

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION

Witness: **Linda C. Bridwell**

1. Reference the article, "Proposed rate increase puts Kentucky American in the Top 30 most expensive taps in country" at this website <http://www.wkyt.com/content/news/If-granted-Kentucky-American-Waters-rate-increase-places-it-in-the-Top-50-371569261.html> to answer the following questions:
 - a. Confirm or deny that according to the Food and Water Watch survey, Kentucky American Water's average bill ranked 69th highest out of 500 public and private utility companies that were compared.
 - b. Confirm or deny that according to the Food and Water Watch survey, if the Company is granted the requested increase then Kentucky American Water's average bill would be ranked in the top 30 most expensive water bills in the country.

Response:

- a. Kentucky American Water cannot confirm or deny Food and Watch's assessment of the company's ranking in rates, as it was not involved in the survey.

We also believe that such comparisons of rates among water utilities do not provide meaningful information for consumers, since water utilities' rates are influenced by numerous factors, such as the type of water source, the type of water treatment used, demand, service area topography, number of customers, geographic density of customers, age of system, level of infrastructure investment made in system, ability to receive or not receive grant funds for improvements, and more.
- b. For the same reasons above, we cannot confirm or deny that Kentucky American Water's rates would be ranked in the top 30 water bills in the country, and regardless of ultimate rank in this organization's method of ranking, do not believe this would be a meaningful comparison of water rates for the consumer due to the reasons noted above.

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2. Reference Kentucky American Water's Application generally to answer the following:
- a. Provide a detailed comparison between Kentucky American Water's current average monthly rates for all customer classes, and the national average monthly rates for all customer classes.
 - b. Provide a detailed comparison between Kentucky American Water's proposed average monthly rates for all customer classes, and the national average monthly rates for all customer classes.
 - c. Provide a detailed chart comparing Kentucky American Water's current average monthly residential rates to all other privately and publicly owned water utilities average monthly residential rates in Kentucky.
 - d. Provide a detailed chart comparing Kentucky American Water's proposed average monthly residential rates to all other privately and publicly owned water utilities average monthly residential rates in Kentucky.

Response:

Please see KAWC's April 19, 2016 objection.

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3. Reference Kentucky American Water's response to AG 1-43, and provide an updated response that reflects actual revenues received in each month of 2016 to date.

Response:

2016 Antennae Rent Revenue

	Jan	Feb	Mar
Cingular	3,598.73	3,598.73	8,514.86
T-Mobile	2,994.48	2,994.28	2,994.28
Total	6,593.21	6,593.01	11,509.14

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4. Reference Kentucky American Water's Application in general and provide, by customer class, the total anticipated Base Period usage (volumes and revenues) and the actual usage (volumes and revenues) for the eleven months ending March 31, 2016.

Response:

Please see attachment. The Base Period usage and revenues have been updated, by customer class, to reflect actual usage (volumes and revenues) for the eleven months ending March 31, 2016 and one remaining month of forecasted usage.

KENTUCKY AMERICAN WATER COMPANY
Case No. 2015-00418
REVENUE STATISTICS - TOTAL COMPANY
Base Year for the 12 Months Ended April 30, 2016
Forecast Year for the 12 Months Ended August 31, 2017

Type of Filing: ___ Original ___X___ Updated ___ Revised

Exhibit 37 - Schedule I-2
Rate Cases\Kentucky\AG DR 2\[Exhibit 37 (I-2),(I-3),(I-4),(I-5) Updated.xlsx]Exh Sch. I (2016)
Witness Responsible: Linda Bridwell

Line No.	Description	2011	2012	2013	2014	2015	Base Period	Forecasted Period	2 Projected Calendar Years	
									2018	2019
1										
2	<u>Revenue by Customer Class:</u>									
3	Residential	\$43,262,213	\$44,438,477	\$43,937,951	\$48,131,477	\$48,400,459	\$47,947,295	\$47,597,960	\$47,166,797	\$46,873,947
4	Commercial	21,068,039	21,890,707	20,548,912	21,763,177	22,827,850	22,593,872	21,135,363	20,703,226	20,347,936
5	Industrial	1,970,863	2,253,367	2,153,373	2,344,924	2,580,685	2,630,218	2,544,704	2,548,083	2,550,617
6	Other Public Authorities	6,417,428	6,836,685	6,202,288	6,208,935	6,108,846	6,096,720	5,901,261	5,898,355	5,896,179
7	Other Water Utilities	1,912,474	2,019,342	1,673,395	2,058,451	1,965,970	1,970,919	1,774,750	1,764,944	1,764,944
8	Miscellaneous	13,017	47,079	30,747	124,654	157,149	159,677	84,644	84,644	84,644
9	Fire Service	5,666,386	5,713,947	5,689,424	6,465,080	6,488,897	6,440,718	6,440,352	6,440,352	6,440,352
10										
11	Total	\$80,310,420	\$83,199,603	\$80,236,091	\$87,096,697	\$88,529,856	\$87,839,420	\$85,479,034	\$84,606,401	\$83,958,619
12										
13	<u>Number of Customers:</u>									
14	<u>12-Month Average:</u>									
15	Residential	108,971	109,965	113,125	114,363	115,913	116,314	117,160	118,681	119,893
16	Commercial	8,756	8,715	8,904	8,931	8,952	8,965	9,029	9,046	9,046
17	Industrial	23	24	25	26	27	27	26	26	26
18	Other Public Authorities	529	536	545	543	557	560	541	541	541
19	Other Water Utilities	12	13	12	14	15	15	15	15	15
20	Miscellaneous	0	0	2	9	17	19	0	0	0
21	Fire Service	2,115	2,153	2,115	2,132	2,222	2,235	2,233	2,233	2,233
22										
23	Total	120,407	121,404	124,727	126,018	127,703	128,136	129,004	130,542	131,754
24										
25										
26	<u>End of Period:</u>									
27	Residential	109,071	110,948	114,164	114,920	116,552	116,007	117,880	119,141	120,324
28	Commercial	8,735	8,784	8,947	8,937	8,958	8,936	9,078	9,063	9,063
29	Industrial	23	24	25	26	28	26	26	26	26
30	Other Public Authorities	532	545	543	541	561	541	541	541	541
31	Other Water Utilities	13	13	12	15	15	15	15	15	15
32	Miscellaneous	0	0	9	9	20	0	0	0	0
33	Fire Service	2,137	2,154	2,117	2,183	2,240	2,233	2,233	2,233	2,233
34										
35	Total	120,511	122,468	125,817	126,631	128,374	127,758	129,773	131,019	132,202
36										
37										
38	<u>Average Revenue per Customer:</u>									
39	Residential	\$397	\$404	\$388	\$421	\$418	\$412	\$406	\$397	\$391
40	Commercial	2,406	2,512	2,308	2,437	2,550	2,520	2,341	2,289	2,249
41	Industrial	86,631	95,549	87,005	90,189	97,384	97,717	97,873	98,003	98,101
42	Other Public Authorities	12,124	12,761	11,373	11,431	10,972	10,879	10,908	10,903	10,899
43	Other Water Utilities	155,065	155,334	137,539	149,706	131,065	131,395	118,317	117,663	117,663
44	Miscellaneous	N/A	N/A	20,498	14,665	9,199	8,224	N/A	N/A	N/A
45	Fire Service	2,679	2,654	2,690	3,032	2,920	2,882	2,884	2,884	2,884
46										
47										
48										

Note: Revenue data represents billed revenues only and does not reflect additional revenues from the current or future rate filings.

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Exhibit 37 - Schedule I-3
Rate Cases\Kentucky\AG DR 2\[Exhibit 37 (I-2),(I-3),(I-4),(I-5) Updated.xlsx]Exh Sch. I.(2016)
Witness Responsible: Linda Bridwell

Table with columns: Line No., Description, 2011, 2012, 2013, 2014, 2015, Base Period, Forecasted Period, 2 Projected Calendar Years (2018, 2019). Rows include Revenue by Customer Class, Number of Customers, and Average Revenue per Customer.

