

CALIFORNIA- WATER COMPANY
DISTRICT: TOTAL COMPANY (excl former Citizens)
RATE CASE PROGRESS REPORT RRD-3

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General Rate Increase For: Monterey Division
Offset Rate Increase For:
Step Rate Increase For:
Effective Date: February 23, 2003 →

<u>Monterey Division General Rate Increase</u>		<u>Per Decision</u>	<u>Per Filing</u>	<u>Per Order</u>
1. Revenues at Present Rates		\$70,254,047	\$71,169,047	\$71,103,947
2. Amount of Increase		0	5,649,900	2,642,000
3. Percent Increase		0.00%	7.94%	3.72%
4. Revenues		\$70,254,047	\$76,818,947	\$73,745,947
5. O & M Expense		\$44,876,538	\$47,025,291	\$45,584,291
6. Depreciation		7,044,483	7,501,583	7,240,183
7. General Taxes		2,088,772	2,448,772	2,342,972
8. Federal & State Income Taxes		4,223,020	5,584,075	5,011,322
Subtotal		\$58,232,813	\$62,559,721	\$60,178,768
9. Utility Operating Income		\$12,021,234	\$14,259,226	\$13,567,179
10. Interest on Long-Term Debt		5,792,934	6,585,200	6,404,511
11. Other Interest		0	0	0
12. Preferred Dividends		0	0	0
13. Other Deductions		0	0	0
Subtotal		\$5,792,934	\$6,585,200	\$6,404,511
14a. Income to Common Stock(Fallout)		\$6,228,300	\$7,674,026	\$7,162,668
14b. Calculated Inc. to Common Stock		\$6,298,890	\$6,812,367	\$6,618,999
15. Original Cost Rate Base		\$135,605,820	\$151,926,120	\$147,613,720
16. Rate of Return on Rate Base		8.86%	9.39%	9.19%
17. Rate Base as % of Capitalization		90.52%	101.42%	100.00%
18. Cost of Capital Per Filing				
	Amount	Ratio	Cost Rate	Weighted
a. Long-term Debt	\$ 84,628,657	56.49%	7.52%	4.25%
b. Short-term Debt	0	0.00%	0.00%	0.00%
c. Preferred Stock	0	0.00%	0.00%	0.00%
d. Common Equity	65,172,663	43.51%	10.68%	4.65%
e. Deferred Taxes	0	0.00%	0.00%	0.00%
f. Other	0	0.00%	0.00%	0.00%
Totals	\$ 149,801,320	100.00%		8.89%
19. Cost of Capital Per Order				
g. Long-term Debt	\$ 83,090,438	56.29%	7.71%	4.34%
h. Short-term Debt	0	0.00%	0.00%	0.00%
i. Preferred Stock	0	0.00%	0.00%	0.00%
j. Common Equity	64,523,282	43.71%	10.26% →	4.48%
k. Deferred Taxes	0	0.00%	0.00%	0.00%
l. Other	0	0.00%	0.00%	0.00%
Totals	\$ 147,613,720	100.00%		8.82%

** - O&M Expenses have been reduced by \$907,200 to reflect the Citizens Acquisition Premium allocated to Monterey, and allowed in rates. Taxes have been likewise adjusted.

B. Kent Dunn 4/10/03
Signature/Date

**CALIFORNIA-AMERICAN WATER COMPANY
TOTAL COMPANY
DETAIL
OPERATION AND MAINTENANCE EXPENSE**

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	<u>Per Filing</u>	<u>Per Order</u>
Labor	\$7,939,329	\$7,853,129
Purchased Water	\$16,710,322	\$16,710,322
Fuel & Power	\$4,193,800	\$4,252,700
Chemicals	\$405,400	\$381,500
Waste Disposal	\$28,600	\$28,600
Management Fees	\$4,377,200	\$3,775,458
Corporate Office Expense	\$0	\$0
Group Insurance + PBOP's	\$1,819,497	\$1,755,339
Pensions	\$745,300	\$745,300
Regulatory Expense	\$91,600	\$77,100
Insurance Other	\$1,193,652	\$1,193,652
Customer Accounting	\$1,162,862	\$1,030,531
Rents	\$810,300	\$810,300
General Office	\$664,065	\$614,065
Miscellaneous	\$4,868,905	\$4,335,336
Maintenance/Labor	\$0	\$0
Maintenance Other	\$2,014,460	\$2,020,960
Total Operation & Maintenance	<u>\$47,025,291</u>	<u>\$45,584,291</u>

**CALIFORNIA-AMERICAN WATER COMPANY
DISTRICT: TOTAL COMPANY
DETAIL
FEDERAL INCOME TAX CALCULATIONS**

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	<u>Per Filing</u>	<u>Per Order</u>
Operating Income Before FIT	\$19,725,859	\$18,461,059
Adjustments that increase (Decrease) Taxable Income		
Interest Expenses	(\$6,367,304)	(\$6,245,704)
Amortization of Tank Painting	\$0	\$0
Amortization of Rate Case Expense	\$0	\$0
Tax Depreciation	\$0	\$0
Amortization Others	\$0	\$0
Nontaxable Income	\$0	\$0
Other (SIT Difference)	(\$510,800)	(\$492,300)
Total Adjustments	<u>(\$6,878,104)</u>	<u>(\$6,738,004)</u>
 Adjusted Taxable Income	 \$12,847,755	 \$11,723,055
 FIT	 \$4,496,400	 \$4,102,800
Other Adjustments that increase (Decrease) FIT		
Amortization of Regulatory Assets/Liabilities	(\$20,300)	(\$20,300)
Deferred Taxes on UPAA	(\$5,200)	(\$5,200)
Amortization of Excess Deferred Taxes	(\$18,500)	(\$19,000)
Reverse South Georgia	\$0	\$0
Relocation Expenses	\$0	\$0
Other (Deferred Taxes)	\$46,100	\$57,900
 Deferred FIT	 <u>(\$36,200)</u>	 <u>(\$36,200)</u>
 Deferred ITC	 <u>(\$81,700)</u>	 <u>(\$81,700)</u>
 Total Federal Income Tax Expense	 <u><u>\$4,380,600</u></u>	 <u><u>\$3,998,300</u></u>

**CALIFORNIA-AMERICAN WATER COMPANY
DISTRICT: TOTAL COMPANY
DETAIL
STATE INCOME TAX CALCULATIONS**

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	<u>Per Filing</u>	<u>Per Order</u>
Operating Income Before SIT	\$19,725,859	\$18,461,059
Adjustments that Increase (Decrease) Taxable Income		
Interest Expenses	(\$6,367,304)	(\$6,245,704)
Amortization of Tank Painting	\$0	\$0
Amortization of Rate Case Expense	\$0	\$0
Tax Depreciation	\$0	\$0
Amortization Others	\$0	\$0
Nontaxable Income	\$0	\$0
Other (SIT Difference)	\$0	\$0
Total Adjustments	<u>(\$6,367,304)</u>	<u>(\$6,245,704)</u>
 Adjusted Taxable Income	 \$13,358,555	 \$12,215,355
 SIT	 \$1,196,500	 \$1,094,000
Other Adjustments that Increase (Decrease) SIT		
Amortization of Regulatory Assets/Liabilities	(\$4,500)	(\$4,500)
Deferred Taxes on UPAA	(\$1,400)	(\$1,400)
Amortization of Excess Deferred Taxes	\$0	\$0
Reverse South Georgia	\$0	\$0
Relocation Expenses	\$0	\$0
Other (Deferred Taxes)	\$16,620	\$16,620
 Deferred SIT	 <u>\$0</u>	 <u>\$0</u>
 Deferred ITC	 <u>\$0</u>	 <u>\$0</u>
 Total State Income Tax Expense	 <u>\$1,207,220</u>	 <u>\$1,104,720</u>

**CALIFORNIA-AMERICAN WATER COMPANY
DISTRICT: TOTAL COMPANY
DETAIL
RATE BASE CALCULATION**

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	<u>Per Filing</u>	<u>Per Order</u>
Utility Plant in Service	\$257,674,820	\$253,814,520
Construction Work in Progress	\$0	\$0
Accumulated Depreciation	(\$78,090,200)	(\$77,876,600)
Accumulated Amortization	\$0	\$0
Other	\$0	\$0
Net Utility Plant	<u>\$179,584,620</u>	<u>\$175,937,920</u>
Deduct:		
Customer Advances	\$3,908,600	\$3,908,600
Contributions	\$19,694,100	\$19,580,400
Other	\$0	\$0
Subtotal Deducted	<u>\$23,602,700</u>	<u>\$23,489,000</u>
Add:		
Materials & Supplies	\$472,200	\$472,200
Tank Painting	\$728,100	\$0
Cash Working Capital	\$4,740,600	\$4,740,600
Prepayments	\$0	\$0
Other	\$1,292,300	\$1,255,900
Subtotal Added	<u>\$7,233,200</u>	<u>\$6,468,700</u>
Deduct:		
Deferred FIT	\$11,855,000	\$11,864,000
Deferred SIT	\$526,900	\$532,800
Other	(\$1,092,900)	(\$1,092,900)
Subtotal	<u>11,289,000</u>	<u>11,303,900</u>
Total Rate Base	<u>\$151,926,120</u>	<u>\$147,613,720</u>

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CALIFORNIA-AMERICAN WATER COMPANY
MONTEREY DIVISION
Rate Case Progress Report
Narrative

Monterey Division - General Rate Case

The decision on Application No. 02-04-044 was approved by the CPUC on February 13, 2003. This Decision (No. 03-02-030) authorized the following increases for the Monterey Division: \$2,642,100, or 10.36% in 2003; an additional \$948,400, or 3.37% in 2004; and an additional \$714,300, or 2.46% in 2005. The new rates for the Monterey Division became effective on February 23, 2003. The Decision also allows the Company to file advice letters for completed plant construction related to; 1) sludge drying beds at the begonia filter plant (\$750,000 – 2004), 2) new well and arsenic treatment in Hidden Hills (\$1,750,000 in 2005), 3) arsenic treatment at Ambler park and Luzern wells (\$4,100,000 – 2005), and 4) installation of the Carmel Valley main project (\$5,000,000 – 2005). The total additional revenue requirement associated with the completion of these projects is \$1,900,000.

Overview – In general the decision was a mixed bag of successes and failures. However, I don't believe that we could have received a much better decision under any circumstances. Due to a severe change in the philosophy of the ORA Staff to not negotiate to resolution of issues that heretofore had always been resolved, the hearings were quite extensive and required voluminous amounts of testimony and exhibits. The Company provided rebuttal testimony of 11 witnesses: 3 outside consultants, 1 outside Officer, 1 associate from the Service Company and 6 Western Region Associates. The outside consultants testified to rate of return on equity and the recovery of the one-time shared service and call center start-up costs. The outside officer testified to environmental issues and the Endangered Species Act. The Service Company associate testified to the call center effectiveness and ongoing improvements. The Western Region associates testified to all other matters.

Revenues, Average Consumption, Water Loss and Production – The Company and ORA agreed on all issues except average consumption per residential customer in the Bishop service area. The Company prevailed in showing that the Consumption per customer should be declining due to newer homes in the area have much smaller lots.

