Finance		<input type="checkbox"/> 335325	MAD - External Affairs
	<input type="checkbox"/> 332027	CORP-Reporting & Compliance		<input type="checkbox"/> 335425	NED - External Affairs
	<input type="checkbox"/> 332047	CORP-Income Tax		Human Resources	<input type="checkbox"/> 332002
	<input type="checkbox"/> 332057	CORP-Treasury	<input type="checkbox"/> 332003		CORP-HR Talent Management
	FP&A Group	<input type="checkbox"/> 332017	CORP-Service Company FP&A		<input type="checkbox"/> 332006
<input type="checkbox"/> 335207		CD - FP & A	<input type="checkbox"/> 332018		CORP-Human Resources
<input type="checkbox"/> 335307		MAD - FP & A	<input type="checkbox"/> 332048		CORP-HR Health & Wellness
<input type="checkbox"/> 335407		NED - FP & A	<input type="checkbox"/> 332058		CORP-HR Admin
<input type="checkbox"/> 335605		Corp FP&A - Admin & General	<input type="checkbox"/> 334018		CCA-Human Resources
FRCC-Area 1	<input type="checkbox"/> 335203	CD - Cust Relations2	<input type="checkbox"/> 335231	CD - Human Resources	
	<input type="checkbox"/> 335204	COE -Cust Relations2	<input type="checkbox"/> 335331	MAD - Human Resources	
FRCC-Area 2	<input type="checkbox"/> 335303	MAD - CustRelations1	Investor Relations	<input type="checkbox"/> 332037	CORP-Investr Relations
	<input type="checkbox"/> 335304	COE -Cust Relations1		ITS-Admin	<input type="checkbox"/> 332036
ITS-IO	<input type="checkbox"/> 332073	CORP - ITS Infra/Oper Admin	<input type="checkbox"/> 332071		CORP - ITS Admin
	<input type="checkbox"/> 332074	CORP - ITS Production	<input type="checkbox"/> 332072		CORP - ITS PMO
	<input type="checkbox"/> 332075	CORP - Enterprise Server -AIX/Linux	<input type="checkbox"/> 332093		CORP - ITS - Architecture
	<input type="checkbox"/> 332076	CORP - ITS Network Communications	ITS-BAD	<input type="checkbox"/> 332029	CORP - ITS Business Analysis Group
	<input type="checkbox"/> 332175	CORP - SrvrWin/iSeries		<input type="checkbox"/> 332032	CORP - ITS-BAD-Core Shared
ITS CSS	<input type="checkbox"/> 332030	CORP - ITS Client Relations Admin		<input type="checkbox"/> 332078	CORP - ITS Adm Business Appl Dev
	<input type="checkbox"/> 332031	CORP - CR Service/Help Desk		<input type="checkbox"/> 332079	CORP - ITS-BAD - Middle Office App
	<input type="checkbox"/> 332033	CORP - Chg Control & Desktop Automation		<input type="checkbox"/> 332080	CORP - ITS-BAD - Back Office Apps
	<input type="checkbox"/> 332077	CORP - ITS Security Operations		<input type="checkbox"/> 332081	CORP - ITS-BAD - Quality&Methodlgy