KENTUCKY AMERICAN WATER COMPANY
Case No. 2015-00418
REVENUE STATISTICS - TOTAL COMPANY
Base Year for the 12 Months Ended April 30, 2016
Forecast Year for the 12 Months Ended August 31, 2017

Type of Filing: ___ Original __X_ Updated ___ Revised

Exhibit 37 - Schedule I-5
Rate Cases\Kentucky\AG DR 2\[Exhibit 37 (I-2),(I-3),(I-4),(I-5) Updated.xlsx]Exh Sch. I (2016)
Witness Responsible: Linda Bridwell

Table with columns: Line No., Description, 2011, 2012, 2013, 2014, 2015, Base Period, Forecasted Period, 2 Projected Calendar Years (2018, 2019). Rows include Sales by Customer Class, Number of Customers, and Average Revenue per Customer.

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Witness: **Linda C. Bridwell**

- 5.** Reference Kentucky American Water's response to AG 1-44. Do the "Total Payments to Willis Towers Watson" include the amounts allocated to KY from AWWSC, or are they in addition to the amounts allocated to KY from AWWSC?

Response:

The "Total Payments to Willis Towers Watson" included the amounts allocated to KY from AWWSC.

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Witness: Christine Karlsson

6. Reference Kentucky American Water's response to AG 1-48(a). Regarding the statement that "no awards have been issued from the American Water APP plan" confirm that the name of the Annual Incentive Plan ("AIP") is being changed and that the APP is the same plan except for the change in name. If this assumption is not correct, then list and explain all differences between the APP and the AIP.

Response:

The AIP plan was in place for calendar year 2015 and was paid in 2016. That was the last year the AIP plan was active. The AIP plan has been replaced with the APP plan. The first year of the APP is calendar year 2016. The first APP awards will be paid in 2017. Please find details of differences between AIP and APP below.

- **The name** – we have changed the name of the plan from Annual Incentive Plan to Annual Performance Plan (APP) to reflect our pay for performance philosophy.
- **Broader Eligibility** – non-exempt, non-union employees are now eligible.
- **Company Performance Goals** – Company performance goals have been reduced and redefined in order to more closely align with our strategy.
- **External Benchmarking** – Customer Satisfaction and our OSHA ORIR rate will now be benchmarked against external competitors.
- **Financial Company Performance Goal** - Earnings Per Share (EPS) will be weighted at 50%.
- **Individual alignment to company and/or business performance** – employees will be aligned more closely to the performance of the area of the business they support as well as the performance of the overall company.

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Witness: Christine Karlsson

7. Reference Kentucky American Water's Application in general and identify all categories of employees (if applicable) that a) do not currently participate in any incentive compensation program; b) will not participate in any incentive compensation program in 2017.

Response:

- a) The short term incentive plan (APP – formerly AIP) does not cover union employees.

In calendar year 2015 (paid in 2016), no nonexempt employees were eligible for the plan. Exempt employee eligibility was based upon level within the organization.

- b) In calendar year 2016 (paid in 2017), all nonunion employees (exempt and nonexempt) are eligible for the plan. Therefore, only union employees are ineligible for 2016 APP.

Please see attached for LTPP details.

my Value Plan



AMERICAN WATER

2016 Long Term Performance Plan

This booklet is intended to provide a summary of your American Water Equity Awards. All Equity Awards grants are subject to the terms and conditions of the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the Plan) and the Equity Award Grant Agreements under which they are issued. In the event of any conflict between the terms of the Plan, your Equity Award Grant Agreements, and this booklet, then the terms of the Plan will govern.

The company's policies, procedures and benefits, including (without limitation) those covered in this booklet, as well as wages and all other terms and conditions of employment, are subject to change, revision or deletion by the Company at any time.

The discussion of certain Federal income tax effects in this booklet is for illustration only and is not intended to provide tax advice. Please refer to the Internal Revenue Code for a complete statement of all relevant Federal tax provisions. We recommend that holders of American Water Stock Options, Restricted Stock Units and/or Performance Stock Units consult their tax advisor.

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This booklet provides an overview of your 2016 Equity Award granted to you under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the “Plan”). The Equity Award — a key component of your American Water compensation package and MyValue Plan (mVP) — promotes the achievement of the company’s long-term, strategic business goals.

An Award Based on American Water’s Success

The Long Term Performance Plan (LTTP) includes stock options, Restricted Stock Units (RSUs), and a performance-based stock component, which awards Performance Stock Units (PSUs) based on American Water’s Total Shareholder Return (TSR) ranking among peer companies, and Earnings Per Share (EPS). This design aligns with the external market and helps keep American Water competitive with our peers in the utilities industry.

You make a difference. Think about the activities you perform on a day-to-day basis. Your contributions help generate results that lead to success for American Water and rewards for you. As an American Water employee and stockholder, you not only have the ability to influence our day-to-day performance, you also have the opportunity to share in the long term rewards of American Water's success.

Let’s work together to make a great company even better.

What has changed from last year?

- The name - we have changed the name of the Plan from Long Term Incentive Plan to Long Term **Performance** Plan (LTTP) to reflect our pay for performance philosophy.
- The comparator group used for the Performance Stock Unit - Total Shareholder Return has been updated to better represent our peers.
- Performance Stock Unit - Internal Measures have been simplified to focus solely on compounded Earnings Per Share (EPS).
- The maximum payout factor for Performance PSU grants has been extended from 175% to 200%, aligned with exceptional performance.

Eligibility and the Amount of Your Award Grant

Eligibility is based on your salary level and your date of hire. All management employees in salary level 50 and above on or before the date of grant, which was February 16, 2016, may be eligible to receive an Equity Award.

Your total award grant value is based on a percentage of your base salary. Awards are granted in the form of equity in the Company: 20 percent in stock options, 20 percent RSUs, 30 percent in PSUs based on TSR ranking, and 30 percent in PSUs based on compounded EPS growth. Please see Attachment A in the Appendix for more information on LTPP targets.

Managing your 2016 Equity Award

E*TRADE is the record keeper for your American Water Equity Awards. When you receive an Equity Award grant, an Equity Award account is established on your behalf through E*TRADE. You can manage your account online at www.etrade.com, or by phone at 1-800-838-0908.

Activating your E*TRADE Account

You will receive a packet of materials from E*TRADE with instructions on how to activate your account. You can also call E*TRADE with your activation code, and a representative can step you through the activation process.

If you received a prior Equity Award or participate in the Employee Stock Purchase Plan (ESPP), you will be able to access the 2016 award using your existing E*TRADE account. If you do not participate in the ESPP and this is the first year you have received an Equity Award, you will first need to activate your E*TRADE account.

Once your account is activated, simply go to www.etrade.com (or call 1-800-838-0908) to track vesting, conduct transactions, and model the long term value of your awards.

Restrictions

Before trading in the company's securities, including exercising any options, you must review the Personal Securities and Insider Trading Policy located on the company intranet under policies and practices. In addition, under the Insider Trading Policy, certain persons (Section 16 Officers and other restricted individuals) are subject to the affirmative obligation to "pre-clear" any proposed purchase or sale of Company securities with the Chief SEC Counsel. You will receive notification from Legal if you are subject to the pre-clearance process. If you have any questions about the Insider Trading Policy and pre-clearance process, please contact Jeff Taylor, Chief SEC Counsel at (856) 309-4577.

For the company's executives (salary level 70 and above), all Equity Awards are subject to the company's executive Stock Ownership Guidelines (SOGs) and Stock Retention Requirements (SRRs), in order to closely align the interest of our plan participants with those of our stockholders. Under the program, our executive officers are required to retain 50 percent of the after tax value realized on each equity grant until SOGs are met. The SOGs require executives to hold stock until they obtain a certain multiple of their base salary, depending on salary grade:

Salary Grade	Guideline
100 (CEO)	6 times Base Salary
90 - 95 (SVPs)	3 times Base Salary
70- 85 (VPs)	1 time Base Salary

SOGs are expected to be met over a five year period, beginning with the latter of the effective date of the policy (March 5, 2015) or the date the employee first became subject to the guidelines. For additional information, please refer to the Stock Ownership Guidelines and Stock Retention Requirements policy posted to mySource under Compensation.