Monterey Division Operating Expenses – There were numerous disagreements in this area. Most of the differences were either split or resolved in between the ORA and Company position, except for the following:

1. Group Insurance Inflation Factor – the Staff prevailed in convincing the ALJ that a 4.5% inflation factor for our group insurance premiums
2. Security expenses – The Commission rejected our request for ongoing security costs related to a guard at the Begonia Iron Removal Plant
3. Regulatory Expense – The ALJ determined an amount above the Company's original, but far below the Company's revised request. The revised request was

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CALIFORNIA-AMERICAN WATER COMPANY
MONTEREY DIVISION
Rate Case Progress Report
Narrative

submitted based on ORA's unwillingness to settle any issues and instead take all issue to hearing. The Company has filed an appeal of the Decision in regards to this matter.

4. The ALJ reduced our annual allowance for conservation expense.

Monterey Division Rate Base –

1. Plant in Service – There were only minor differences between the Company and ORA on many items. The ALJ choose one or the other, or an amount in-between as the allowance. Many items will be allowed as advice letters as stated above. Some items need further clarification:
 - a. Endangered Species Act – the Commission allowed us \$1,350,000 over the three years as CWIP, earning a current return as part of rate base.
 - b. San Clemente Dam Retrofit Project – The Commission allowed all prior expenditures in CWIP and an allowance of \$2,66,300 in CWIP for the test years.
 - c. New Carmel River Dam Project – The Commission allowed us all prior expenditures in CWIP and an allowance of \$2,250,000 in CWIP for the test years.

General Office Operating Expenses – The Company and ORA were not far apart on most items. Again, the ALJ proposed resolution to most of the smaller issues as a compromise position. Items that need further addressed are as follows:

1. Salaries –
 - a. Inflation Factor – the Commission accepted the DRI labor inflation factor, while ignoring our presentation on Company projections.
 - b. New Employee – Director of Governmental Affairs – the Commission denied this position saying it was for the most part a lobbying position.
 - c. Management Incentive Program – the Commission rejected our program.
1. Group Insurance Expense – same position as in Monterey discussion above.
2. One-time Start-Up Expenses for Shared Services and Customer Call Center – the Commission rejected our request to recover in rates the savings differential from the new services versus the historical regional provided services. The Commission rationale was that, for the most part, the Company is already recovering these costs in our current cost of service since the historic costs are embedded in rates currently, and for the next few years in some districts.

Special Rate Requests –

1. WRAM – the Commission authorized the Company to continue this account to track variations between revenues produced at the Commission recommended rate structure and revenues generated at the per-capita rate design.

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CALIFORNIA-AMERICAN WATER COMPANY
MONTEREY DIVISION
Rate Case Progress Report
Narrative

2. San Clemente and Carmel River Dams – see discussion above.
3. Conservation Expenses – see discussion above.
4. Plan B – Continue the same procedures as in the past.
5. Memo Account for MPWMD Conservation expenditures – Authorized.
6. Conservation Expenditures – recover historical amounts – the Commission rejected our request and instead ordered that we should apply for recovery in the context of R.01-12-049. We have been subsequently authorized for partial recovery.
7. Memo Account – SWRCB Fines – Authorized with acceptable conditions.
8. Memo Account for Conservation Expenses – see #3 above
9. ESA – see above
10. ESA II – see above
11. Expense Balancing Account – see #6 above
12. Increased Security Costs – All past and most future expenses were denied.


Return – The Commission authorized us a 10.25% return on equity and our proposed capital structure and debt costs. This related to return on rate base of 8.66% in 2003, 8.62% in 2004 and 8.56% in 2005.

Step and Attrition Increases - The Commission rejected both party's claims to alter historical procedures.

Rate Design – The Commission adopted all of the Company's proposed changes to the rate design to further promote conservation and combine various sub-units.

Other Party Requests - The Commission rejected all of the other party's requests that were not supported by the Company and ORA.

Conclusion - Overall the rate decision was fair. The Company lost a couple of large issues in Security costs and one-time expense recovery, but was significantly compensated by a higher than normal return on equity and the allowance for all of the major ongoing capital expenditures to be allowed in rate base. I wish to thank everyone involved for a tremendously fine job on a very difficult and complex application.


Signature/Date

**CALIFORNIA-AMERICAN WATER COMPANY
DISTRICT: TOTAL COMPANY**

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Reconciliation of Revenue at Present Rates Per Proposed and Per Order

1. Revenues at Present Rates Per Proposed	\$71,169,047
2. <u>Adjustments:</u>	
a. Adjustment for error in Bishop Service Area Average Consumpition per Cust.	(\$65,100)
b.	\$0
c.	\$0
d.	\$0
3. Revenues at Present Rates Per Order	\$71,103,947

CALIFORNIA- WATER COMPANY
TOTAL COMPANY
RECONCILIATION OF RATE ORDER WITH ANNUAL BUSINESS PLAN

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Historical Test Period: December 31, 2001
Projected Test Period: December 31, 2003
Budget Period: December 31, 2003

	<u>Per Order</u>	<u>Per Budget</u>
1. Revenues at Present Rates	<u>\$71,103,947</u>	<u>\$79,101,665</u>
2. Amount of Increase	<u>2,642,000</u>	0
3. Percent Increase	<u>3.72%</u>	<u>0.00%</u>
4. Revenues	<u>\$73,745,947</u>	<u>\$79,101,665</u>
5. O & M Expense	<u>\$45,584,291</u>	<u>\$56,687,850</u>
6. Depreciation	<u>7,240,183</u>	<u>7,740,184</u>
7. General Taxes	<u>2,342,972</u>	<u>2,397,901</u>
8. Federal & State Income Taxes	<u>5,011,322</u>	<u>(81,515)</u>
Subtotal	<u>\$60,178,768</u>	<u>\$66,744,420</u>
9. Utility Operating Income	<u>\$13,567,179</u>	<u>\$12,357,245</u>
10. Interest on Long-Term Debt	<u>6,404,511</u>	<u>11,294,278</u>
11. Other Interest	0	<u>91,710</u>
12. Preferred Dividends	0	0
13. Other (Income)/Deductions	0	<u>43,012</u>
Subtotal	<u>\$6,404,511</u>	<u>\$11,429,000</u>
14a. Income to Common Stock(Fallout)	<u>\$7,162,668</u>	<u>\$928,245</u>
14b. Calculated Inc. to Common Stock	<u>\$6,623,430</u>	<u>\$6,713,599</u>
15. Original Cost Rate Base	<u>\$147,613,720</u>	<u>\$165,237,489</u>
16. Rate of Return on Rate Base	<u>9.19%</u>	<u>7.48%</u>
17. Rate Base as % of Capitalization	<u>100.00%</u>	<u>100.00%</u>

	<u>Amount</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted</u>
18. <u>Cost of Capital Per Order</u>				
a. Long-term Debt	\$ 83,090,438	56.29%	7.71%	4.35%
b. Short-term Debt	0	0.00%	0.00%	0.00%
c. Preferred Stock	0	0.00%	0.00%	0.00%
d. Common Equity	64,523,282	43.71%	10.26%	4.48%
e. Deferred Taxes	0	0.00%	0.00%	0.00%
f. Other	0	0.00%	0.00%	0.00%
Totals	\$ 147,613,720	100.00%		8.83%

19. <u>Cost of Capital Per Budget</u>				
g. Long-term Debt	\$ 101,455,818	61.40%	7.50%	4.61%
h. Short-term Debt	0	0.00%	5.60%	0.00%
i. Preferred Stock	0	0.00%	0.00%	0.00%
j. Common Equity	63,781,671	38.60%	10.50%	4.06%
k. Deferred Taxes	0	0.00%	0.00%	0.00%
l. Other	0	0.00%	0.00%	0.00%
Totals	\$ 165,237,489	100.00%		8.67%

B. Kent 4/10/03
Signature/Date

ILLINOIS-AMERICAN WATER COMPANY
RATE CASE FILING REPORT

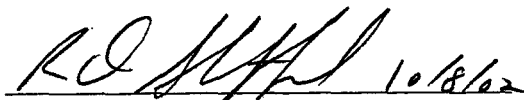
NARRATIVE

Illinois-American Water Company filed an application for rate increase on September 20, 2002, requesting authority to increased its general water and wastewater rates in all service areas. The requested increase is \$36,265,254 or 24.96%. The filing reflects full integration of the former Citizens Utilities Company of Illinois water and wastewater properties into Illinois-American. A 2003 future test year is being utilized, and is supported by an opinion by Pricewaterhouse Coopers that the filing is in accordance with AICPA guidelines for the preparation of financial projections. This opinion is required for use of future test years.

Company representatives met with Commission Staff, along with local community leaders and representatives of our large customers, in advance of filing the case. The requested rate increase is driven in large part by requested recovery of ongoing operating costs, one-time capital costs, and a five year amortization of deferred costs incurred to protect the Company's facilities from terrorism threats. Almost 30% of the requested rate increase is due to these security efforts. Another ½ of the overall request is due to additional capital investment, depreciation, and related costs, with much of this additional investment in the former Citizens properties. Since Citizens' prior rate order, rate base has increased by over 130%. Additional revenues support a portion of this additional investment, and the rate impact is further mitigated by substantially lower debt and equity costs, compared to the prior order. Lower debt costs, and other identified acquisition related savings (net of any additional costs), have been developed in accordance with orders issued by the Commission approving the Citizens' acquisition and approving a methodology to measure acquisition related savings. The Company's 50% share of these demonstrated savings is being added to revenue requirement (\$1,741,293 of operating costs and \$275,914 of capital costs). In this filing, the Company is also proposing to recover one-time costs incurred to implement the deferred business service initiatives as a component of Utility Plant depreciated over twenty years.

The requested return on common equity is 11.015%, which includes an additional .015% to cover costs paid to the Commission to issue common stock. Paul Moul is supporting the requested return on common equity. The overall requested return on rate base is 8.01%, which is below the 8.40% authorized in Illinois-American's prior order, due to significantly lower debt costs enjoyed by the Company. The Company will request an across-the-board increase in rates for each of its rate areas, with continued movement towards fully uniform rates in the surface water single tariff pricing ("STP") group, in addition to supporting continued utilization of STP in the former Citizens service areas (Chicago Division) for well water, lake water base rates, sewer collection base rates, and sewer collection and treatment rates.

From the Company, Fred Ruckman, Vice President, Treasurer, and Comptroller, will address risk, deferred security, and support the Company's capital structure. Doug Mitchem, Vice President-Operations will discuss our operations and support our ongoing security efforts. Mark Johson, Vice President-Engineering, will testify on capital investment and steel structure maintenance. Joe Harris, Senior Financial Analyst, will present testimony supporting our income tax calculations. Mike Rumer, Financial Analyst, will testify on revenues and support our tariff filing. I will present testimony in support of rate base, operating expenses, forecast projections, savings sharing, and rate design. Dan Kucera from the law firm Chapman and Cutler is the attorney processing the rate case.