	<input type="checkbox"/> 332231	CORP - ITS Client Relations-Capital Mgmt		<input type="checkbox"/> 332082	CORP - ITS-BAD - Customer Facing
	<input type="checkbox"/> 333531	CORP - ITS Field Services	<input type="checkbox"/> 332083	CORP - ITS-BAD - Field Svc Apps	
	<input type="checkbox"/> 336031	Western Division - Client Relations	Legal	<input type="checkbox"/> 332015	CORP-Legal
	<input type="checkbox"/> 337431	Northest Division - Client Relations		<input type="checkbox"/> 332022	CORP-Govt Affairs
<input type="checkbox"/> 337531	Mid-Atlantic Division - Client Relations	<input type="checkbox"/> 332041		CORP-Legal BOD	
Mid-Atlantic Division	<input type="checkbox"/> 335305	MAD - Admin & Generl		<input type="checkbox"/> 335215	CD - Legal
	<input type="checkbox"/> 335315			<input type="checkbox"/> 335315	MAD - Legal
Operations	<input type="checkbox"/> 332016	COE-Maint Services	<input type="checkbox"/> 335415	NED - Legal	
	<input type="checkbox"/> 332019	COE-Operatiol Risk	Northeast Division	<input type="checkbox"/> 335405	NED - Admin & Gen
	<input type="checkbox"/> 332065	COE-Asset Mgmnt		Property	<input type="checkbox"/> 332042
	<input type="checkbox"/> 332066	COE-Innov&Env Stwd	<input type="checkbox"/> 332046		CORP-Building Svcs-3906 Church Rd
	<input type="checkbox"/> 336550	CORP-COE-Construction Mgmt	<input type="checkbox"/> 332062		CORP-Building Svcs-Voorhees
	<input type="checkbox"/> 336551	CORP-COE-Technical Svcs	<input type="checkbox"/> 332063		CORP-Building Svcs-Woodcrest
Rates	<input type="checkbox"/> 332574	Rates & Regulations	Regulated Ops	<input type="checkbox"/> 332004	CORP-HR Labor Relations
	<input type="checkbox"/> 335212	CD - Rates		<input type="checkbox"/> 332026	CORP-Regulated Ops
	<input type="checkbox"/> 335312	MAD - Rates	SSC-ADMIN	<input type="checkbox"/> 332505	SSC - Administration
	<input type="checkbox"/> 335412	NED - Rates		<input type="checkbox"/> 332572	SSC - Business Support Services
	<input type="checkbox"/> 335705	Corp Rates - Adm&Gen		SSC-HTR	<input type="checkbox"/> 332014
Regulatory	<input type="checkbox"/> 332069	CORP-Regulatory UFS	<input type="checkbox"/> 332518		SSC - HR Services Call Center
	SSC-PTP	<input type="checkbox"/> 332084	SSC - Accounts Payable		<input type="checkbox"/> 332519
<input type="checkbox"/> 332571		SSC - General Tax	<input type="checkbox"/> 332520	SSC - HR Services Admin & Org Mgmt	
<input type="checkbox"/> 332575		SSC - Cash Operations	<input type="checkbox"/> 332579	SSC - Employee Services	
<input type="checkbox"/> 332582		SSC - Procurement			