About Stock Options, Restricted Stock Units, and Performance Stock Units

The following sections describe how the stock options, RSUs and PSUs granted to you on February 16, 2016, vest and are distributed.

Stock Options

- 20 percent of Equity Award.
- Exercise price is the closing price on the date of grant, which was \$65.15 on February 16, 2016.
- Options vest in three equal installments (33.3 percent) each on January 1 of 2017, 2018 and 2019. Options are 100 percent vested as of January 1, 2019.

Once vested, a stock option is your right to purchase a share of American Water stock at the exercise price, for a set period of time.

A stock option gives you the right to purchase a share of American Water stock at an “exercise price” for a set period of time.

The number of options you are granted is based on the monetary value of your option award and the value of an option determined by using the Black-Scholes valuation methodology on the date of the grant.

Vesting

Your options vest in three equal installments (33.3 percent each) on January 1 of 2017, 2018 and 2019. Once options vest, you may exercise (or purchase) your options, until their December 31, 2022 expiration date (seven years) and subject to employment requirements as defined in the Plan and summarized on page 9. Any options not exercised by the expiration date will be forfeited.

The Value of Your Options

The value of your options depends on American Water’s stock price in the future. This means they may or may not have value at the time they expire. The greater the increase in American Water’s stock price, the greater the value of your award.

You will benefit if the price of American Water’s stock at exercise is greater than the exercise price on the date of the grant. The value you receive is the difference between (a) the price of the stock at the time you exercise your options, and (b) the exercise price. If the stock price at exercise is lower than the exercise price, the options have no value.

Exercising Your Options

You may choose to exercise all or a portion of your vested stock options before the expiration date on December 31, 2022.

When you are ready to exercise your options, contact E*TRADE at www.etrade.com or at 1-800-838-0908.

(See "Managing Your 2016 Equity Award" on page 2 for more information.)

You may exercise your options using any of the following methods:

1. **Exercise and sell** (also called a "cashless exercise") - You can exercise your vested options by either (a) selling just enough stock to cover the exercise price, taxes and transaction fees; or (b) selling additional shares to cover the exercise price, taxes and fees and receive the net proceeds in cash.
2. **Cash** - You can exercise your options and purchase the underlying shares with money from personal funds to cover the exercise price, taxes and transaction fees.
3. **Stock swap** - You can instruct E*TRADE to use shares of American Water common stock you currently own to fund the exercise of your stock options, provided that it is approved by the Committee.

EXAMPLE

Let's assume you are awarded 1,500 stock options:

- The options vest in three installments: 33.3 percent each on January 1 of 2017, 2018 and 2019.
- You decide to exercise the first vested installment on June 1, 2018 (stock price = \$67 per share), the second vested installment on April 1, 2020 (stock price = \$69 per share) and the third vested installment on July 1, 2022 (stock price = \$72 per share).

OPTIONS AWARDED IN 2015	NUMBER OF OPTIONS VESTED	VESTING DATE	EXERCISE DATE	FUTURE VALUE WHEN YOU EXERCISE YOUR OPTIONS ⁽¹⁾	AMOUNT YOU PAY TO EXERCISE OPTIONS	FEES CHARGED ⁽²⁾	YOUR PRE-TAX GAIN AT EXERCISE
1,500	500	January 1, 2017	June 1, 2018	\$33,500 (500×\$67)	\$32,575 (500×\$65.15)	Determined by E*TRADE	\$925
	500	January 1, 2018	April 1, 2020	\$34,500 (500×\$69)	\$32,575 (500×\$65.15)	Determined by E*TRADE	\$1,925
	500	January 1, 2019	July 1, 2022	\$36,000 (500×\$72)	\$32,575 (500×\$65.15)	Determined by E*TRADE	\$3,425

(1) You can exercise your vested options until December 31, 2022, subject to employment requirements as defined by the Plan and summarized on page 9.

(2) Costs and fees associated with exercising your stock options will be determined by E*TRADE.

Please see Attachment C in the Appendix for more information on how these awards will be taxed. Consult with your tax advisor regarding your personal tax situation.

Restricted Stock Units (RSUs)

- 20 percent of Equity Award.
- RSUs vest in three equal installments on January 1 of 2017, 2018 and 2019.

An RSU gives you the right to receive one share of American Water common stock without paying an exercise price. You will receive actual shares of American Water stock — on the vesting date.

Unlike stock options, where compensation is based on the appreciation of the stock after the grant date, RSUs provide compensation based on the total value of the stock at the time of vesting. This means that RSUs have value even if the stock price falls after the date you receive your award.

A Restricted Stock Unit is an award that represents a unit or “notional” share of American Water stock.

Vesting

During the vesting period, you do not actually own the shares, which means you do not have voting rights and you cannot sell or transfer the units. If dividends are paid during the vesting period, those dividends will accrue in a dividend equivalent account held by the company until your units vest. You will then be paid in cash for any accrued dividends at the end of the vesting period.

Upon vesting, you can hold or sell your stock — the choice is yours. You may sell your first installment of RSUs shortly after the vesting date of January 1, 2017, after applicable taxes are withheld in shares. Unlike options, the shares never expire so there is no time limit associated with them. If you choose to sell the shares, you will receive the current stock price at the time of sale.

The Value of Your RSUs

RSUs offer direct, full-value ownership at no cost to you. Unlike options, the shares never expire so there is no time limit associated with them. In addition, an RSU (when vested) has value regardless of any change in share price. The eventual value of your award becomes higher or lower depending on changes in American Water’s stock price.

Example

Let’s assume you receive a total grant of 300 RSUs. On January 1 of each year, your grant will vest in three equal

- You vest in 100 shares of American Water common stock, and 35 shares are withheld to cover taxes. 65 shares are release to you, which may be held or sold at the current stock price.
- If you decide to sell your shares and the AMK stock price at the time of sale is \$67 you would receive \$4,355 (for 65 shares) from the sale of your shares — minus any taxes or applicable fees.

Please see Attachment C in the Appendix for more information on how these awards will be taxed. Consult with your tax advisor regarding your personal tax situation.

Deferring your RSU Award

You may elect to defer receiving your RSU award (under this grant) until after the scheduled vesting date, provided you make the election by December 31, 2016. You may want to defer federal income taxes at the vesting date by making this election to assist you in managing your wealth. You may defer to supplement your retirement or other personal goals. Your deferral form (Subsequent Deferral Election Form) is Attachment E at the end of this booklet. If you wish to make a deferral election, please complete the form if you elect to defer and forward to Compensation in Voorhees.

You must make your election to defer by December 31, 2016.

Performance Stock Units

A Performance Stock Unit is an award that represents a unit or “notional” share of American Water stock.

- You will receive two separate PSU grants:
 - 30 percent of Equity Award — Total Shareholder Return (TSR)
 - 30 percent of Equity Award — Compounded Earnings Per Share (EPS) growth
- You earn a right to your PSUs in three equal installments on January 1 of 2017, 2018 and 2019. Shares are awarded based on company performance and paid in 2019.
- Actual awards at the end of the Performance Period may range from 0 percent to 200 percent of target based on Company performance.

A PSU gives you the right to receive one share of American Water stock after the end of the three-year performance period.

Your two PSU grants together represent 60 percent of your Equity Award — 30 percent based on relative TSR and 30 percent based on compounded EPS. Unlike stock options, which are valued at grant based on the appreciation of the stock after the grant date, PSUs have value even if the stock price falls after the date you receive your award.

You earn a right to your PSUs in three equal installments (33.3 percent each) on January 1 of 2017, 2018 and 2019. However, your shares are not awarded to you until after the three-year performance period ends on January 1, 2019. The number of shares that are actually awarded depends on company performance against specific measures (see “PSUs Based on Total Shareholder Return (TSR)” and “PSUs Based on Earnings Per Share (EPS)” on pages 7 and 8). In early 2019, company performance will be measured and earned PSUs (if applicable) will be distributed within 70 calendar days of January 1, 2019.

During the performance period, you do not actually own the shares, which means you do not have voting rights and you cannot sell or transfer the units. If dividends are paid during the performance period, those dividends will accrue in a “notional” personal account until the end of the performance period. You will then be paid in cash for any accrued dividends at the end of the performance period based on the number of PSUs earned.