Signature/Date 10/18/02

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INDIANA-AMERICAN WATER COMPANY, INC.
RECONCILIATION OF RATE ORDER WITH FILING

CAUSE NO. 42029

Date Filed:		Avg. Annual Residential Bill	
Petition Filed	<u>06/29/2001</u>	Usage(gallons)	<u>72,000</u>
Testimony and Exhibits Filed	<u>08/27/2001</u>	Present Rates	<u>See Att'd</u>
Statutory Date		Proposed Rates	<u>See Att'd</u>
Effective Date	<u>11/06/2002</u>	Authorized Rates	<u>See Att'd</u>
Historical Test Period	<u>03/31/2001</u>		
Projected Test Period	<u>N/A</u>		

	<u>Proposed Filing</u>	STEP 1	<u>Authorized</u>
1. Revenues at Present Rates	<u>\$118,747,572</u>		<u>\$118,736,711</u>
2. Amount of Increase	12,722,176		4,712,483
3. Percent Increase	<u>10.71%</u>		<u>3.97%</u>
4. Revenues	<u>131,469,748</u>		<u>123,449,194</u>
5. O & M Expense	45,187,560		44,950,373
6. Depreciation and Amortization	19,528,304		19,529,188
7. General Taxes	14,093,505		13,999,955
8. Federal and State Income Taxes	<u>14,813,888</u>		<u>11,601,355</u>
Subtotal	<u>93,623,257</u>		<u>90,080,871</u>
9. Utility Operating Income (1)	<u>37,846,491</u>		<u>33,368,323</u>
10. Interest on Long-term Debt	16,303,319		15,956,519
11. Other Interest	206,508		200,772
12. Preferred Dividends	30,600		30,600
13. Other Deductions	<u>845,384</u>		<u>845,384</u>
Subtotal	<u>17,385,811</u>		<u>17,033,275</u>
14a. Income to Common Stock(Fallout)	<u>20,460,680</u>		<u>16,335,048</u>
14b. Calculated Inc. to Common Stock	<u>20,468,810</u>		<u>17,366,560</u>
15. Adjusted Rate Base (1)	<u>456,893,083</u>		<u>420,497,809</u>
16. Rate of Return on Rate Base	<u>8.28%</u>		<u>7.94%</u>
17. Rate Base as % of Capitalization	<u>105.12%</u>		<u>97.65%</u>

<u>18. Cost of Capital Per Proposed Filing</u>	<u>Amount</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted</u>
a. Long-term Debt	\$225,235,321	51.82%	7.33%	3.80%
b. Short-term Debt	0	0.00%		0.00%
c. Preferred Stock	510,000	0.12%	6.00%	0.01%
d. Common Equity	169,394,390	38.98%	11.50%	4.48%
e. Deferred Taxes	33,560,843	7.72%	0.00%	0.00%
f. JDITC	3,415,751	0.79%	9.12%	0.07%
g. Other	<u>2,505,554</u>	<u>0.58%</u>	0.00%	<u>0.00%</u>
Totals	<u>434,621,859</u>	<u>100.01%</u>		<u>8.36%</u>

<u>19. Cost of Capital Authorized (1)</u>				
h. Long-term Debt	\$221,236,755	51.38%	7.30%	3.75%
i. Short-term Debt	0	0.00%		0.00%
j. Preferred Stock	510,000	0.12%	6.00%	0.01%
k. Common Equity	169,394,390	39.34%	10.50%	4.13%
l. Deferred Taxes	33,560,843	7.79%	0.00%	0.00%
m. JDITC	3,415,751	0.79%	8.69%	0.07%
n. Other	<u>2,505,554</u>	<u>0.58%</u>	0.00%	<u>0.00%</u>
Totals	<u>\$430,623,293</u>	<u>100.00%</u>		<u>7.96%</u>

(1) Earnings are based on a fair value rate base and fair rate of return analysis which produces a different return than a traditional original cost approach using 10.50% return on common equity determined. See page 6 determination of adjusted rate base and narrative on fair value rate base and rate of return.

Signature/Date

Indiana-American Water Company, Inc.
 Cause No. 42029
 Breakdown of Revenues

	Present Rates	Step 1	Step 2	Step 3
As Filed				
Water Revenues	118,234,190	130,937,454	141,451,397	141,574,799
WasteWater Revenues	187,708	206,620	211,212	211,212
Management Revenues	-	-	-	-
Other Revenues	325,674	325,674	325,674	325,674
	<u>118,747,572</u>	<u>131,469,748</u>	<u>141,988,283</u>	<u>142,111,685</u>
As Approved				
Water Revenues	118,222,126	122,838,783	130,367,688	130,367,688
WasteWater Revenues	188,911	284,737	284,737	284,737
Management Revenues	-	-	-	-
Other Revenues	325,674	325,674	325,674	325,674
	<u>118,736,711</u>	<u>123,449,194</u>	<u>130,978,099</u>	<u>130,978,099</u>

NOTES:

As Filed does not include revenues related to security costs since filed in August 2001
 As Approved does not include revenues related to security costs. Per Order additional
 evidence to be provided before issue decided.
 As Approved Step 2 contains clerical errors understating it by \$2.610.472. IURC to
 issue correcting order.

MISSOURI-AMERICAN WATER COMPANY
PROPOSED RATE CASE PROGRESS REPORT

RRD - 2
Page 1

Date Filed: May 19, 2003
Statutory Date: April 16, 2004
Effective Date: April 16, 2004
Historical Test Period: December 31, 2002
Case No. WR-2003-0500

Average Residential Bill:
Usage: See Attached
Present Rates: See Attached
Proposed Rates: See Attached
Auth Rates:

	<u>Proposed General Increase</u>	<u>Per Order</u>		
7 Revenues at Present Rates	<u>\$163,449,872</u>	<u>\$0</u>		
2. Amount of Increase	20,010,153	0		
3. % Increase	12.24%	0.00%		
4a. Revenue (operating)	183,460,025	0		
AFUDC	0	0		
4c. Total Revenues	<u>183,460,025</u>	<u>0</u>		
5. O & M Expense	84,601,086	0		
6. Depreciation and amortization	27,520,217	0		
7. General Taxes	13,399,694	0		
8. Income Taxes	16,478,670	0		
Sub-total	<u>141,999,667</u>	<u>0</u>		
9. Utility Operating Income	<u>41,460,358</u>	<u>0</u>		
10. Interest on Long - term Debt	17,468,609	0		
11. Other Interest	0	0		
12. Preferred Dividends	248,841	0		
13. Other Deductions	0	0		
Sub-total	<u>17,717,450</u>	<u>0</u>		
14a. Income to Common Stock (fallout)	<u>\$23,742,908</u>	<u>\$0</u>		
14b. Calculated Income to Common Stock	<u>\$23,590,088</u>	<u>\$0</u>		
15. Original Cost of Rate Base	\$497,681,177	\$0		
16. Rate of Return on Rate Base	8.300%	0.00%		
17. Rate Base as % of Capitalization	96.74%	0.00%		
18. Cost of Capital Per <u>Proposed Case</u>	<u>Amount</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
a. Long-term Debt	\$290,035,000	56.38%	6.220%	3.51%
b. Short-term Debt	0	0.00%	0.000%	0.00%
c. Preferred Stock	2,680,000	0.52%	9.120%	0.05%
d. Common Stock	221,714,180	43.10%	11.000%	4.74%
e. Deferred Taxes	0	0.00%	0.000%	0.00%
f. JDITC	0	0.00%	0.000%	0.00%
g. Other Capital Elements	0	0.00%	0.000%	0.00%
Total	<u>\$514,429,180</u>	<u>100.00%</u>		<u>8.300%</u>
19. Cost of Capital Per <u>Per Order</u>	<u>Amount</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted Cost</u>
a. Long-term Debt	\$0	0.00%	0.00%	0.00%
b. Short-term Debt	0	0.00%	0.00%	0.00%
c. Preferred Stock	0	0.00%	0.00%	0.00%
d. Common Stock	0	0.00%	0.00%	0.00%
e. Deferred Taxes	0	0.00%	0.00%	0.00%
f. JDITC	0	0.00%	0.00%	0.00%
g. Other Capital Elements	0	0.00%	0.00%	0.00%
Total	<u>\$0</u>	<u>0.00%</u>		<u>0.00%</u>

Edmund J. Dem... 5/20/03
Signature Date

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 Page 1A

MISSOURI-AMERICAN WATER COMPANY
PROPOSED RATE CASE FILING
DETAIL OF OPERATION AND MAINTENANCE EXPENSES

<u>District</u>	<u>Average Annual Consumption (gal)</u>	<u>Present Rates</u>	<u>Proposed Rates</u>	<u>Authorized Rates</u>
Brunswick	46,800	\$259.68	\$251.76	
Jefferson City	60,000	237.57	250.68	
Joplin	72,000	207.57	214.82	
Mexico	54,000	277.58	318.76	
Parkville Water	104,400	447.07	466.36	
St. Charles	98,400	270.92	260.59	
St. Joseph	61,200	269.70	292.94	
St. Louis	101,200	241.85	271.85	
Warrensburg	66,000	225.54	237.96	
Parkville Sewer	0	40.39	42.29	

MISSOURI-AMERICAN WATER COMPANY
PROPOSED RATE CASE FILING
DETAIL OF OPERATION AND MAINTENANCE EXPENSES

RRD - 1
 PAGE 3

<u>Description</u>	<u>Proposed Filing</u>	<u>Per Order</u>
Labor	\$25,142,643	\$0
Purchased Water	985,355	0
Fuel and Power	8,000,970	0
Chemicals	4,761,772	0
Waste Disposal	581,102	0
Management Fees	12,380,274	0
Group Insurance	5,945,454	0
Pensions	4,139,534	0
Regulatory Expense	272,966	0
Insurance Other Than Group	2,466,033	0
Customer Accounting	2,379,065	0
Rents	1,381,754	0
General Office Expense	1,393,421	0
Miscellaneous	7,051,746	0
Maintenance/Other	7,718,997	0
	<u>0</u>	<u>0</u>
	<u><u>\$84,601,086</u></u>	<u><u>\$0</u></u>
Management Fees Detail		
Voorhees	\$3,033,976	\$0
Shared Services	1,806,873	0
Call Center	3,992,495	0
ITS Function	2,796,663	0
Belleville	723,531	0
Other	26,736	0
Total	<u><u>\$12,380,274</u></u>	<u><u>\$0</u></u>

**MISSOURI-AMERICAN WATER COMPANY
PROPOSED RATE CASE FILING
DETAIL OF FEDERAL INCOME TAX CALCULATION**

RRD - 1
PAGE 4

<u>Description</u>	<u>Proposed Filing</u>	<u>Per Order</u>
Operating Income Before FIT	<u>\$56,290,592</u>	<u>\$0</u>
Adjustments That Increase (Decrease) Taxable Income		
Interest Expense	(17,468,609)	0
Depreciation - Excess Tax over Book	(14,183,482)	0
Taxable Meals, Entertainment	69,862	0
Preferred Dividend Paid Credit	1,266	0
Non-deductible Reserve Deficiency	2,483,162	0
Federal Income Taxes	0	0
Other		
Total Adjustments	<u>(29,097,801)</u>	<u>0</u>
Taxable Income	27,192,791	0
Federal Income Tax Rate	<u>0</u>	<u>0</u>
Current Federal Income Tax	<u>9,517,477</u>	<u>0</u>
Deferred Federal income Taxes		
Excess ADR & ACRS Depreciation	4,703,242	0
Deferred Tax - Reg Asset / Liab	147,182	0
Other	0	0
Reserved	0	0
Reserved	0	0
Total Deferred FIT	<u>4,850,424</u>	<u>0</u>
Deferred ITC	<u>(155,183)</u>	<u>0</u>
Total Federal Income Tax Expense	<u>\$14,212,718</u>	<u>\$0</u>