Supply Chain



332010

COE-Sply Chain-Src

SSC-RTR

KAW_R_PSGDR2_NUM73_022013



332576

SSC - Accounting & Reporting

332577

SSC - Utility Plant Accounting

332581

SSC - Payroll Accounting

AMERICAN WATER WORKS SERVICE COMPANY, INC.
CSC Call Handling formula
12.30.12

		Regulated Customer counts 12/31/12		December-12	Reg time	Municipal Billing Contract Counts 1/22/13	Municipal Billing Contract %	Municipal Billing Contract Time*	Revised %
CO #	COMPANY NAME	TOTAL	Customer Count %	% of Calls Answered * AHT Distributing No State ID Data Evenly to the other States except PA	98.86%	TOTAL	%	1.14%	100.00%
05	CALIFORNIA-AMERICAN	174,188	5.43%	5.06%	5.00%	-	0.00%	0.00%	5.00%
09	ILLINOIS-AMERICAN	308,014	9.60%	10.65%	10.53%	28,334	100.00%	1.14%	11.67%
10	INDIANA-AMERICAN	289,068	9.01%	10.94%	10.82%	-	0.00%	0.00%	10.82%
11	IOWA-AMERICAN	61,612	1.92%	1.92%	1.90%	-	0.00%	0.00%	1.90%
12	KENTUCKY-AMERICAN	123,783	3.86%	4.16%	4.11%	-	0.00%	0.00%	4.11%
13	MARYLAND-AMERICAN	4,934	0.15%	0.53%	0.52%	-	0.00%	0.00%	0.53%
16	MICHIGAN-AMERICAN	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
17	MISSOURI-AMERICAN	455,730	14.21%	11.02%	10.90%	-	0.00%	0.00%	10.90%
18	NEW JERSEY-AMERICAN	639,838	19.95%	17.53%	17.33%	-	0.00%	0.00%	17.33%
19	NEW MEXICO-AMERICAN	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
22	OHIO-AMERICAN	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
23	ARIZONA-AMERICAN	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
24	PENNSYLVANIA-AMERICAN	658,153	20.51%	15.52%	15.35%	-	0.00%	0.00%	15.35%
26	TENNESSEE-AMERICAN	75,688	2.36%	4.72%	4.66%	-	0.00%	0.00%	4.66%
27	VIRGINIA-AMERICAN	58,275	1.82%	2.48%	2.45%	-	0.00%	0.00%	2.45%
28	WEST VIRGINIA-AMERICAN	172,159	5.37%	8.76%	8.66%	-	0.00%	0.00%	8.66%
30	HAWAII-AMERICAN	9,916	0.31%	0.51%	0.50%	-	0.00%	0.00%	0.50%
38	LONG ISLAND-AMERICAN	73,837	2.30%	1.77%	1.75%	-	0.00%	0.00%	1.75%
39	NEW YORK-AMERICAN	50,213	1.57%	1.57%	1.55%	-	0.00%	0.00%	1.55%
42	UNITED WATER VIRGINIA	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
50	TEXAS-AMERICAN	-	0.00%	0.00%	0.00%	-	0.00%	0.00%	0.00%
31	AW Products & Services Total	21,860	0.68%	1.92%	1.90%	-	0.00%	0.00%	1.90%
54	Edison Water Company	12,233	0.38%	0.38%	0.38%	-	0.00%	0.00%	0.38%
55	Liberty Water Company	18,261	0.57%	0.57%	0.56%	-	0.00%	0.00%	0.56%
		3,207,762	100.00%	100.00%	98.86%	28,334	100.00%	1.14%	100.00%

Regulated Counts as of 1-22-13 (information from CSC Billing Department; Nikole McKeever)

Sum of Premise Count	
Company	Total
AZ	-
CA	-
EW	-
IA	-
IL	28,334
IN	-
KY	-
MO	-
PA	-
TN	-
TX	-
VA	-
WV	-
Grand Total	28,334

O&M Service Count - 1/22/13
 File Edit View Create Actions Attachment Tools Window Help

Open Home Christina K Russell - Mail O&M Service Count - 1/22/13

Search All Mail

New Reply Reply to All Forward Display More

AMERICAN WATER **O&M Service Count - 1/22/13**
 Nikole L. McKeever to: Christina K Russell 01/22/2013 06:11 PM
[Show Details](#)

Tina,

Please find below the updated O&M Service count. All remaining contracts with the exception of two for IL have been divested as of mid December. There are 3 other services, one for KY and 2 for IN that are being converted to taxes and will not be considered O&M charges.

Let me know if you have questions.

[O&M Contract Updated Service Count 2011 Final 1-22-13.xlsx](#)

Thanks,

Nikole McKeever
 Billing Manager
 Customer Service Center
 American Water

1410 Discovery Parkway
 Alton, IL 62002
 Office: 6184334504
 Cell: 6187925351
 Fax: 6184334180
 Nikole.McKeever@amwater.com

Sametime Contacts
 Available
 Type to find name
 Kari A Bettorf/CALLCTR/CORP/AV
 Kenneth D Evans/CALLCTR/C
 Laura A Campbell/CALLCTR/CORP
 Laura A Delles/CALLCTR/CORP/AV
 Les B Lambus/CALLCTR/CORP/AV
 Manfredo Manon/CONSULT/AV
 Mara L Maggos/CALLCTR/CORP/AV
 Marian E Drewes/CALLCTR/C
 Mary Ann Bascou/SHARVCS
 Mary E Moniodes/CALLCTR/CORP
 Men Neafsey/ADMIN/CORP/AV

Day-At-A-Glance
 Thu, Jan 24, 2013
 11:30 AM - 12:00 PM
 Serv Co BPR
 Meg's Office
 Christina K Russell
 12:00 PM - 02:00 PM
 Reporting Super Users Knowledge Transfer
 Web and Phone Connection Below
 Anne Matthews
 01:30 PM - 02:00 PM
 O&P - Monthly Budget Review
 Finance Office
 Christina K Russell
 02:00 PM - 02:30 PM
 Call Handling - Alton Monthly Budget Review
 Finance Office
 Day 24 - 341 days left in the year

