

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2004-00103
PUBLIC SERVICE COMMISSION DATA REQUEST No. 1
ITEMS 1 – 34

Witness Responsible:

M. Miller

3. a. Provide a complete copy of all Kentucky-American's budget instructions, assumptions, directives, manuals, policies and procedures, timelines, and descriptions of budget procedures.

Response:

- a. Attached are budget assumptions, however, different ST & LT interest rates were used in the case based on the latest value forecasts per the testimony of Mr. Miller. For electronic version, refer to KAW_R_PSCDR1#3_052004.pdf

**Americas 2005-2009 Business Plan
Economic Data**

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Comments</u>
Inflation (CPI)	2.1%	2.3%	2.4%	2.5%	2.5%	
Corporate Short Term Rate	2.3%	2.5%	3.0%	3.5%	3.5%	equal to fed fundslibor
10 Year Treasury Bond Rate	5.3%	5.6%	5.8%	6.0%	6.0%	
AWCC Long Term Rate	6.3%	6.6%	6.8%	7.0%	7.0%	
Tax-exempt variable rate	2.3%	2.5%	3.0%	3.5%	3.5%	
Tax-exempt fixed rate	5.9%	6.2%	6.5%	6.7%	6.7%	equal to 30 yr treas rate

AWCC long term financings should be scheduled for either March 30 or September 30 of each year. You should coordinate your financing needs with Steve Feil for AWCC short term and long term borrowings.

Source: February 27, 2004 Value Line

Budget Assumptions for 2005

General

- (A) Exposures and Limits of Liability as expiring
Premiums assume that RWE is buying back down to the current deductibles via reinsurance purchased by the captive.
- (B) Loss Estimates are based on Travelers loss forecast for the 2004 renewal.
- (C) Executive Risk Premiums exclude D&O Premium
- (D) Travelers used generically for "insurer" as we do not make the assumption that Travelers will be the successful insurer on January 1, 2005
- (E) RIMS costs included in claims handling cost.

Property

- (A) Property premium increase 5% over expiring premium.
- (B) Flood premium increase 5% over expiring.
- (C) Excess Flood based on 5% increase over expiring and purchased direct in the open market. No ceding commission applicable.
- (D) Excess EQ premium increase 5% over expiring.

Workers Compensation

- (A) Administration fee increase 10% over expiring.
- (B) Excess Loss Premium increase 10% over expiring.
- (C) Loss estimate based on current retention. Can be secured by cash or LOC.
- (D) Loss control based on 10% increase over current budget. Travelers adds this cost to the administration cost and audits same against each \$100 of payroll.
- (E) Claims handling assumes 10% increase over expiring.
- (F) Assessments assume 3% increase over expiring.

General Liability

- (A) Administrative fee for all lines included in WC.
- (B) Excess Loss Premium assumes supplementary payments are in the deductible and outside the limit of liability. Premium based on 10% increase over expiring.
- (C) Claims handling assumes 10% increase over expiring.
- (D) Canadian Premiums are billed directly by Marsh Canada and are not contemplated in this analysis.

Automobile Liability

- (A) Administrative fee for all lines included in WC.
- (B) Excess Loss Premium increase 15% over expiring.
- (C) Loss estimate based on current retention.
- (D) Claims handling assumes 15% increase over expiring.
- (E) Canadian Premiums are billed directly by Marsh Canada and are not contemplated in this analysis.

Excess Liability

- (A) Top \$385 Million based on \$4,600 a million
- (B) Excess Liability premiums assume a 10% increase over expiring.

Executive Risk

- (A) Premiums based on 25% increase over expiring premiums.

Loss Projections

- (A) Annual increases for all loss projections from 2005-2009 is 3.5 %

Allocation Notes

- (1) Average annual losses for Missouri, Illinois, Indiana, and Long Island are based on average of 1999-2001 to reflect the experience of the NEI acquisitions.
- (2) Average annual losses for Citizens are based on average losses for 1998-2000 and included in all years to reflect a true five year average.
- (3) As fully creditable losses were not available for Azurix, we have doubled their exposures for coverages allocated 50/50 to reflect 100% allocation based on exposures
- (4) All Canadian Premiums are billed directly by Marsh Canada