**MISSOURI-AMERICAN WATER COMPANY
 PROPOSED RATE CASE FILING
 DETAIL OF STATE INCOME TAX CALCULATION**

RRD - 1
 PAGE 5

<u>Description</u>	<u>Proposed Filing</u>	<u>Per Order</u>
Operating Income Before SIT	<u>\$57,786,195</u>	<u>\$0</u>
Adjustments That Increase (Decrease) Taxable Income		
Interest Expense	(17,468,609)	0
Depreciation - Excess Tax over Book	(14,183,482)	0
Taxable Meals, Entertainment	69,862	0
Preferred Dividend Paid Credit	1,266	0
Non-deductible Reserve Deficiency	2,483,162	0
Federal Income Taxes	(4,758,739)	0
Other		
Total Adjustments	<u>(33,856,540)</u>	<u>0</u>
Taxable Income	23,929,655	0
State Income Tax Rate	<u>0</u>	<u>0</u>
Current State Income Tax	<u>1,495,603</u>	<u>0</u>
Deferred State income Taxes		
Excess ADR & ACRS Depreciation	738,961	0
Deferred Tax - Reg Asset / Liab	31,388	0
Other	0	0
Reserved	0	0
Reserved	0	0
Total Deferred SIT	<u>770,349</u>	<u>0</u>
Other Credits	<u>0</u>	<u>0</u>
Total Federal Income Tax Expense	<u>\$2,265,952</u>	<u>\$0</u>

**MISSOURI-AMERICAN WATER COMPANY
PROPOSED RATE CASE FILING
DETAIL OF RATE BASE CALCULATION**

RRD - 1
PAGE 6

<u>Description</u>	<u>Proposed Filing</u>	<u>Per Order</u>
Utility Plant in Service	\$936,799,584	\$0
Accumulated Depreciation	(251,961,141)	0
Accumulated Amortization - Capital Lease	(457,553)	0
Utility Plant Acquisition Adjustments	7,607,696	0
Other (specify)	0	0
Other (specify)	0	0
Other (specify)	0	0
Other (specify)	0	0
Net Utility Plant	691,988,586	0
Deducts:		
Customer Advances	61,880,603	0
Contributions in Aid of Construction	96,283,333	0
Other (specify)	0	0
Other (specify)	0	0
Other (specify)	0	0
Other (specify)	0	0
Other (specify)	0	0
Total Deducts;	158,163,936	0
Additions:		
Materials & Supplies	3,091,931	0
Prepayments	518,449	0
Cash Working Capital	7,507,000	0
Opab's Contributed	1,037,825	0
Security Deferrals	4,726,487	0
Other Regulatory Asset	0	0
Other (specify)	0	0
Other (specify)	0	0
Total Additions	16,881,692	0
Other Deducts:		
Deferred Taxes	43,559,974	0
Deferred ITC	46,126	0
Pension Liability	9,419,065	0
Customer Deposits	0	0
Other (specify)	0	0
Other (specify)	0	0
Other (specify)	0	0
Other (specify)	0	0
Total Other Deducts	53,025,165	0
Total Rate Base	\$497,681,177	\$0

MISSOURI-AMERICAN WATER COMPANY
PROPOSED RATE CASE FILING
RECONCILIATION OF RATE BASE TO CAPITALIZATION

RRD - 1
 PAGE 7

<u>Description</u>	<u>Per Filing</u>
Total Capitalization	<u>\$514,429,180</u>
Item (Specify)	
Construction Work-in-Process	(12,670,000)
Utility Plant Acquisition Adjustment-Avatar	(3,182,685)
Rate Case Expense	(699,805)
Other, Net	<u>(195,513)</u>
Total	<u>(16,748,003)</u>
Rate Base	<u><u>\$497,681,177</u></u>

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Page 8

Missouri-American Water Company RRD-2 Narrative

The Company filed a general increase in rates with the Missouri Public Service Commission on May 19, 2003.

The overall revenue increase request in the filing is \$20,010,153 or 12.24%. The proposed rate base is \$497,681,177. The overall rate of return is 8.30%, which includes a return on equity of 11%. Pauline Ahern of AUS Consultants is providing testimony supporting the Company's recommended return on equity.

The proposed increase is needed for the following reasons: 1) Recovery of costs associated with security initiatives, 2) Increase in pension and group insurance costs, 3) Increase in the net rate base investment of \$82,709,470, and, 4) Increase in depreciation and property taxes related to the increased investment in utility plant.

The increase by district is shown below:

District	Number of Customers	% Revenue Increase
Brunswick	463	0.00%
Jefferson City	10,633	10.56%
Joplin	22,812	9.75%
Mexico	4,891	19.51%
Parkville Water	4,998	11.73%
St. Charles	27,627	5.22%
St. Joseph	31,560	10.35%
St. Louis	333,462	13.22%
Warrensburg	6,357	8.80%
Parkville Sewer	101	3.30%

The Company has filed a Cost of Service Study and a Depreciation Study.

Paul Herbert of Gannett Fleming prepared the cost of service study and tariff design. The cost of service study and tariff design is based on district specific tariff pricing. The Company also proposed to separate from base rates a monthly charge for public fire protection that will be applicable to all residential, commercial, industrial and OPA customers. This approach is consistent in rate design with the St. Louis District.

John Spanos of Gannett Fleming prepared the depreciation study. The study did not include the St. Louis and Jefferson City Districts since new depreciation rates were determined in the last rate case for those districts. Mr. Spanos' study entailed an update of the previous study performed in 1997. The methodology used was the

remaining life method. The results of the current study indicate a slight decline in the composite rate. However, the Company is proposing an increase in the depreciation rate for computer software from 9.16% to 17.14%. The new rate will be used for the Orcom and JDE systems.

The rate case has incorporated the following into the revenue requirement:

- Recovery of the premature property retirement for the old St. Joseph treatment plant. The annual amortization is \$158,000 over a period of 20 years. No rate base recovery is being sought for the unamortized balance.
- Recovery of deferred security costs over a 10-year period. Unamortized security costs, net of deferred taxes are included in rate base.
- FAS 87 pension costs for both the Company and the Service Company.
- Adjustment to annualize the expense impact of the transition to the Alton Call Center for the remaining districts of the Company. Also incorporated was the impact of the ITS reorganization.
- Recovery of the acquisition adjustments related to the Webster Groves, Florissant, Valley Park and United Water properties.
- Professor Spitznagel, a mathematician from Washington University has been hired to perform weather normalization and customer demand trend analyses for the residential and commercial class customers. His analysis has indicated a decline in customer utilization. His analysis agrees with the study performed by System Engineering for the Joplin, St. Joseph and St. Louis Operations.
- Connection of St. Louis system to the St. Charles system.

Company is presenting a Cost Allocation Manual (CAM). This manual identifies the process and allocation methods used between the Company and the Service Company. It was prepared by Patrick Baryenbruch, a private consultant with regulatory experience in the area of cost allocations. The preparation of the CAM was a requirement for the Company to prepare at the time the next rate case was filed.

The Company anticipates substantial intervention in the case along with extensive interrogatories. The Company has already received 117 data requests from the MoPSC Staff. The due date for responding to them is 20 days after the case is filed. We have set-up a formalized process to respond to all the data requests and have integrated within the process the Bull-Pen.

The Company has submitted testimony and related schedules of six (6) Company witnesses and four (4) consultants. The Missouri Public Service Commission (MoPSC) has 30 days to review the filing and will suspend the effective date of new rates for further investigation. The statutory period in which the MoPSC must issue a Report and Order generally runs approximately 330 days. We anticipate the effective date of new rates to be April 16, 2004 based on a filing date of May 19, 2003.

NEW JERSEY-AMERICAN WATER COMPANY
RATE CASE PROGRESS REPORT
RECONCILIATION OF RATE ORDER WITH FILING

RRD - 3
PAGE 1

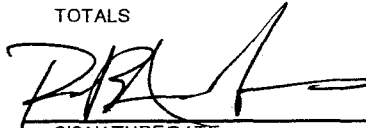
DATE FILED: July 10, 2003
STATUTORY DATE: April 9, 2004
EFFECTIVE DATE: February 19, 2004
FORECASTED TEST PERIOD: May 31, 2003

AVG ANNUAL RESIDENTIAL BILL:
Gallons Used: \$ See attached
Present Rates: \$ See attached
Proposed Rates: \$ See attached
Authorized Rates: \$ See attached

	PROPOSED GENERAL INCREASE	Authorized
1. Revenues at Present Rates	\$251,385,802	\$252,528,385
2. Amount of Increase	51,908,023	24,146,687
3. Percent Increase	20.65%	9.56%
4. REVENUES	<u>\$303,293,825</u>	<u>\$276,675,072</u>
5. O & M Expense	\$124,681,917	\$115,579,809
6. Depreciation	31,555,242	31,148,182
7. General Taxes	46,136,271	42,252,371
8. Income Taxes	<u>25,400,988</u>	<u>21,161,487</u>
SUB-TOTAL	\$227,774,418	\$210,141,849
9. UTILITY OPERATING INCOME	<u>\$75,519,407</u>	<u>\$66,533,223</u>
10. Interest on Long-Term Debt	\$29,086,361	\$27,925,449
11. Other Interest	0	0
12. Preferred Dividends	77,562	77,562
13. Other Deductions	<u>0</u>	<u>0</u>
SUB-TOTAL	<u>\$29,163,923</u>	<u>\$28,003,011</u>
14a. INCOME TO COMMON STOCK (FALLOUT)	\$46,355,484	\$38,530,212
14b. CALCULATED INCOME TO COMMON STOCK	<u>\$46,345,436</u>	<u>\$38,523,661</u>
15. Original Cost Rate Base	<u>\$876,095,206</u>	<u>\$841,127,977</u>
16. RATE OF RETURN ON RATE BASE	8.62%	7.91%
17. Rate Base as a % of Capitalization	100.13%	96.14%

	AMOUNT	RATIO	COST RATE	WEIGHTED
18. <u>Cost of Capital per Adjusted Filing</u>				
a. Long-Term Debt	\$462,222,233	52.83%	6.29%	3.32%
b. Short-Term Debt	0	0.00%	0.00%	0.00%
c. Preferred Stock	1,554,000	0.18%	4.81%	0.01%
d. Common Equity	411,159,346	46.99%	11.25%	5.29%
e. Deferred Taxes	0	0.00%	0.00%	0.00%
f. JDITC	0	0.00%	0.00%	0.00%
g. Other Capital Elements	0	0.00%	0.00%	0.00%
TOTALS	<u>\$874,935,579</u>	<u>100.00%</u>		<u>8.62%</u>