After the end of the three-year performance period, you can hold or sell your shares — the choice is yours. Unlike options, the shares never expire so there is no time limit associated with them. If you choose to sell the shares, you will receive the current stock price at the time of sale.

Please see Attachment C in the Appendix for more information on how these awards will be taxed. Consult with your tax advisor regarding your personal tax situation.

PSUs Based on Total Shareholder Return (TSR) – 30 percent of Equity Award

To determine the final award of shares underlying the PSUs based on Total Shareholder Return (TSR) at the end of the three-year performance period, the company uses American Water's rank relative to the other peer companies in the comparator group (see Attachment B in Appendix). TSR is the value delivered to the shareholder by the company. TSR is calculated as the change in share price plus dividends paid over the three-year performance period divided by American Water's share price at the beginning of the period. The initial stock price and the ending stock price are determined using the average stock price for the twenty trading days that end on December 31, 2015 and December 31, 2018.

The company's TSR performance is assessed using a percentile ranking approach. The Compensation Committee of the Board of Directors has final approval on this award at the end of the three-year performance period. The company's performance is assessed using the following award scale:

AMERICAN WATER'S RANK ON TSR RELATIVE TO THE COMPATOR GROUP	PAYOUT FACTOR
1st Quartile	175 - 200%
2nd Quartile	100 - 175%
3rd Quartile	25 - 100%
4th Quartile	0 - 25%

EXAMPLE

Let's assume you receive 255 PSUs on the grant date (February 16, 2016):

- The PSUs are earned in three installments: 33.3 percent each on January 1 of 2017, 2018 and 2019. They are 100 percent vested as of January 1, 2019.
- At the end of the three-year performance period, American Water's TSR performance is ranked at the 60th percentile (2nd Quartile) relative to the comparator group, which results in a 130 percent payout.

TOTAL PSUs granted in 2016	Number of PSUs vested	Date Earned	TSR Percentile Ranking Relative to Comparator Group at end of three year performance period	Total Shares awarded at end of three year performance period
255	85	January 1, 2017	60th percentile	332 (255 x 130%)
	85	January 1, 2018		
	85	January 1, 2019		

If you decide to sell your awarded shares and the stock price at the time of sale is \$78 per share, you would receive \$25,896 from the sale – minus taxes and applicable fees.

PSUs Based on Compounded Earnings Per Share (EPS) growth – 30 percent of Equity Award

To determine the final award of shares underlying the PSUs based on compounded EPS, the company assesses its performance against pre-determined compounded Earnings Per Share (EPS) Growth goals.

The Compensation Committee of the Board of Directors has final approval on this award at the end of the three-year performance period. The company's internal performance is assessed using the following award scale:

THREE-YEAR COMPOUNDED EPS ANNUAL GROWTH RATE	PAYOUT FACTOR
12% or more	200%
7.8%	100%
6.0%	25%

Example

, 2016):

- The PSUs are earned in three installments: 33.3 percent each on January 1 of 2017, 2018 and 2019. They are 100 percent vested as of January 1, 2019.
- At the end of the three-year performance period, American Water's Earnings Per Share compounded annual growth rate was 7.07 percent, which results in a payout of 70%.

Total PSUs granted in 2015	Number of PSUs Vested	Date Earned	TSR Percentile Ranking Relative to Peer Group at end of three year performance period	Total Shares awarded at the end of the three year performance period
300	100	January 1, 2017	EPS – 7.1%	300 x 70% = 210
	100	January 1, 2018		
	100	January 1, 2019		

If you decide to sell your awarded shares and the stock price at the time of sale is \$78 per share, you would receive \$16,380 from the sale – minus taxes and applicable fees.

Deferring Your Awarded Shares

You may elect to defer receiving all of your awarded shares until after the scheduled distribution date, provided you make the election by December 31, 2016. You may want to defer federal income taxes at the vesting date by making this election to assist you in managing your wealth. You may defer to supplement your retirement or other personal goals. Your deferral form (Subsequent Deferral Election Form) is Attachment F at the end of this booklet. If you wish to defer, please complete the form and forward to Compensation in Voorhees.

You must make your election to defer by December 31, 2016.

What happens to your LTPP when you leave American Water?

The chart below lays out the key termination and retirement provisions of the LTPP. As you can see, the reason for your termination, as well as your age and years of service at American Water, all impact the amount of equity you retain upon leaving the company.

Event	Stock Options	Restricted Stock Units	Performance Stock Units
<Age 55	90 days to exercise	Own vested shares	Earn units in proportional one-year increments based on years of service from grant if participant has one year of service in the performance period -- will settle at end of three-year performance period.
	Forfeit unvested options	Forfeit unvested units	Forfeit unvested units
Age 55 with 10 years of service	One year to exercise	Own vested shares	Earn units in proportional one-year increments based on years of service from grant if participant has one year of service in the performance period -- will settle at end of three-year performance period.
	Forfeit unvested options	Forfeit unvested units	Forfeit unvested units
Age 62 with 10 years of service (Normal Retirement)	Two years to exercise	Own vested shares	Earn units in proportional one-year increments based on years of service from grant if participant has one year of service in the performance period -- will settle at end of three-year performance period.
	All stock options (100%) are vested immediately upon retirement	Forfeit unvested units	Forfeit unvested units
Death or Total Disability	Two years to exercise	Own vested shares	Earn units in proportional one-year increments based on years of service from grant if participant has one year of service in the performance period -- will settle at end of three-year performance period.
	All stock options (100%) are vested immediately	Forfeit unvested units	Forfeit unvested units

Change of Control

If a Change of Control occurs, as defined by the plan document, while you are an active employee, your unvested options become 100 percent vested, and you earn the right to any previously unearned RSUs and PSUs.

For more Information

LTPP, contact the Compensation team:

Andrew Markwardt

856-309-4518

Kate DePhilippo

856-782-2323

E*TRADE

1-800-838-0908 | www.etrade.com

Attachment A

LTPP Target Award Percentages by Salary Level

Salary Level	LTPP %
75	75%
70	55%
60 - 65	30%
50 - 55	10%

Attachment B

2016 LTPP Comparator Group

Alliant Energy Corp.
Ameren Corp.
Atmos Energy Group
Avista Corp.
CMS Energy Corp.
Eversource Energy (Northeast Utilities)
Great Plans Energy, Inc.
NiSource Inc.
Pinnacle West Capital Corp.
PNM Resources, Inc.
SCANA Corp.
Vectren Corp.
Westar Energy, Inc.
WGL Holdings, Inc.
Wisconsin Energy Corp.

Attachment C

Taxation of Equity Awards

Please note: Examples are provided for informational purposes only. Consult with your tax advisor to learn more about your tax situation.

How Stock Options are Taxed

- **At exercise** - When you exercise your options (regardless of whether you sell the stock you receive), you will owe ordinary income tax on the difference between the stock price on the date of grant and the price of American Water's stock at the time you exercise. Your tax liability is reported to the Internal Revenue Service by American Water payroll. For example, if you choose to exercise options in 2018 and your pre-tax gain is \$1,925, you will owe taxes on that \$1,925 for the 2018 tax year. If you choose to use a cashless exercise to process this transaction, you would sell a portion of the shares exercised to cover the exercise price, fees and taxes. For example, you decide to exercise 500 options in a cashless exercise. To cover the exercise price, transaction fees, and taxes, you sell 225 shares. You would then see 275 shares credited to your E*TRADE account.
- **At sale of the shares** - If you exercise your options, hold the stock for a period of time then later sell the stock at a higher price than what you paid for it, you will owe capital gains tax. This tax will be assessed on any additional appreciation on the price of American Water's stock between the time of exercise and the time of sale. (Note that these taxes are not reported to the Internal Revenue Service by American Water and are in addition to the ordinary income taxes incurred at each option exercise.)

Consult your tax advisor to learn more about your personal tax situation.