Today Jan 23, 2013
 January 2013
 S M T W T F S
 30 31 1 2 3 4 5
 6 7 8 9 10 11 12
 13 14 15 16 17 18 19
 20 21 22 23 24 25 26
 27 28 29 30 31 1 2

My Widgets Online

Contact Count - all states, all contacts

2012												
STATE	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
AZ	14777	12916	7309	5312	5947	4702	5072	5197	4275	5004	4363	3754
CA	14834	12154	10973	11199	13603	13248	16340	18461	16664	18580	14606	13370
HI	287	206	169	109	239	188	265	190	209	245	266	174
IA	4755	5007	4346	4513	5410	5036	4873	5583	5219	5200	4786	4267
IL	34315	28839	25416	25912	33319	30639	36080	41832	33512	35407	31775	29990
IN	38097	33339	28728	30751	37474	34390	39280	40365	36595	40137	32843	29663
KY	19159	15616	13997	14463	16535	14155	16779	17999	14656	13874	11314	10258
MD	278	257	291	297	314	353	206	239	198	327	248	289
MO	35292	31926	29060	28193	35502	34450	37340	40543	38975	40909	33571	31461
NJ	44510	40495	36112	35914	47612	44931	44923	47351	43182	44860	45308	42299
NM	2481	2326	794	0	0	0	0	0	0	0	0	0
NY	4572	3768	3650	3244	7144	7996	8641	9134	8765	9339	8063	7833
OH	7132	6455	5548	5198	351	99	78	40	35	30	35	27
PA	53786	46115	42599	47004	58981	55559	57177	62845	58950	67525	56615	47116
TN	13276	12178	10566	10735	12809	11732	12189	14087	12577	14188	12563	11698
TX	4	1	1	1	2	0	0	0	0	0	1	1
VA	6366	5527	5113	5261	6401	5838	6261	6808	6235	6990	5863	5257
WV	27151	22896	21828	19703	24432	23411	26419	27535	25077	25865	22535	21905
Total	321072	280021	246500	247809	306075	286727	311923	338209	305124	328480	284755	259362

Total O & M contacts

2012												
STATE	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
AZ	194	190	550	772	635	450	428	368	228	376	268	246
AZ Surpris	2910	2451	2060	2404	2598	2384	2537	2856	2142	2472	2277	1947
CA	60	40	60	40	40	29	38	18	12	9	7	12
IA	29	25	34	27	51	61	33	48	33	46	40	29
IL	543	417	329	384	487	482	507	347	336	423	553	683
IN	293	565	312	404	419	518	716	493	261	243	309	519
KY	150	96	122	199	279	302	310	338	853	1002	332	179
MO	321	201	196	268	247	247	220	492	273	323	391	228
NJ	2328	2274	2303	2280	2656	2383	2724	3858	3927	3889	5333	3919
PA	601	561	539	618	834	886	839	1104	1102	1538	869	690
TN	115	114	134	158	201	152	212	177	159	208	172	247
TX	0	0	0	0	0	0	0	0	0	0	0	0
VA	87	106	113	82	93	105	123	95	127	359	326	366
WV	167	129	147	146	259	236	264	222	205	210	139	259
Total	7798	7169	6899	7782	8799	8235	8951	10416	9658	11098	11016	9324
% of Total	2.4%	2.6%	2.8%	3.1%	2.9%	2.9%	2.9%	3.1%	3.2%	3.4%	3.9%	3.6%

O&M Contacts without Surprise (area 2359) or Elizabethtown Water (area 1600 and 1700)