19. <u>Cost of Capital Authorized</u>				
a. Long-Term Debt	\$462,222,233	52.83%	6.29%	3.32%
b. Short-Term Debt	0	0.00%	0.00%	0.00%
c. Preferred Stock	1,554,000	0.18%	4.81%	0.01%
d. Common Equity	411,159,346	46.99%	9.75%	4.58%
e. Deferred Taxes	0	0.00%	0.00%	0.00%
f. JDITC	0	0.00%	0.00%	0.00%
g. Other Capital Elements	0	0.00%	0.00%	0.00%
TOTALS	<u>\$874,935,579</u>	<u>100.00%</u>		<u>7.91%</u>

 3/10/04
SIGNATURE/DATE

NEW JERSEY-AMERICAN WATER COMPANY
RATE CASE PROGRESS REPORT
AVERAGE RESIDENTIAL BILL

RRD-3
PAGE 1A

District	Annual Usage (Gallons)	Present Rates	Proposed Rates	Percent Increase	Authorized Rates	Authorized Increase
<u>Water Service</u>						
Statewide Tariff	84,000	\$420.62	\$518.00	23.15%	\$462.11	9.86%
Adelphia Water	45,000	\$314.25	\$326.53	3.91%	\$292.19	-7.02%
Howell	84,000	\$464.06	\$518.00	11.62%	\$462.11	-0.42%
Logan Wells	84,000	\$400.16	\$496.40	24.05%	\$446.03	11.46%
Ortley (1)	27,500	\$193.00	\$240.61	24.67%	\$215.94	11.89%
<u>Sewer Service</u>						
Adelphia Sewer Tariff (2)	45,000	\$415.65	\$487.81	17.36%	\$456.85	9.91%
Lakewood Sewer Tariff (3)	72,000	\$502.49	\$502.49	0.00%	\$543.22	8.11%
Ocean City Sewer Tariff (4)	44,000	\$470.72	\$545.23	15.83%	\$517.32	9.90%

- Note (1): Ortley present rate revenue is based on fixed charges and proposed rate revenue is based on annual usage of 27,500 gallons .
(2): Adelphia system average residential usage per customer is 3,750 gallons per month.
(3): Bill Calculation reflects 18,000 gallons winter quarter usage annualized.
(4): Bill Calculation reflects 44,000 gallons annual usage and 20,000 gallons summer quarter usage.

NEW JERSEY-AMERICAN WATER COMPANY
RATE CASE PROGRESS REPORT
DETAIL OF OPERATION AND MAINTENANCE EXPENSES

RRD - 3
PAGE 3

<u>DESCRIPTION</u>	<u>Proposed Filing</u>	<u>Authorized</u>
LABOR	\$25,859,323	\$25,063,179
GROUP INSURANCE	3,638,308	3,613,942
OPEBS	3,105,206	3,103,709
PENSIONS	5,250,645	3,779,596
FUEL & POWER	8,374,235	8,013,176
CHEMICALS	3,042,321	3,038,382
REGULATORY EXPENSE	228,516	99,348
MANAGEMENT FEES	13,326,542	13,056,913
INSURANCE OTHER	4,084,139	4,084,139
LEASED VEHICLES	1,958,861	1,958,861
TANK MAINTENANCE	1,730,400	660,400
PURCHASED WATER	18,259,802	18,188,490
DEFERRED PURCHASED WATER	1,121,854	1,121,854
WASTE DISPOSAL - WATER	1,125,300	1,129,768
SEWAGE TREATMENT & DISPOSAL	9,525,744	9,525,744
AMORTIZATION OF DEFERRED DRWWTP	423,432	0
AMORTIZATION OF BUSINESS SERVICES EXPENSES	1,200,000	550,000
SECURITY COSTS	2,200,000	2,200,000
AMORTIZATION OF DEFERRED SECURITY COSTS	1,040,000	840,000
REFUND OF DEFERRED CHARITABLE CONTRIBUTIONS	(53,319)	(53,319)
THAMES WATER INSTITUTE	846,025	0
SYNERGY SAVINGS	(2,997,250)	(3,805,250)
GAIN ON SALE OF LAND	0	(2,352,549)
OTHER O&M EXPENSE	<u>21,391,833</u>	<u>\$21,763,426</u>
TOTAL O&M EXPENSES	<u>\$124,681,917</u>	<u>\$115,579,809</u>

NEW JERSEY-AMERICAN WATER COMPANY
DETAIL OF FEDERAL INCOME TAX CALCULATION

RRD - 3
PAGE 4

<u>DESCRIPTION</u>	<u>PROPOSED FILING</u>	<u>AUTHORIZED</u>
OPERATING INCOME BEFORE FIT	<u>\$100,920,395</u>	<u>\$87,594,710</u>
LESS: INTEREST EXPENSE	29,086,361	27,925,449
EXCESS TAX OVER BOOK DEPRECIATION	9,885,667	9,885,667
OTHER	<u>105,167</u>	<u>153,255</u>
TAXABLE INCOME	61,843,200	49,730,339
FIT CURRENT @ 35%	21,645,120	17,405,619
EXCESS TAX OVER BOOK DEPRECIATION @ 35%	3,459,983	3,459,983
REVERSE SOUTH GORGIA	<u>(85,692)</u>	<u>(85,692)</u>
DEFERRED FIT	3,374,291	3,374,291
AMORTIZATION OF FLOW THROUGH	<u>381,577</u>	<u>381,577</u>
TOTAL FEDERAL INCOME TAX EXPENSE	<u>\$25,400,988</u>	<u>\$21,161,487</u>

NEW JERSEY-AMERICAN WATER COMPANY
DETAIL OF STATE INCOME TAX CALCULATION

RRD - 3
PAGE 5

Not Applicable

NEW JERSEY-AMERICAN WATER COMPANY
 PROPOSED RATE CASE FILING
 DETAIL OF RATE BASE CALCULATION

RRD - 3
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<u>DESCRIPTION</u>	<u>PROPOSED FILING</u>	<u>AUTHORIZED</u>
UTILITY PLANT IN SERVICE	\$1,306,826,991	\$1,288,597,812
ACCUMULATED AMORTIZATION	(48,300)	(48,300)
UP ACQUISITION ADJUST	5,030,481	5,030,481
DEPRECIATION RESERVE	<u>(301,445,035)</u>	<u>(295,311,080)</u>
NET UTILITY PLANT	<u>1,010,364,137</u>	<u>998,268,913</u>
ADDS:		
MATERIAL AND SUPPLIES	3,923,269	3,093,577
PREPAYMENTS	3,728,499	3,960,622
CASH WORKING CAPITAL	21,700,000	21,000,000
UNAMORTIZED DEFERED DRWWTP	1,376,153	0
TAX ON CIAC	518,269	518,269
SUBTOTAL	<u>31,246,190</u>	<u>28,572,468</u>
DEDUCTS:		
CUSTOMER ADVANCES	35,527,622	35,961,714
CONTRIBUTIONS IN AID OF CONSTRUCTION	41,947,240	42,555,668
RESERVE FOR DEFERRED FIT-DEPRECIATION	87,598,408	92,702,882
UNAMORTIZED ITC PRIOR TO 1971	441,851	441,851
CONSOLIDATED TAX SAVINGS	0	14,051,289
SUBTOTAL	<u>165,515,121</u>	<u>185,713,404</u>
 TOTAL RATE BASE	 <u>\$876,095,206</u>	 <u>\$841,127,977</u>

NEW JERSEY-AMERICAN WATER COMPANY
RATE CASE PROGRESS REPORT
RECONCILIATION OF CONSUMPTION AT PRESENT RATES

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	Amount (000 Gal)
1. CONSUMPTION AT PRESENT RATES PER FILING	<u>46,409,258</u>
2. Adjustments per Order (change in sales):	
Mount Laurel	59,995
Township of Livingston	126,250
Total Adjustments	<u>186,245</u>
3. CONSUMPTION AT PRESENT RATES PER ORDER	<u>46,595,503</u>

NEW JERSEY-AMERICAN WATER COMPANY
 RATE CASE PROGRESS REPORT
 RECONCILIATION OF RATE ORDER WITH FILING

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	<u>Per Filing</u>	<u>Adjustment</u>	<u>Per Order</u>
Long-Term Debt	\$462,222,233	\$0	\$462,222,233
Short-Term Debt	0	0	0
Preferred Stock	1,554,000	0	1,554,000
Common Equity	411,159,346	0	411,159,346
Deferred Taxes	0	0	0
JDITC	0	0	0
Other Capital Elements	0	0	0
TOTAL CAPITALIZATION	\$874,935,579	\$0	\$874,935,579

NEW JERSEY-AMERICAN WATER COMPANY
RATE CASE PROGRESS REPORT
COMPARISON OF RATE ORDER WITH BUSINESS PLAN

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	Per Order	2004 Business Plan
1. REVENUES	<u>\$276,675,072</u>	<u>\$270,548,426</u>
2. O & M Expense	115,579,809	115,380,040
3. Depreciation	31,148,182	29,972,856
4. General Taxes	42,252,371	38,427,661
5. Income Taxes	<u>21,161,487</u>	<u>21,342,000</u>
SUB-TOTAL	210,141,849	205,122,557
6. UTILITY OPERATING INCOME	<u>66,533,223</u>	<u>65,425,869</u>
7. Interest on Long-Term Debt	27,925,449	27,754,443
8. Other Interest	0	663,467
9. Preferred Dividends	77,562	73,354
10. Other Deductions	<u>0</u>	<u>0</u>
SUB-TOTAL	28,003,011	28,491,264
11a. INCOME TO COMMON STOCK (FALLOUT)	\$38,530,212	\$36,934,605
11b. CALCULATED INCOME TO COMMON STOCK	<u>\$38,523,661</u>	<u>\$36,420,841</u>
12. Original Cost Rate Base	841,127,977	841,127,977
13. RATE OF RETURN ON RATE BASE	7.91%	7.91%
14. Rate Base as a % of Capitalization	96.14%	91.56%

	AMOUNT	RATIO	COST RATE	WEIGHTED
15. Cost of Capital per Order				
a. Long-Term Debt	\$462,222,233	52.83%	6.29%	3.32%
b. Short-Term Debt	0	0.00%	0.00%	0.00%
c. Preferred Stock	1,554,000	0.18%	4.81%	0.01%
d. Common Equity	411,159,346	46.99%	9.75%	4.58%
e. Deferred Taxes	0	0.00%	0.00%	0.00%
f. JDITC	0	0.00%	0.00%	0.00%
g. Other Capital Elements	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
TOTALS	<u>\$874,935,579</u>	<u>100.00%</u>		<u>7.91%</u>

19. Cost of Capital per Business Plan				
a. Long-Term Debt	\$470,575,261	51.23%	6.20%	3.18%
b. Short-Term Debt	27,950,326	3.04%	2.00%	0.06%
c. Preferred Stock	1,437,000	0.16%	4.81%	0.01%
d. Common Equity	418,668,921	45.57%	9.50%	4.33%
e. Deferred Taxes	0	0.00%	0.00%	0.00%
f. JDITC	0	0.00%	0.00%	0.00%
g. Other Capital Elements	<u>0</u>	<u>0.00%</u>	<u>0.00%</u>	<u>0.00%</u>
TOTALS	<u>\$918,631,508</u>	<u>100.00%</u>		<u>7.58%</u>

NEW JERSEY – AMERICAN WATER COMPANY

NARRATIVE

BPU NO. WR03070511

Background

On July 10, 2003 the Company filed a petition with the Board of Public Utilities requesting an increase in annual revenues of \$51,908,023, or 20.6%. The projected test year was the twelve months ended December 31, 2003. The overall rate of return requested was 8.62% based on a cost rate for common equity of 11.25%.