How RSUs are Taxed

You will not be responsible for any taxes when the RSUs are granted. However, you will owe ordinary income tax, payable upon vesting, on the full value of the shares (unless the RSUs are deferred - deferrals will have to pay Social Security and Medicare taxes at the time of vesting, which may be deducted from other wages paid by the Company). American Water will withhold a portion of your vested shares to cover your Federal (including Social Security and Medicare), state, local and other tax liabilities. See your RSU Grant Agreement for details.

Once you sell the shares, you will owe capital gains tax for any additional share price appreciation between the stock price you paid for the shares and the stock price on the date of the sale.

Consult your tax advisor to learn more about your personal tax situation.

Attachment C - continued

How PSUs are Taxed

site

(www.etrade.com) for details.

TAX EXAMPLE*

American Water will withhold shares to cover the tax withholding obligation if you did not defer. For example, if you have 332 vested PSUs, we will calculate the taxes that must be withheld and deduct the amount of shares to satisfy the tax withholding requirements. Therefore, you may have 215 shares remaining from your original 332 shares.

Payroll Advice After Earned Shares Were Determined Earnings and Deductions Attachment

PSUs:	\$	25,896 (332 shares x \$78.00 share price)
Taxes:	–	9,126 (117 shares x \$78.00 share price)
Net:		<u>16,770 / \$78.00 share price</u>

215 shares will be posted to your E*TRADE Account

Dividends are calculated and taxed at this time. Shares calculated using \$78.00 price for illustration purposes only.

If you hold the shares received, you will owe capital gains tax for any additional share price appreciation between the stock price on the date the shares are received and the stock price on the date of the sale.

This tax example also applies to how taxes are calculated on RSUs.

Consult your tax advisor to learn more about your personal tax situation.

Attachment D

GLOSSARY OF TERMS

TERM	DEFINITION
Black-Scholes Valuation	An internationally-recognized mathematical valuation model used to value stock options, which incorporates various types of inputs (such as the stock volatility and interest rates). We use this formula to establish the value of option grants. The use of this model for this purpose is consistent with standard market practice.
Board	The Board of Directors of American Water Works Company.
Common Stock	Units of ownership of a corporation.
Compensation Committee	The Compensation Committee of the Board appointed by the Board to administer the Plan.
Early Retirement	Termination of employment or service with the company (other than “for Cause”) after the participant has attained age 55 and 10 total years of employment or service with the company.
Equity	Awards that are linked to American Water’s share price.
Exercise	The transaction in which you sell your vested options to buy shares of American Water common stock.
Exercise date	The date on which you buy actual shares of American Water common stock at the stock price on the date of grant. Following exercise, you may decide to keep or sell the shares.
Exercise period	The period during which you may exercise your vested options under the grant. The exercise period for the 2016 grant ends December 31, 2022.
Exercise price	The fixed price for which an option holder may purchase a single share of American Water common stock after the options become vested.
Grant	The awarding of a specified number of options, Restricted Stock Units or Performance Stock Units.
Normal Retirement	Termination of employment or service with the company (other than “for Cause”) after the participant has attained age 62 and 10 years of employment or service with the company.
Performance period	The three-year period from January 1, 2016 through December 31, 2018.
Performance Stock Units (PSU)	Performance Stock Units (PSUs) are “notional” shares of company stock. At the end of the three-year performance period, PSUs will convert to actual shares of American Water common stock based company performance. Their value will depend on the market value of the stock at that time.
Restricted Stock Units (RSU)	Restricted Stock Units (RSUs) are “notional” shares of company stock. At the end of the vesting period, RSUs will convert to actual shares of American Water common stock, which means their value will depend on the price of the stock at the time.
PSU grant agreement	Your American Water Works Company Inc. 2007 Omnibus Equity Compensation Plan Performance Stock Unit Grant agreement.

Attachment D - Continued

TERM	DEFINITION
RSU grant agreement	Your American Water Works Company Inc. 2007 Omnibus Equity Compensation Plan Restricted Stock Unit Grant agreements.
Stock option	Your right to purchase shares of American Water stock at the exercise price, on or after vesting, during the exercise period — provided you continue to be employed by American Water.
Stock option grant agreement	Your American Water Works Company Inc. 2007 Omnibus Equity Compensation Plan Nonqualified Stock Option Grant agreement.
Stock price	The price at which American Water shares trade on the stock market.
Total disability	You are considered to have a “total disability” as determined by the Social Security Administration.
Total Shareholder Return (TSR)	$\text{TSR} = \frac{\text{Dividend Adjusted Ending Stock Price} - \text{Dividend Adjusted Initial Stock Price}}{\text{Dividend Adjusted Initial Stock Price}}$
Vesting	Becoming entitled to all or a portion of an Equity Award.
Vesting period	<ul style="list-style-type: none"> • With respect to stock options, the period of time that must elapse before options can be used to buy shares of American Water common stock. • With respect to Restricted Stock Units (RSUs), the period of time that must elapse before RSUs will convert to shares of American Water common stock. • With respect to Performance Stock Units (PSUs), the period of time that must elapse before you have earned the right to the PSUs. The PSUs will not be converted into shares and distributed until the end of the three-year performance period (if earned based on performance).

Attachment E

2016 LONG TERM PERFORMANCE PLAN RESTRICTED STOCK UNIT GRANT SUBSEQUENT DEFERRAL ELECTION FORM

PART A. TIME OF DISTRIBUTION

I, _____, (the "Participant") hereby irrevocably elect to have all of the Restricted Stock Units, plus corresponding dividend equivalents, (the "Deferred Units") granted to me under the Company's 2016 Long Term Incentive Plan (the "2016 LTIP") and the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") that would have been redeemed by American Water Works Company, Inc. on January 1, 2018 and January 1, 2019 (each, a "Redemption Date"), to instead be redeemed on _____, 20__ (the "Deferred Date"), which is a date that is at least five (5) years later than the last Redemption Date.

NOTE: To make this deferral election, you must defer all of the Restricted Stock Units that would have vested on a Redemption Date except for those that would vest on the January 1, 2017 Redemption Date, plus corresponding dividend equivalents, and the election must be made at least 12 months prior to the first Redemption Date to which this election applies, per Section 409A of the Internal Revenue Code.

PART B. ACKNOWLEDGMENT

I understand and expressly agree that (i) the Deferred Date for the Deferred Units shall be the date I specified in Part A above (which is a date that is at least five (5) years later than the last Redemption Date), and (ii) I will not be entitled to receive distribution of the Deferred Units on an earlier date, except in the event the Change of Control Date (as defined in the Grant) occurs prior to the Deferred Date. I also understand and expressly agree that this deferral election is irrevocable, is being made at least twelve (12) months prior to the first Redemption Date subject to this election, and shall not take effect until twelve (12) months after the date on which I make this election. I further understand and agree that the terms and conditions of the Grant and the Plan are hereby incorporated into this form. Lastly, I understand and agree that this deferral election applies to 100% of the Restricted Stock Units, and corresponding dividend equivalents, that would have been redeemed on the January 1, 2018 and January 1, 2019 Redemption Dates under the Grant.

PARTICIPANT SIGNATURE:

PARTICIPANT	DATE
--------------------	-------------

RECEIPT ACKNOWLEDGED:

BY	
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TITLE	DATE
--------------	-------------

Please return completed deferral election form by December 31, 2016 to Compensation at Voorhees Corporate Headquarters (1025 Laurel Oak Road, Voorhees, NJ 08043).