2012												
STATE	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
AZ	194	190	550	772	635	450	428	368	228	376	268	246
CA	60	40	60	40	40	29	38	18	12	9	7	12
IA	29	25	34	27	51	61	33	48	33	46	40	29
IL	543	417	329	384	487	482	507	347	336	423	553	683
IN	293	565	312	404	419	518	716	493	261	243	309	519
KY	150	96	122	199	279	302	310	338	853	1002	332	179
MO	321	201	196	268	247	247	220	492	273	323	391	228
PA	601	561	539	618	834	886	839	1104	1102	1538	869	690
TN	115	114	134	158	201	152	212	177	159	208	172	247
TX	0	0	0	0	0	0	0	0	0	0	0	0
VA	87	106	113	82	93	105	123	95	127	359	326	366
WV	167	129	147	146	259	236	264	222	205	210	139	259
Total	2560	2444	2536	3098	3545	3468	3690	3702	3589	4737	3406	3458
% of Total	0.8%	0.9%	1.0%	1.3%	1.2%	1.2%	1.2%	1.1%	1.2%	1.4%	1.2%	1.3%

AW Customer Service Center
Monthly Call Handling Performance & IVR Summary by State & Division
December 2012

Location	% of Total Calls	% Successful Self Serv	% to Coll. Agencies	% to ORCC	Calls Offered to Queue	Calls Answered	% Aband Calls	% Service Level	ASA	Avg Talk Time	Avg Hold Time	Avg ACW Time	AHT	% of Calls Answered * AHT	% of Calls Answered * AHT	% of Calls Answered * AHT Distributing No State ID Data Evenly to the other States: Except PA	% of Calls Answered * AHT Distributing No State ID Data Evenly to the other States: Except PA
NJ	17.53%	6.22%	2.79%	11.95%	46,836	46,442	0.84%	93.58%	15	5:36	0:22	0:26	6:24	12:48	18.03%	15:18	18.48%
NY	2.36%	4.68%	1.77%	0.00%	7,738	7,657	1.05%	92.53%	17	5:24	0:21	0:27	6:12	1:24	2.88%	3:54	3.33%
PA	17.82%	6.12%	2.32%	18.87%	48,598	47,980	1.27%	86.69%	16	4:42	0:10	0:28	5:20	5:20	15.52%	5:20	15.52%
MD	0.10%	4.94%	9.01%	7.85%	257	249	3.11%	82.33%	31	4:29	0:19	0:28	5:16	15:24	0.08%	17:54	0.53%
VA	2.07%	4.18%	2.28%	13.19%	5,502	5,472	0.55%	94.63%	12	5:25	0:18	0:23	6:06	19:12	2.02%	21:42	2.48%
WV	9.16%	5.93%	5.95%	16.46%	22,509	22,264	1.09%	93.25%	15	5:25	0:20	0:24	6:09	3:36	8.31%	6:06	8.76%
KY	4.07%	5.36%	1.77%	17.03%	10,322	10,234	0.85%	94.93%	12	5:19	0:17	0:22	5:58	6:52	3.70%	9:22	4.16%
TN	4.57%	5.18%	4.23%	15.75%	11,698	11,588	0.94%	93.48%	15	5:22	0:19	0:23	6:04	4:32	4.26%	7:02	4.72%
IN	11.48%	5.57%	3.54%	15.49%	29,494	29,222	0.92%	93.89%	14	5:15	0:18	0:22	5:55	0:50	10.49%	3:20	10.94%
IL	11.74%	6.76%	3.34%	14.79%	29,361	29,073	0.98%	93.71%	14	5:04	0:18	0:25	5:47	18:51	10.20%	21:21	10.65%
IA	1.45%	2.79%	3.67%	6.83%	4,181	4,144	0.88%	93.82%	13	5:09	0:17	0:25	5:51	2:24	1.47%	4:54	1.92%
MO	10.52%	5.15%	2.74%	10.29%	29,269	29,046	0.76%	93.95%	14	5:17	0:19	0:24	6:00	12:00	10.57%	14:30	11.02%
CA	5.39%	5.85%	2.86%	15.49%	12,985	12,841	1.11%	92.91%	14	5:11	0:21	0:23	5:55	15:55	4.61%	18:25	5.06%
HI	0.06%	3.96%	0.00%	19.31%	156	156	0.00%	92.95%	16	4:56	0:30	0:28	5:54	8:24	0.06%	10:54	0.51%
No State ID	0.00%	N/A	N/A	N/A	16,922	16,323	3.54%	86.12%	28	5:31	0:25	0:27	6:23	11:09	6.32%		0.00%
City of Surprise, AZ	1.69%	6.78%	1.60%	9.83%	3,816	3,770	1.21%	93.47%	15	5:32	0:30	0:23	6:25	22:50	1.47%	1:20	1.92%
Total	100.00%	5.82%	3.14%	14.40%	279,644	276,461	1.14%	92.00%	15	5:14	0:18	0:25	5:57	17:31	100.00%	17:31	100.00%