Proceedings

The case was transmitted to the Office of Administrative Law (OAL) on July 18, 2003. A pre-hearing conference was held on October 15, 2003 to set the procedural schedule for the case. In addition to Board Staff and the Ratepayer Advocate there were seven intervenors. Three public hearings were held in the service territory, in Maplewood, Voorhees, and Eatontown, New Jersey on December 3, 10 and 12, respectively. The Company responded to approximately 900 discovery requests. Discovery and settlement conferences were held at the Office of Ratepayer Advocate on November 3, December 10, 12, 29, and 30, 2003, and telephonically on December 19, 22 and 23, 2003, and January 2, 5, 6, 7, 9 and 12, 2004. As a result of these meetings and conferences, a stipulation agreement was reached by all parties to the case, which resolved all issues in the case. On February 18, 2004 the Board approved the stipulation agreement, granting the Company an overall increase in rates of \$24,146,687, or 9.56% over present rates.

Stipulation Agreement

Capital Structure

The return on equity in this case is 9.75%. Otherwise, the capital structure was adopted as filed. The Company was successful in excluding short-term debt from the capital structure despite the Advocate's attempt to include it.

Rate Base

Utility plant in service includes all investment as of December 31, 2003. The Company's original filing included certain capital investment projects projected to be completed during the first half of 2004 in the amount of approximately \$13 million. This was rescinded in return for an effective date for new rates that is 4 ½ months earlier than projected, resulting in additional revenues of \$8.8 million.

The Company was also able to negotiate a cash working capital level that is \$27 million higher than the amount included in rate base in the Company's last case. This was accomplished through the elimination of the one-year lag previously used for CWC purposes associated with the payment of gross receipts taxes.

O&M Expenses

Pensions

To gain consistency with the regulatory treatment accorded Elizabethtown Water Company which is necessary due to the upcoming merger, recovery of pension expense will be under FAS87 accounting instead of ERISA. Included in rates is the FAS87 pension expense level, as well as a 20-year amortization of the deferred pension liability balance on the books of the Company as a result of prior ERISA regulatory treatment.

Tank Painting

The NJBPU has historically not allowed deferred accounting for tank painting. All tank maintenance has been fully expensed in the year of completion. The Company proposed a 20-year normalization methodology in this case, which was rejected by the Advocate. However, the parties agreed to an annual expense level in rates of \$560,000, with an additional \$100,000, which represents one-tenth of an additional \$1 million of tank painting expense that will be deferred and amortized over a ten-year period.

Deferred Purchased Water

The Company recovered \$3.4 million over a three-year period for purchased water increases in volumetric costs that were deferred since becoming effective in 2002.

DRRWTP Deferral

Since 1996 the BPU has set an established level of sales to bulk customers from the Delaware River Regional Water Treatment Plant, and established a deferred accounting methodology to regulate sales over or under the established level. This was done to encourage the Company to be aggressive in its pursuit of bulk sales contracts to utilize the extra capacity available at the treatment facility and as a balance to the full rate recovery that has been accorded the Plant since it was placed in service in 1996. The Company was successful in negotiating the elimination of this regulatory treatment on a going forward basis.

Deferred Call Center and Shared Service Costs

Included in the stipulation is the full recovery of the deferred start-up costs of the call center and shared service center over a ten-year period. The Company had requested recovery over a five-year period.

Deferred Security Costs

The Company was allowed full recovery of all deferred security costs over a five-year period. The difference between the as-filed level and the level included for rate purposes represents amounts capitalized after the Rate Case was filed. Those amounts were included in utility plant for ratemaking purposes.

Synergy Savings

A synergy study was submitted as part of this Case as a result of the common ownership of New Jersey American Water, Elizabethtown Water and Mt. Holly Water Company. The net savings of \$3,805,250 (after a 75%/25% ratepayer/shareholder sharing) as a result of the joint provisioning of services and purchasing has been included in New Jersey American Water's revenue requirement. Savings realized through the Company's next rate proceeding would be shared on a 50-50 basis between the Company and ratepayers.

Low Income Program

Together with the other Parties to this proceeding, the Company will develop a low-income program tentatively based on customers who are within 175% of the federal poverty guideline. At this time, the target aid level is a minimum of 15% of the eligible customer's total bill. Included in the Company's revenue requirement is \$1,370,000 for recovery of the total costs associated with the program.

Conservation Study

As a part of the settlement agreement, the Company will undertake a study to identify potential opportunities for conservation and water re-use throughout the service territory. The study will also analyze initiatives that will maximize the conservation of potable water use. In addition, the Company has introduced a tariff page that will allow for a differential regarding winter/summer rates. While the new tariff page is not in use in this proceeding, differential rates may be introduced in the next rate case.

Long Term Planning


The Company has committed to undertake the formulation of a long term master plan to develop a least cost strategy to economically satisfy the long term consolidated needs of customers consistent with the provision of safe and adequate service. Included will be an analysis of system growth, maps, and an evaluation of initiatives to support Smart Growth.

Service Quality

The Company will submit a joint proposal with Elizabethtown and Mt. Holly for a service quality performance plan to the Board for approval to take effect on July 1, 2005. The plan will include measurements that reflect call center performance, length of outage, response to complaints and measurement of bill accuracy.

Summary

The Company is generally pleased with the settlement position achieved in this case. The full stipulation of all issues in the proceeding prior to evidentiary hearings, extremely unusual in New Jersey, is a reflection of the Company's improved relationship and credibility established with both the Ratepayer Advocate's office and the Board. Sixty percent of the decreased stipulated level of rates from the original filed position is related to the return on equity. The Company had potentially significant exposure associated with a number of issues, primarily in the areas of deferred call center and shared service costs, as well as deferred security costs. All were recovered in their entirety. Synergy savings levels incorporated into the revenue requirement were accepted without revision, and the Company was also successful in the exclusion of significant levels of short-term debt from the capital structure for ratemaking purposes.

 3/10/04

RN/dg


NEW MEXICO-AMERICAN WATER COMPANY - CLOVIS
RATE CASE PROGRESS REPORT RRD-3

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PAGE 1

Filing Date:	6/2/2003	Avg. Annual Residential Bill	
Statutory Date:		Usage (1000 Gals)	116.007
Effective Date:		Present Rates	\$333.51
Historical Test Period:	12/31/2002	Proposed Rates	\$333.51
Projected Test Period:	12/31/2003	Authorized Rates	

	<u>Proposed</u>	<u>Per Order</u>
1. Revenues at Present Rates	7,085,919	6,214,484
2. Amount of Increase	740,054	666,660
3. Percent Increase	10.4440%	10.7275%
4. Revenues	7,825,973	6,881,144
5. O & M Expense	3,774,242	2,953,496
6. Depreciation & Amoritzation	1,225,157	768,572
7. General Taxes	376,670	336,745
8. Federal & State Income Taxes	653,009	730,033
Subtotal	6,029,078	4,788,846
9. Utility Operating Income	1,796,895	2,092,298
10. Interest on Long-Term Debt	699,705	865,580
11. Other Interest	0	191,048
12. Preferred Dividends	0	0
13. Other Deductions	0	0
Subtotal	699,705	1,056,628
14a. Income to Common Stock(Fallout)	1,097,190	1,035,670
14b. Calculated Inc. to Common Stock	1,105,411	1,036,146
15. Original Cost Rate Base	22,698,379	22,510,239
16. Rate of Return on Rate Base	7.92%	9.29%
17. Rate Base as % of Capitalization	79.85%	99.27%

	<u>Amount</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted</u>
18. <u>Cost of Capital - Authorized</u>				
a. Long-term Debt	\$ 16,000,000	56.29%	5.40%	3.05%
b. Short-term Debt	0	0.00%	0.00%	0.00%
c. Preferred Stock	0	0.00%	0.00%	0.00%
d. Common Equity	12,426,580	43.71%	11.15%	4.87%
e. Deferred Taxes	0	0.00%	0.00%	0.00%
f. Other	0	0.00%	0.00%	0.00%
Totals	\$ 28,426,580	100.00%		7.92%
19. <u>Cost of Capital - Proposed</u>				
g. Long-term Debt	\$ 8,500,000	37.49%	10.29%	3.86%
h. New Long-Term Debt	3,820,966	16.85%	5.00%	0.84%
i. Preferred Stock	0	0.00%	0.00%	0.00%
j. Common Equity	10,353,829	45.66%	10.08%	4.60%
k. Deferred Taxes	0	0.00%	0.00%	0.00%
l. Other	0	0.00%	0.00%	0.00%
Totals	\$ 22,674,795	100.00%		9.30%

 3/10/04
Signature/Date

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NEW MEXICO-AMERICAN WATER COMPANY
TOTAL COMPANY
DETAIL
OPERATION AND MAINTENANCE EXPENSES

	<u>Proposed</u>	<u>Per Order</u>
Labor	\$747,265	\$799,114
Purchased Water	\$36,730	\$31,649
Fuel & Power	\$503,293	\$528,677
Chemicals	\$6,806	\$5,945
Waste Disposal	\$0	\$0
Management Fees	\$677,151	\$386,628
Group Insurance + PBOP's	\$329,178	\$286,995
Pensions	\$155,708	\$0
Regulatory Expense	\$153,446	\$89,216
Insurance Other	\$78,852	\$41,195
Customer Accounting	\$229,367	\$206,124
Rents	\$28,238	\$23,127
General Office	\$95,841	\$134,543
Miscellaneous	\$420,462	\$69,399
Maintenance/Labor	\$149,088	\$182,356
Maintenance Other	<u>\$162,817</u>	<u>\$168,528</u>
Total Operation & Maintenance	<u><u>\$3,774,242</u></u>	<u><u>\$2,953,506</u></u>

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NEW MEXICO-AMERICAN WATER COMPANY
TOTAL COMPANY
DETAIL
FEDERAL INCOME TAX CALCULATION

	<u>Proposed</u>	<u>Per Order</u>
Operating Income Before FIT	\$2,450,654	\$2,746,901
Adjustments that Increase (Decrease) Taxable Income		
Excess Tax over Book Depreciation		0
Interest Expenses	\$699,705	1,056,676
Non-Deductible Employee Expenses		0
ACRS/MACRS Gain Loss	\$0	0
Other (SIT)	\$113,072	126,609
	<hr/>	<hr/>
Total Adjustments	<u>\$812,777</u>	<u>\$1,183,285</u>
Adjusted Taxable Income	\$1,637,877	\$1,563,616
Federal Income Tax Before Adjustments	\$573,257	\$547,266
Other Adjustments that Increase (Decrease) FIT		
Reverse South Georgia	0	
Regulatory Assets & Liabilities Amortization	-33,320	8,916
Other (Tax Savings on Acquisition Adjs)	0	47,245
	<hr/>	<hr/>
Deferred Federal Income Tax	<u>-33,320</u>	<u>56,161</u>
Deferred Investment Tax Credit	<u>\$0</u>	<u>\$0</u>
Total Federal Income Tax Expense	<u><u>\$539,937</u></u>	<u><u>\$603,427</u></u>