Attachment F

2016 LONG TERM PERFORMANCE PLAN PERFORMANCE STOCK UNIT GRANT SUBSEQUENT DEFERRAL ELECTION FORM

PART A. TIME OF DISTRIBUTION

I, _____, (the "Participant") hereby irrevocably elect to have all of the Performance Stock Units, plus corresponding dividend equivalents, (the "Deferred Units") that I earn under the Company's 2016 Long Term Performance Plan (the "2016 LTPP") under my Performance Stock Unit Grants (collectively, the "Grants") under the American Water Works Company, Inc. 2007 Omnibus Equity Compensation Plan (the "Plan") that would have been distributed by American Water Works Company, Inc. to me as early as January 1, 2019 (the "Distribution Date"), instead be distributed to me on the deferred date designated below (the "Deferred Date"), which, per Internal Revenue Code Section 409A, must be at least five (5) years later than the Distribution Date, and this election is at least twelve (12) months prior to the Distribution Date (to make this deferral election you must defer all of the Performance Stock Units you earn under the 2016 LTPP, plus corresponding dividend equivalents, meaning there is no partial deferral):

Number of Earned Performance Stock Units, and Dividend Equivalents, under the Grants to be Further Deferred (All Must Be Deferred)	Original Distribution Date (Election Must Be Made at Least 12 Months Prior to the Distribution Date)	Deferred Date (Must be a calendar year that is at least five years later than the Original Distribution Date)
100%	January 1, 2019	

PART B. ACKNOWLEDGMENT

I understand and expressly agree that (i) the Deferred Date for the Deferred Units shall be the date I specified in Part A above (which is a date that is at least five (5) years later than the original Distribution Date), and (ii) I will not be entitled to receive distribution of the Deferred Units on an earlier date, except in the event the Change of Control Date (as defined in the Grants) occurs prior to the Deferred Date. I also understand and expressly agree that this deferral election is irrevocable, is being made at least twelve (12) months prior to the original Distribution Date, and shall not take effect until twelve (12) months after the date on which I make this election. I further understand and agree that the terms and conditions of the Grants and the Plan are hereby incorporated into this form. Lastly, I understand and agree that this deferral election applies to 100% of the Performance Stock Units, and corresponding dividend equivalents, that I earn under the 2016 LTPP pursuant to the Grants.

PARTICIPANT SIGNATURE:

PARTICIPANT **DATE**

RECEIPT ACKNOWLEDGED:

BY

TITLE **DATE**

Please return completed deferral election form by **December 31, 2016** to Compensation at Voorhees Corporate Headquarters (1025 Laurel Oak Road, Voorhees, NJ 08043).



AMERICAN WATER

1025 Laurel Oak Road
Voorhees, NJ 08043

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION

Witness: **Nikole L. Bowen**

- 8.** Reference Kentucky American Water's response to AG-1-55. Confirm that the Company's claim is based on the total budgeted positions shown in Item 21 of the Commission Staff's First Request for Information.

Response:

Yes, the Company's claim is based on the total budgeted positions shown in Item 21 of the Commission Staff's First Request for Information.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION

Witness: **Linda C. Bridwell**

- 9.** Reference Kentucky American Water's response to AG 1-69. Regarding the Fuel and Power cost adjustment of \$122,463 discussed, quantify the amount of this adjustment that is based on estimated unit cost increases/decreases (as opposed to current fuel and power unit costs).

Response:

The Base Year Fuel and Power cost is \$3,889,124 and the Forecast Year Fuel and Power cost is \$4,011,587. The difference is a net adjustment of \$122,463. The portion of the adjustment that is based on estimated unit cost increases/decreases is \$380,418. The remainder of the adjustment, which produces the net adjustment of \$122,463, is due to system delivery decline and the fact that the actuals for the time period of May 2015 – August 2015 are less than what is forecasted for the similar period.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION

Witness: **Linda C. Bridwell**

- 10.** Reference Kentucky American Water's response to AG 1-70. Regarding the Chemical cost adjustment of \$148,890 discussed, quantify the amount of this adjustment that is based on estimated unit cost increases/ decreases (as opposed to current chemical unit costs).

Response:

The Base Year Chemicals expense is \$1,619,489 and the Forecast Year Chemicals expense is \$1,768,379. The net adjustment for chemical expense is \$148,890 as set forth in the response to AG 1-70. The portion of the adjustment that is based on estimated unit cost increases/decreases is \$56,527. The dosage used to calculate the months of May to October in the forecast was higher than the actual chemical usage in the base period for May to October 2015.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION

Witness: **Linda C. Bridwell**

- 11.** Reference Kentucky American Water's response to AG 1-77. Quantify the amount of a) the annual reduction in the Grounds Keeping contract and b) the annual increase in the Janitorial contract.

Response:

- a) The Grounds Keeping contract was an annual reduction of \$4,159.
- b) The Janitorial contract annual increase was \$3,645.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION

Witness: Linda C. Bridwell

- 12.** Reference Kentucky American Water's response to AG 1-92, and state if the balances shown on pages 2-3 of this response are net of Bad Debt Recoveries (part b).

Response:

The balances shown on pages 2-3 of response AG 1-92 are net of Bad Debt Recoveries (part b).

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION

Witness: Linda C. Bridwell

- 13.** Reference Kentucky American Water's response to AG 1-94, and provide a narrative describing the Company's credit card arrangements and fees, including when Kentucky American Water began accepting credit cards, the party responsible for any applicable fees, the percentage of customers currently using credit cards, how Kentucky American Water proposes to recover any credit card fees, and any other information or documentation supporting the Company's claim for credit card fees.

Response:

KAW began accepting credit cards in October 2005. The current credit card vendor is Paymentus Corporation. Paymentus charges \$1.95 per transaction for Credit Card, Debit Card and e-check transactions. If a customer pays by e-check within their My H2O Online account, there is no fee.

At this time, the transaction fee charged by Paymentus is paid by the customer directly to Paymentus at the time of the transaction. KAW is proposing to include this fee in base rates. Thus, the fee amount was subsequently included in the accounting expenses of the original filing in the amount of \$318,000.

On average, 16.90 percent of Kentucky American customers utilize Paymentus each month.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION

Witness: **Linda C. Bridwell**

- 14.** Reference Kentucky American Water's Application in general and identify all Chambers of Commerce dues included in the Company's claim. Separately identify and quantify amounts allocated from the Service Company and amounts incurred directly by Kentucky American Water.

Response:

There is \$15,328 (non-Service Company) for Chamber of Commerce dues included in the Company's claim.

There is \$1,679 of Service Company for Chamber of Commerce dues included in the Company's claim.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION

Witness: **Linda C. Bridwell**

- 15.** Reference Kentucky American Water's response to AG 1-107. Did the Company specifically exclude 50% of meals and entertainment expenses from its filing, i.e., the percentage disallowed by the IRS? If so, indicate where this adjustment was made. If the Company did not specifically exclude 50% of these costs, then explain why no portion of the Company's meals and entertainment expenses are subject to the IRS 50% exclusion.

Response:

The Company did not exclude 50% of meals and entertainment expenses from its filing. The Company includes all meals (deductible and non-deductible for IRS tax purposes) in account 52535000 Meals deductible. The base year amount was \$37,355 (April 30, 2016) and the forecast year (August 31, 2017) was \$35,927. Please refer to PSC 1-3 for the electronic filing of the workpapers for Employee Related Expense Exhibit. The Company would not specifically exclude 50% of meals from its filing as they are considered ordinary business expenses. The Company does not include 50% of meals on its federal tax return in accordance with tax law limiting the deduction to 50% of meals.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

Witness: **Linda C. Bridwell**

- 16.** Reference Kentucky American Water's response to AG 1-136, and quantify the annual removal costs net of salvage included in the Company's Forecast Period.

Response:

The removal costs net of salvage included in the Company's Forecast Period is \$511,370.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION

Witness: **Nikole L. Bowen**

- 17.** Reference Kentucky American Water's response to AG 1-141. Do the accrued pensions reflected in rate base relate to a prepaid pension asset, i.e., an excess of pension contributions over amounts that have been reflected in annual pension costs pursuant to FAS 87? If so, provide all supporting calculations showing the development of the accrued pension asset and provide a cite to a Commission Order authorizing recovery of a prepaid pension asset in rate base. If accrued pensions do not relate to a prepaid pension asset, then fully describe what gives rise to the accrued pensions included in rate base and explain why it is appropriate for shareholders to earn a return on this amount.

Response:

The accrued pensions reflected in rate base reflect the balance in the accrued pension account, which is credited with FAS 87 accruals and debited with actual contributions to the pension plan. When in an asset position, this account reflects that cumulative contributions to the plan have exceeded cumulative FAS 87 accruals.

Please see the Commission Order from Case No. 97-034, pages 21 and 22. Here the Commission states "Kentucky-American agrees with the AG's adjustment providing the Commission also finds that if the accrued balance reverses in the future and a pension asset is created, then the asset should be included as a rate base addition. The Commission agrees with Kentucky-American because it would be unfair to its stockholders to recognize the accrued pension balance only when it results in a rate base deduction."