* Detailed individual state specific data follows on addition tabs

** December Service Level for the CSC overall was 92.3%. There is approximately a 0.80% - 1.50% variance between CSC overall results and state specific call handling results

Kentucky American Water Company
 Call Center O&M Contract Call Volumes
 For the Years 2011 and 2012

Year		Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec
2011	O&M Contacts	161	101	133	179	187	329	263	196	164	115	194	209
	Total State Cont	22,202	17,750	18,882	18,440	18,783	19,431	19,624	20,903	17,244	19,081	17,832	17,743
	% O&M	0.73%	0.57%	0.70%	0.97%	1.00%	1.69%	1.34%	0.94%	0.95%	0.60%	1.09%	1.18%
2012	O&M Contacts	150	96	122	199	279	302	310	338	853	1002	332	179
	Total State Cont	19,159	15,616	13,997	14,463	16,535	14,155	16,779	17,999	14,656	13,874	11,314	10,258
	% O&M	0.78%	0.61%	0.87%	1.38%	1.69%	2.13%	1.85%	1.88%	5.82%	7.22%	2.93%	1.74%

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

Witness: **Keith Cartier**

74. Identify the entities for which Kentucky-American performed billing services prior to December 31, 2012.

Response:

City of Sadieville
Lexington-Fayette Urban County Government
Treehaven Mobile Home Park
Verna Hills Neighborhood Association

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION**

Witness: Keith Cartier

75. State the date on which Kentucky-American terminated its agreement(s) to perform billing services for LFUCG.

Response:

August 31, 2012.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2012-00520
COMMISSION STAFF'S SECOND REQUEST FOR INFORMATION

Witness: Keith Cartier

76. Identify each billing services contract in effect at any time between January 1, 2008 and December 31, 2012 and provide for each year during that time period the annual revenue derived from each contract and the annual expenses related or attributed to each contract.

Response:

Revenue

Contract	2008	2009	2010	2011	2012
Lexington-Fayette Urban County Government Sanitary Sewer Billing Landfill Billing Water Quality Management Fee Billing (Effective January 1, 2010)	1,057,927	1,108,269	1,517,030	1,595,580	951,138
City of Sadieville	2,285	2,086	2,188	2,176	1,322
Treehaven Mobile Home Park	3,280	3,053	3,137	4,613	2,046
Verna Hills Neighborhood Association	2,536	2,570	2,498	2,429	1,402

Expenses

Kentucky American Water does not have a detailed cost tracking mechanism for these expenses. The Company did have an Operations Specialist position whose primary function was to manage the third party billing contracts, but other costs to manage third party billing would have been embedded within a variety of functions, including customer service center charges and information technology charges.

Revenues from the Company's third party billing efforts have always been held "above the line". In other words, the revenues from these contracts reduced the need for water fees, and as such, provided a discount to our customers. The Company recognizes that by discontinuing these contracts, it can no longer pass along this discount. While eliminating these contracts allows for some miscellaneous revenue, cost avoidance, and cost discontinuance which reduce the revenue requirement by an estimated \$254,625 (as reflected in the current proceeding and as detailed in the response to PSC 78), other costs that may have been shared under third party billing will remain. For example, the Company must still read meters, process meter readings, and perform billing and collection, as these functions are necessary in the provision of water service.

As discussed in the direct testimony of Ms. Norton, the Company has been seeking a number of efficiencies, in part to offset these revenue losses. These include labor reductions (the current labor filing is \$1,159,410 lower than in Case No. 2010-00036), a 19% reduction in fleet, installation of energy efficient pumps, and reduced building maintenance and security surveillance. Furthermore, the Company is seeking a 10% depreciation rate for its business transformation assets in the case not only because it is a more appropriate rate, but also because it will reduce the annual cost burden to our customers by approximately \$1,152,023 per year.