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NEW MEXICO-AMERICAN WATER COMPANY
TOTAL COMPANY
DETAIL
STATE INCOME TAX CALCULATION

	<u>Proposed</u>	<u>Per Order</u>
Operating Income Before SIT	\$2,450,654	\$2,746,901
Adjustments that Increase (Decrease) Taxable Income		
Interest Expense	\$699,705	1,056,676
Depreciation-Excess Tax over Book		0
Nontaxable Income		
Non-Deductible Employee Expenses		0
ACRS/MACRS Gain Loss	\$0	0
Other		
	<hr/>	
Total Adjustments	\$699,705	\$1,056,676
	<hr/>	
Total State Taxable Income	\$1,750,949	\$1,690,225
State Income Tax Rate	6.5%	7.6%
State Income Tax Expense Before Adjustments	<u>\$113,812</u>	<u>\$128,457</u>
Adjustments that Increase/(Decrease) SIT		
Amortization of Regulatory Assets/Liabilities		-\$1,848
	<hr/>	
Net State Income Tax Expense	<u>\$113,812</u>	<u>\$126,609</u>

NEW MEXICO-AMERICAN WATER COMPANY
TOTAL COMPANY
DETAIL
RATE BASE CALCULATION

	<u>Proposed</u>	<u>Per Order</u>
Utility Plant in Service	\$37,492,769	\$31,387,163
Construction Work in Progress	126,901	0
Accumulated Depreciation	-12,028,345	-6,091,757
Accumulated Amortization	0	0
Other	<u>0</u>	<u>0</u>
Net Utility Plant	<u>\$25,591,325</u>	<u>\$25,295,406</u>
Deduct:		
Customer Advances	492,470	305,627
Contributions	552,138	566,056
Other (Customer Deposit)	<u>7,227</u>	<u>11,828</u>
Subtotal Deducted	<u>\$1,051,835</u>	<u>\$883,511</u>
Add:		
Materials & Supplies	102,976	90,078
Tank Painting	0	0
Cash Working Capital	352,000	207,000
Prepayments	27,787	38,923
Other (Deferred Charges)	<u>841,937</u>	<u>693,372</u>
Subtotal Added	<u>\$1,324,700</u>	<u>\$1,029,373</u>
Deduct:		
Deferred FIT & SIT	3,165,811	2,931,029
Deferred Other	0	0
Other	<u>0</u>	<u>0</u>
Subtotal	<u>\$3,165,811</u>	<u>\$2,931,029</u>
Total Rate Base	<u>\$22,698,379</u>	<u>\$22,510,239</u>

NEW MEXICO AMERICAN WATER COMPANY

1.	Revenues at Present Rates Per Proposed	\$7,085,919
2.	<u>Adjustments:</u>	
	a. Customer Growth since Last Case	-\$299,992
	b. Oppliger Surcharge Revenue - Residential	-\$220,242
	c. Oppliger Surcharge - All Other	-\$72,918
	d. Change in Public Authority Consumption	-\$188,884
	e. Change in Present Rates due to Purchased Power	-\$89,400
3.	Revenues at Present Rates Per Order	\$6,214,484

NEW MEXICO-AMERICAN WATER COMPANY
RATE CASE PROGRESS REPORT RRD-3

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	<u>Per Order</u>	<u>Per Q1 RF</u>		
1. Revenues at Present Rates	6,214,484	8,432,916		
2. Amount of Increase	666,660			
3. Percent Increase	10.7275%	0.0000%		
4. Revenues	6,881,144	8,432,916		
5. O & M Expense	2,953,496	4,302,831		
6. Depreciation & Amortization	768,572	1,159,580		
7. General Taxes	336,745	473,516		
8. Federal & State Income Taxes	730,033	620,731		
Subtotal	4,788,846	6,556,658		
9. Utility Operating Income	2,092,298	1,876,258		
10. Interest on Long-Term Debt	865,580	911,496		
11. Other Interest	191,048	1,008		
12. Preferred Dividends	0	0		
13. Other Deductions	0	-70,793		
Subtotal	1,056,628	841,711		
14a. Income to Common Stock(Fallout)	1,035,670	1,034,547		
14b. Calculated Inc. to Common Stock	1,035,471	1,034,635		
15. Original Cost Rate Base	22,510,239	28,932,749		
16. Rate of Return on Rate Base	9.29%	6.48%		
17. Rate Base as % of Capitalization	99.27%	99.75%		
18. <u>Cost of Capital - Authorized</u>	<u>Amount</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted</u>
a. Long-term Debt	\$ 8,500,000	37.49%	10.29%	3.87%
b. Short-term Debt	3,820,966	16.85%	5.00%	0.84%
c. Preferred Stock	0	0.00%	0.00%	0.00%
d. Common Equity	10,353,829	45.66%	10.08%	4.60%
e. Deferred Taxes	0	0.00%	0.00%	0.00%
f. Other	0	0.00%	0.00%	0.00%
Totals	\$ 22,674,795	100.00%		9.31%
19. <u>Cost of Capital -Per Budget</u>				
g. Long-term Debt	\$ 16,000,000	55.16%	5.40%	2.98%
h. New Long-Term Debt	0	0.00%	0.00%	0.00%
i. Preferred Stock	0	0.00%	0.00%	0.00%
j. Common Equity	13,004,666	44.84%	7.98%	3.58%
k. Deferred Taxes	0	0.00%	0.00%	0.00%
l. Other	0	0.00%	0.00%	0.00%
Totals	\$ 29,004,666	100.00%		6.56%

Signature/Date

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NEW MEXICO-AMERICAN WATER COMPANY
Proposed Rate Case Filing Report
Narrative

Background

The last general rate case for New Mexico-American Water Company was filed on January 23, 1998 with the decision in the case being rendered on December 7, 1998. The effective date of the Decision in Case No. 2813 was January 1, 1999. Subsequent to that Order NM-A also filed and received an Order from the Commission in Case No. 3631 allowing NM-A to add a surcharge to rates for recovery of the carrying cost of the Oppliger Land and Water Rights purchase. The Decision in Case No. 3631 was issued on May 16, 2002. In Case No. 3631, NM-A was ordered to file a general rate application by June 1, 2003 in order to continue the approved Oppliger surcharge beyond January 1, 2004.

As described in the RRD-2 submitted earlier, Staff and the Company reached a settlement in this proceeding in which the Company will maintain its current rates until after new rates are determined in a case to be filed in early 2004. The Certification of Stipulation in Case No. 03-00206-UT was approved by the Commission on January 12, 2004.

Revenues –

All current rates will remain in effect.

O & M and A & G Expenses

The expenses from the prosecution of this rate case will be amortized over three years, with the remaining unamortized balance from this case, at the conclusion of the next case being folded into the expenses from the next case to be spread over the projected life of that case. The Commission will allow the Company to switch to FAS 87 for rate-making purposes and amortize the book liability for the difference between ERISA and FAS 87 over 5 years starting at the conclusion of the next rate case.

General Taxes

No changes from the previous rate case.

Income Taxes

There are no changes from the previous rate case

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Rate Base

The Stipulation provides that the Company should be allowed to recover all of the carrying cost of the Oppliger Land & Water Rights purchase. The Stipulation also provides us reasonable assurance that we will be able to recover the estimated value of the Water Rights over 25 years. In other words, we should be allowed amortization of the water rights in the next general rate case.

Rate of Return

There was no change in the rate of return in this proceeding.

Final Comments

As expected the Certificate of Stipulation was approved without comment by the Commission. We are required to file another rate case by May 31, 2004. The Stipulation in this case was, in all respects, the best that we could have accomplished. We are attempting to file a new case no later than March 31, 2004.

A copy of the Certificate for Stipulation was attached to the previously submitted RRD-2.



3/10/04

Signature/Date

file

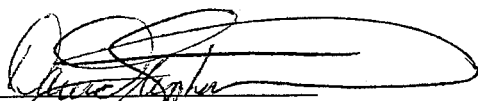
**NEW MEXICO-AMERICAN WATER COMPANY - CLOVIS
RATE CASE PROGRESS REPORT RRD-2**

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PAGE 1

Filing Date:	6/2/2003	Avg. Annual Residential Bill	
Statutory Date:		Usage (1000 Gals)	116.007
Effective Date:		Present Rates	\$333.51
Historical Test Period:	12/31/2002	Proposed Rates	\$333.51
Projected Test Period:	12/31/2003	Authorized Rates	

	<u>Proposed</u>	<u>Adjusted Proposed</u>
1. Revenues at Present Rates	7,085,919	6,214,484
2. Amount of Increase	740,054	666,660
3. Percent Increase	10.4440%	10.7275%
4. Revenues	7,825,973	6,881,144
5. O & M Expense	3,774,242	2,953,496
6. Depreciation & Amorization	1,225,157	768,572
7. General Taxes	376,670	336,745
8. Federal & State Income Taxes	653,009	730,033
Subtotal	6,029,078	4,788,846
9. Utility Operating Income	1,796,895	2,092,298
10. Interest on Long-Term Debt	699,705	865,580
11. Other Interest	0	191,048
12. Preferred Dividends	0	0
13. Other Deductions	0	0
Subtotal	699,705	1,056,628
14a. Income to Common Stock(Fallout)	1,097,190	1,035,670
14b. Calculated Inc. to Common Stock	1,105,411	1,036,146
15. Original Cost Rate Base	22,698,379	22,510,239
16. Rate of Return on Rate Base	7.92%	9.29%
17. Rate Base as % of Capitalization	79.85%	99.27%

	<u>Amount</u>	<u>Ratio</u>	<u>Cost Rate</u>	<u>Weighted</u>
18. <u>Cost of Capital - Authorized</u>				
a. Long-term Debt	\$ 16,000,000	56.29%	5.40%	3.05%
b. Short-term Debt	0	0.00%	0.00%	0.00%
c. Preferred Stock	0	0.00%	0.00%	0.00%
d. Common Equity	12,426,580	43.71%	11.15%	4.87%
e. Deferred Taxes	0	0.00%	0.00%	0.00%
f. Other	0	0.00%	0.00%	0.00%
Totals	\$ 28,426,580	100.00%		7.92%
19. <u>Cost of Capital - Proposed</u>				
g. Long-term Debt	\$ 8,500,000	37.49%	10.29%	3.86%
h. New Long-Term Debt	3,820,966	16.85%	5.00%	0.84%
i. Preferred Stock	0	0.00%	0.00%	0.00%
j. Common Equity	10,353,829	45.66%	10.08%	4.60%
k. Deferred Taxes	0	0.00%	0.00%	0.00%
l. Other	0	0.00%	0.00%	0.00%
Totals	\$ 22,674,795	100.00%		9.30%


Signature/Date 1/07/04

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NEW MEXICO-AMERICAN WATER COMPANY
Proposed Rate Case Filing Report
Narrative

Background

The last general rate case for New Mexico-American Water Company was filed on January 23, 1998 with the decision in the case being rendered on December 7, 1998. The effective date of the Decision in Case No. 2813 was January 1, 1999. Subsequent to that Order NM-A also filed and received a Order from the Commission in Case No. 3631 allowing NM-A to add a surcharge to rates for recovery of the carrying cost of the Oppliger Land and Water Rights purchase. The Decision in Case No. 3631 was issued on May 16, 2002. In Case No. 3631, NM-A was ordered to file a general rate application by June 1, 2003 in order to continue the approved Oppliger surcharge beyond January 1, 2004.