Please refer to the attachment for the supporting calculations showing the development of the accrued pension rate base adjustment.

**Kentucky-American Water Company
Other Net Rate Base Elements
Accrued Pension - Account 26212000**

<u>Month</u>	<u>Accrual</u>	<u>Funding</u>	<u>Balance</u>		
Aug-15	\$63,577	\$139,830	\$2,285,687	End of Base Period	\$2,024,871
Sep-15	63,577		2,222,110	Net of Tax Amount	1,237,196
Oct-15	63,577		2,158,533		
Nov-15	63,577	139,830	2,234,786	End of Forecasted Period	1,751,039
Dec-15	63,577		2,171,209	Net of Tax Amount	1,069,885
Jan-16	63,577		2,107,632		
Feb-16	63,577	107,970	2,152,025	13 Mo Average for Forecasted Period	1,846,578
Mar-16	63,577		2,088,448	Net of Tax Amount	1,128,259
Apr-16	63,577		2,024,871		
May-16	63,577	107,970	2,069,264		
Jun-16	63,577		2,005,687	State Income Tax Rate	6.00%
Jul-16	63,577		1,942,110	Federal Income Tax Rate	35.00%
Aug-16	63,577	139,830	2,018,363	Effective Tax Rate	38.9000%
Sep-16	63,577		1,954,786		
Oct-16	63,577		1,891,209		
Nov-16	63,577	139,830	1,967,462		
Dec-16	63,577		1,903,885		
Jan-17	63,577		1,840,308		
Feb-17	63,577	107,970	1,884,701		
Mar-17	63,577		1,821,124		
Apr-17	63,577		1,757,547		
May-17	63,577	107,970	1,801,940		
Jun-17	63,577		1,738,363		
Jul-17	63,577		1,674,786		
Aug-17	63,577	139,830	1,751,039		

AMERICAN WATER SYSTEM
 QUALIFIED PENSION PLAN
 2015 FUNDING SCHEDULE

COMPANY	PLANNED				
	ALLOCATION OF 2015 PENSION FUNDING	CONTRIBUTE FUNDING ON FEBRUARY 15	CONTRIBUTE FUNDING ON MAY 15	CONTRIBUTE FUNDING ON AUGUST 15	CONTRIBUTE FUNDING ON NOVEMBER 15
AMERICAN WATER WORKS COMPANY	\$ 11,200	\$ 2,440	\$ 2,440	\$ 3,160	\$ 3,160
AMERICAN WATER SERVICES	56,000	12,200	12,200	15,800	15,800
AMERICAN WATER WORKS SERVICE COMPANY	6,372,800	1,388,360	1,388,360	1,798,040	1,798,040
CALIFORNIA-AMERICAN	1,363,600	297,070	297,070	384,730	384,730
HAWAII-AMERICAN	58,800	12,810	12,810	16,590	16,590
ILLINOIS-AMERICAN	1,999,200	435,540	435,540	564,060	564,060
INDIANA-AMERICAN	1,397,200	304,390	304,390	394,210	394,210
IOWA-AMERICAN	271,600	59,170	59,170	76,630	76,630
KENTUCKY-AMERICAN	495,600	107,970	107,970	139,830	139,830
LONG ISLAND	548,800	119,560	119,560	154,840	154,840
MARYLAND-AMERICAN	44,800	9,760	9,760	12,640	12,640
MICHIGAN-AMERICAN	36,400	7,930	7,930	10,270	10,270
MISSOURI-AMERICAN	3,396,400	739,930	739,930	958,270	958,270
NEW JERSEY-AMERICAN	4,810,400	1,047,980	1,047,980	1,357,220	1,357,220
PENNSYLVANIA-AMERICAN	4,975,600	1,083,970	1,083,970	1,403,830	1,403,830
TENNESSEE-AMERICAN	344,400	75,030	75,030	97,170	97,170
VIRGINIA-AMERICAN	383,600	83,570	83,570	108,230	108,230
WEST VIRGINIA-AMERICAN	1,433,600	312,320	312,320	404,480	404,480
TOTAL	\$ 28,000,000	\$ 6,100,000	\$ 6,100,000	\$ 7,900,000	\$ 7,900,000

American Water
Allocation of 2015 Pension Cost

COMPANY	Company Code	Active Participants	Valuation Earnings	Allocation Percentage *	Expense Allocation
American Water Resources Inc.	1021	0	\$0	0.00%	\$0
AMERICAN WATER WORKS COMPANY	1020	1	\$92,860	0.04%	\$17,241
AMERICAN WATER SERVICES (AAET, L.P.)	99001	1	\$73,510	0.03%	\$12,931
AMERICAN WATER SERVICES (Corp)	99002	1	103,743	0.04%	17,241
	99016	1	244,971	0.10%	43,103
O&M Inc.	99003	1	81,184	0.03%	12,931
CDM					
AWW SERVICE COMPANY	1033	790	\$58,003,888	22.76%	\$9,810,261
NORTHEAST DIVISION					
	1038	54	\$4,986,106	1.96%	\$844,820
LONG ISLAND	1018	530	43,758,458	17.18%	7,405,107
NEW JERSEY - AM		584	\$48,744,565	19.14%	\$8,249,927
MID-ATLANTIC DIVISION					
	1013	6	\$398,909	0.16%	\$68,965
MARYLAND - AM	1024	622	45,258,600	17.77%	7,659,415
PENNSYLVANIA - AM	1027	51	3,500,076	1.37%	590,512
VIRGINIA - AM	1028	185	13,049,616	5.12%	2,206,877
WEST VIRGINIA - AM		864	\$62,207,202	24.42%	\$10,525,769
CENTRAL DIVISION					
	1025	261	\$18,185,884	7.14%	\$3,077,559
ILLINOIS - AM	1010	182	12,714,356	4.99%	2,150,843
INDIANA - AM	1011	35	2,460,092	0.97%	418,100
IOWA - AM	1012	65	4,508,369	1.77%	762,924
KENTUCKY - AM	1016	5	332,204	0.13%	56,034
MICHIGAN - AM	1017	424	30,882,416	12.13%	5,228,402
MISSOURI - AM	1026	46	3,139,269	1.23%	530,168
TENNESSEE - AM		1,018	\$72,222,591	28.36%	\$12,224,030
OTHER					
	1015	139	\$12,393,522	4.87%	\$2,099,119
CALIFORNIA - AM	1030	6	525,495	0.21%	90,516
HAWAII		145	\$12,919,017	5.08%	\$2,189,635
Total		3,406	\$254,693,531	100.00%	\$43,103,069

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

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION

Witness: **Linda C. Bridwell**

- 18.** Reference Kentucky American Water's Application, Exhibit 37, Schedule C-1, page 2. Provide actual Base Period results for each category of revenues and expenses for the eleven months ending March 31, 2016.

Response:

Please see KAWC's April 19, 2016 objection.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

Witness: **Linda C. Bridwell**

- 19.** Reference Kentucky American Water's Application, Exhibit 37, Schedule B-1, and update this exhibit to show actual rate base balances at March 31, 2016.

Response:

Please see KAWC's April 19, 2016 objection.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**

Witness: Nikole Bowen

- 20.** Reference Kentucky American Water's response to PSC 2-32. Are the APP and LTPP amounts of \$537,596 and \$243,452 respectively the Kentucky allocation of Service Company costs or the total Service Company costs?

Response:

The \$537,596 and \$243,452 for APP and LTPP, respectively reflect the amounts allocated to KAWC from Service Company in the forecasted period.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2015-00418
ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION

Witness: Scott W. Rungren / Linda C. Bridwell

- 21.** Reference Kentucky American Water's response to PSC 2-55. It appears that there are formula errors on pages 2 and 4. For example, on page 2, the "Actual" Net Utility Plant in Service balance does not include Accumulated Depreciation and similarly the total Rate Base amounts at the bottom of page 2 contain errors. There are similar issues with regard to total revenues on page 4. Verify all amounts on the exhibit and provide a revised exhibit, if applicable.

Response:

Please see the attached which is the revised exhibit.

KENTUCKY-AMERICAN WATER COMPANY
Case No. 2015-00418

Rate Base Component	Case No. 2012-00520		Difference	Explanation
	Forecasted Amount (7/31/14)	Actual 7/31/2014		
Utility Plant In Service	\$627,540,378	\$636,773,109	\$9,232,730	Northern Connection complete occurred later than expected placing spend in the forecast period
Property Held for Future Use	0	0	0	
Utility Plant Acquisition Adjustments	0	0	0	
Accumulated Depreciation	(136,601,885)	(124,747,761)	11,854,124	Northern Connection project completion occurred later than forecast
Net Utility Plant In Service	490,938,493	512,025,347	21,086,854	
Construction Work in Progress	6,851,268	6,584,749	(266,519)	
Working Capital Allowance	3,946,000		(3,946,000)	Rate case used Lead Lag study
Other Working Capital Allowance	727,081	878,554	151,473	
Contributions in Aid of Construction	(52,238,690)	(53,786,812)	(1,548,121)	Higher activity in developer sponsored projects than originally planned
Customer Advances	(13,997,843)	(12,673,905)	1,323,938	Lower number of new houses built in existing subdivision than originally budgeted
Deferred Income Taxes	(57,007,044)	(66,814,607)	(9,807,564)	
Deferred Investment Tax Credits	(55,276)	(659,564)	(604,288)	
Deferred Maintenance	4,644,233	6,173,680	1,529,447	Painting of Hydrotreater #1 and #2 not included in original plan
Deferred Debits	1,536,404	1,507,864	(28,540)	
Other Rate Base Elements	650,081	2,195,764	1,545,683	
Rate Base	\$385,994,706	\$395,431,070	\$9,436,364	

KENTUCKY-AMERICAN WATER COMPANY

Case No. 2015-00418

Capital Component	Case No. 2012-00520		Difference	Explanation
	Forecasted Amount (7/31/14)	Actual 7/31/2014		
Short- Term Debt	\$ 8,119,115	\$ 14,165,856	\$ 6,046,741	Delay of LT debt issuances noted below resulted in higher than expected short-term debt balance.
Long-Term Debt	202,791,766	194,144,662	(8,647,104)	Three LT debt issuances, each in the amount of \$3 million, scheduled for May 2013, Nov 2013, and May 2014 were not issued.
Preferred Stock	4,482,784	4,482,784	-	
Common Equity	174,443,134	167,345,845	(7,097,289)	Equity infusions of \$7 million planned for 2013 did not occur.
Total Capital	\$ 389,836,799	\$ 380,139,146	\$ (9,697,652)	
JDITC	\$ 608,114	\$ 608,114	-	

**Kentucky American
Income Statement
August 2013 - July 2014**

	Case No: 2012-00520			Aug 2013-Jul 2014		Explanation of the Differences
	Base Year	Adjustments	Forecasted	Actual	Difference	
Operating Revenues						
Water Sales	\$84,830,506	(\$2,998,368)	\$81,832,138	\$87,349,427	\$5,517,289	Rate case increase offset by declining usage
Other Operating Revenues	2,452,254	(618,188)	1,834,066	2,019,247	185,181	Higher due to late fees and application fees
	<u>87,282,760</u>	<u>(3,616,556)</u>	<u>83,666,204</u>	<u>89,368,675</u>	<u>5,702,471</u>	
Operating Expenses						
Purchased Water	335,669	(128,442)	207,227	80,368	(126,859)	Lower due to Winchester purchased water credit
Fuel & Power	3,994,390	(226,098)	3,768,292	3,800,068	31,776	Increase in electricity costs
Chemicals	1,834,701	(54,829)	1,779,872	1,716,204	(63,668)	Lower due to process change requiring less chemicals
Waste Disposal	318,460	18,290	336,750	294,458	(42,292)	Lower due to process change requiring less chemicals
Salaries and Wages	7,150,158	(269,945)	6,880,213	6,731,715	(148,497)	Lower due to vacancies
Pension	1,025,878	(42,671)	983,207	458,242	(524,966)	Lower due to less funding required given interest rates and returns
Group Insurance	1,964,516	144,987	2,109,504	1,488,287	(621,216)	Lower due to vacancies & favorable pricing
Other Benefits	354,192	49,280	403,472	339,886	(63,585)	Lower due to various items including 401k and DCP
Support Services	8,951,414	372,820	9,324,233	8,741,705	(582,528)	Cost savings initiative
Contract Services	854,325	4,081	858,406	827,615	(30,791)	Actuals charged to Building Maintenance Higher due to groundskeeping (budgeted in contracted services)-unbudgeted snow removal
Building Maintenance & Services	524,208	(45,250)	478,958	586,605	107,647	
Telecommunications	286,997	(29,628)	257,369	276,930	19,561	Higher due to data services
Postage, Printing, & Stationary	33,775	1,983	35,758	19,392	(16,366)	Lower due to overnight shipping
Office Supplies & Services	236,813	140,562	377,375	183,496	(193,880)	Lower due to budget for software maintenance here, actuals in maintenance
Advertising & Marketing	29,862	(29,862)	0	8,068	8,068	Advertising removed from case
Employee Related Expense	242,207	(51,500)	190,707	142,059	(48,648)	Less travel than planned
Miscellaneous Expense	1,299,821	(129,274)	1,170,548	1,071,549	(98,999)	Lower due to EA expenses (donations) plus savings on lab supplies & general
Rents	35,782	2,137	37,919	27,696	(10,223)	Lower spend than planned on copiers
Transportation	439,561	41,503	481,064	525,523	44,459	Fuel prices higher than budget Higher due to increased write offs & bad debt reserves as result of 2013 SAP implementation
Uncollectible Accounts	300,934	180,869	481,803	1,511,788	1,029,985	
Other Customer Accounting	1,136,521	57,411	1,193,932	1,056,493	(137,439)	Lower than anticipated spending on forms and bill inserts
Regulatory Expense	212,934	62,061	274,995	285,823	10,828	Higher regulatory costs than anticipated
Insurance Other Than Group	646,312	23,814	670,126	725,825	55,699	Higher due to increase in claims Higher due to software maintenance (budgeted in Office Supplies), and higher than normal repairs on intake pumps and motors
Maintenance Supplies & Services	1,693,733	(103,284)	1,590,449	1,970,082	379,633	
Total O & M Expenses	<u>33,903,162</u>	<u>(10,983)</u>	<u>33,892,179</u>	<u>32,869,878</u>	<u>(1,022,301)</u>	
Depreciation	11,872,191	1,249,410	13,121,601	13,381,547	259,946	Change in profiled capital spending
Amortization	207,018	3,243	210,261	229,590	19,329	Change in profiled capital spending
General Taxes	4,797,323	317,448	5,114,771	5,284,386	169,615	Higher due to increase in property tax valuation method
State and Federal Income Taxes						
State Income Taxes						
Current	1,384,008	(892,306)	491,703	672,782	181,079	
Deferred	181,565	493,228	674,793	652,843	(21,949)	
Total State Income Taxes	<u>1,565,573</u>	<u>(399,078)</u>	<u>1,166,495</u>	<u>1,325,625</u>	<u>159,130</u>	Higher revenues resulted in higher taxes
Federal Income Taxes						
Current	7,480,524	(3,822,315)	3,658,209	2,097,034	(1,561,176)	
Deferred	1,199,577	1,699,617	2,899,194	7,025,778	4,126,584	
Deferred - ITC	(63,597)	(21,195)	(84,792)	(84,797)	(5)	
Total Fed Income Taxes	<u>8,616,505</u>	<u>(2,143,893)</u>	<u>6,472,611</u>	<u>9,038,015</u>	<u>2,565,404</u>	Higher revenues resulted in higher taxes
Total Operating Expenses	<u>60,961,773</u>	<u>(983,854)</u>	<u>59,977,919</u>	<u>62,129,041</u>	<u>2,151,122</u>	
Utility Operating Income	\$26,320,987	(\$2,632,702)	\$23,688,285	\$27,239,633	\$3,551,349	