The Company and Staff, over a period of weeks, reached a settlement of the case wherein the current rates will not change. Based on the fact that Staff would not allow forecasted rate base or expenses related to calendar year 2004 and the fact that the Oppliger lease revenues were omitted from the original rate case filing, it became obvious that the net effect of continuing to pursue a rate increase would likely result in a rate decrease from the Commission. In light of this, the Company and the Staff developed a stipulation providing the Company with resolution of certain policy issues that were raised in this case, and a resolution on the treatment of expenses incurred in the prosecution of this case.

Revenues –

All current rates will remain in effect.

O & M and A & G Expenses

The expenses from the prosecution of this rate case will be amortized over three years, with the remaining unamortized balance from this case, at the conclusion of the next case being folded into the expenses from the next case to be spread over the projected life of that case. The Commission will allow the Company to switch to FAS 87 for rate-making purposes and amortize the book liability for the difference between ERISA and FAS 87 over 5 years starting at the conclusion of the next rate case.

General Taxes

No changes from the previous rate case.

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Income Taxes

There are no changes from the previous rate case

Rate Base

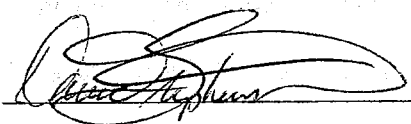
The Stipulation provides that the Company should be allowed to recover all of the carrying cost of the Oppliger Land & Water Rights purchase. The Stipulation also provides us reasonable assurance that we will be able to recover the estimated value of the Water Rights over 25 years. In other words, we should be allowed amortization of the water rights in the next general rate case.

Rate of Return

There was no change in the rate of return in this proceeding.

Final Comments

A final decision should be issued this month. We are required to file another rate case by May 31, 2004. The Stipulation in this case was, in all respects, the best that we could have accomplished. We will try to file a new case no later than March 31, 2004. A copy of the Certificate for Stipulation is attached, further explaining the resolution of this case.




4/07/04
Signature/Date

**NEW MEXICO-AMERICAN WATER COMPANY
RATE CASE PROGRESS REPORT RRD-2**

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PAGE 1

Proposed Filing Date:	6/2/2003	Avg. Annual Residential Bill	
Statutory Date:		Usage (1000 Gals)	123.487
Effective Date:		Present Rates	\$425.60
Historical Test Period:	12/31/2002	Proposed Rates	\$456.42
Projected Test Period:	12/31/2004 For Plant Adds	Authorized Rates	

	<u>Per Order</u>	<u>Proposed</u>			
1. Revenues at Present Rates	5,424,784	7,329,669			
2. Amount of Increase	789,700	485,794			
3. Percent Increase	14.5573%	6.6278%			
4. Revenues	6,214,484	7,815,463			
5. O & M Expense	2,953,496	3,774,242			
6. Depreciation & Amortization	768,572	1,225,157			
7. General Taxes	330,375	366,497			
8. Federal & State Income Taxes	551,051	652,672			
Subtotal	4,603,494	6,018,568			
9. Utility Operating Income	1,610,990	1,796,895			
10. Interest on Long-Term Debt	865,580	699,705			
11. Other Interest	0	0			
12. Preferred Dividends	0	0			
13. Other Deductions	0	0			
Subtotal	865,580	699,705			
14a. Income to Common Stock(Fallout)	745,410	1,097,190			
14b. Calculated Inc. to Common Stock	746,080	1,106,319			
15. Original Cost Rate Base	15,806,790	22,698,379			
16. Rate of Return on Rate Base	10.19%	7.92%			
17. Rate Base as % of Capitalization	98.97%	79.85%			
18. Cost of Capital - Authorized	Amount	Ratio	Cost Rate	Weighted	
a. Long-term Debt	\$ 8,500,000	53.22%	10.29%	5.47%	
b. Short-term Debt	0	0.00%	0.00%	0.00%	
c. Preferred Stock	0	0.00%	0.00%	0.00%	
d. Common Equity	7,471,346	46.78%	10.08%	4.72%	
e. Deferred Taxes	0	0.00%	0.00%	0.00%	
f. Other	0	0.00%	0.00%	0.00%	
Totals	\$ 15,971,346	100.00%		10.19%	
19. Cost of Capital - Proposed					
g. Long-term Debt	\$ 16,000,000	56.29%	5.40%	3.04%	
h. Short-term Debt	0	0.00%	0.00%	0.00%	
i. Preferred Stock	0	0.00%	0.00%	0.00%	
j. Common Equity	12,426,580	43.71%	11.15%	4.87%	
k. Deferred Taxes	0	0.00%	0.00%	0.00%	
l. Other	0	0.00%	0.00%	0.00%	
Totals	\$ 28,426,580	100.00%		7.92%	

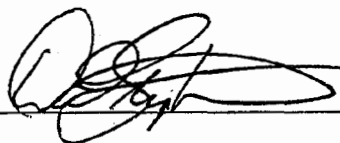

Signature/Date 7/18/03

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NEW MEXICO-AMERICAN WATER COMPANY
Proposed Rate Case Filing Report
Narrative

Explanation

Case No. 03-00206-UT was filed on June 2, 2003. An inadvertent error was discovered in the revenues at present rates while responding to Staff DR's. The error was in not adding the 2004 estimated lease revenue from the Oppliger land to operating revenues at present. This change does not change our proposed revenue requirement, just reduces the amount of the proposed increase from 10.4% to 6.2%. This correction has been communicated with Staff and new schedules presenting the correction will be filed by July 23, 2003.

 7/18/03

Signature/Date

PENNSYLVANIA-AMERICAN WATER COMPANY

RATE CASE PROGRESS REPORT

Date Filed 4/30/2003 Avg. Annual Residential Bill: See Table 1
 Statutory Date 1/29/2004 Usage
 Effective Date 6/29/2003 Present Rates
 Historical Test Period 12/31/2002 Proposed Rates
 Projected Test Period 12/31/2003 Authorized Rates

	Proposed	Revised Proposed	Per Order
1. Revenues at present rates	357,792,592	357,973,763	357,867,390
2. Amount of Increase	64,946,533	59,246,159	34,314,157
3. Percent Increase	18.15%	16.55%	9.59%
4. Revenues	422,739,125	417,219,922	392,181,547
5. O & M Expense	164,232,676	156,046,128	150,287,408
6. Depreciation	58,443,585	59,107,422	57,956,697
7. General Taxes	12,731,888	12,949,649	12,783,849
8. Federal & State Income Taxes	56,004,303	56,969,605	49,883,643
Sub-total	291,412,452	285,072,804	270,911,597
9. Utility Operating Income	131,326,673	132,147,118	121,269,950
10. Interest on Long-term Debt	53,809,212	54,145,378	52,642,156
11. Other interest	0	0	
12. Preferred dividends	1,219,320	1,226,938	1,192,875
13. Other Deductions	0	0	
Sub-total	55,028,532	55,372,316	53,835,031
14a. Income to Common Stock(Fallout)	76,298,141	76,774,802	67,434,919
14b. Calculated Inc. to Common Stock	76,353,791	76,830,801	67,338,718
15. Original Cost Rate Base	1,539,856,630	1,549,476,670	1,506,459,014
16. Rate of Return on Rate Base	8.53%	8.53%	8.05%
17. Rate Base as % of Capitalization	98.87%	99.48%	96.72%

18.	Cost of Capital Proposed	Amount	Ratio	Cost Rate	Weighted
a.	Long-term Debt	884,987,000	56.82%	6.15%	3.49%
b.	Short-term Debt				
c.	Preferred Stock	15,190,000	0.98%	8.08%	0.08%
d.	Common Equity	657,329,000	42.20%	11.75%	4.96%
e.	Deferred Taxes				
f.	Other				
	Totals	1,557,506,000	100.00%		8.53%

19.	Cost of Capital Previous Order	Amount	Ratio	Cost Rate	Weighted
a.	Long-term Debt	735,467,161	56.15%	7.26%	4.08%
b.	Short-term Debt				
c.	Preferred Stock	16,040,400	1.23%	8.05%	0.10%
d.	Common Equity	558,226,884	42.62%	10.60%	4.52%
e.	Deferred Taxes				
f.	Other				
	Totals	1,309,734,445	100.00%		8.70%

20	Cost of Capital Per Order	Amount	Ratio	Cost Rate	Weighted
a.	Long-term Debt	884,987,000	56.82%	6.15%	3.50%
b.	Short-term Debt				
c.	Preferred Stock	15,190,000	0.98%	8.08%	0.08%
d.	Common Equity	657,329,000	42.20%	10.60%	4.47%
e.	Deferred Taxes				
f.	Other				
	Totals	1,557,506,000	100.00%		8.05%

Paul T Dish 2-11-04
Signature/Date

Table 1

PENNSYLVANIA AMERICAN WATER COMPANY

Average Annual Residential Bill (5/8" meter)

Current Rate Zone	Proposed Rate Zone	Number of Customers at 12-31-02	Average Annual Usage	Present Rates	Proposed Rates	Authorized Rates
At 4600 gallons per month						
1	1	509254	55,200	\$422.40	\$487.32	\$454.57
14	14	0	55,200	390.24	417.29	422.40
16	1	4253	55,200	309.84	487.32	400.60
17	1	1027	55,200	300.84	487.32	400.60
18	1	1942	55,200	262.44	487.32	400.60
19	1	9455	55,200	333.12	487.32	400.60
20	1	10308	55,200	333.12	487.32	400.60
21	1	6751	55,200	333.84	487.32	400.60
22	1	772	55,200	355.20	487.32	454.57
23	1	451	55,200	206.28	487.32	270.48
24	1	8338	55,200	357.72	487.32	454.57
27	1	2213	55,200	192.48	487.32	270.48
28	1	128	55,200	308.40	487.32	400.60
At 5,000 gallons per month						
1	1	509254	60,000	442.62	517.20	482.10
14	14	0	60,000	408.84	442.62	442.62
16	1	4253	60,000	325.80	517.20	424.92
17	1	1027	60,000	316.20	517.20	424.92
18	1	1942	60,000	274.80	517.20	424.92
19	1	9455	60,000	351.72	517.20	424.92
20	1	10308	60,000	351.72	517.20	424.92
21	1	6751	60,000	351.60	517.20	424.92
22	1	772	60,000	370.80	517.20	482.10
23	1	451	60,000	211.66	517.20	282.00
24	1	8338	60,000	384.12	517.20	482.10
27	1	2213	60,000	199.80	517.20	282.00
28	1	128	60,000	378.00	517.20	424.92

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PENNSYLVANIA-AMERICAN WATER COMPANY

OPERATION AND MAINTENANCE EXPENSES

	<u>Proposed</u>	<u>Revised Proposed</u>	<u>Per Order</u>
Labor	44,600,945	44,320,416	44,320,416
Purchased Water	2,233,454	2,233,454	2,233,454
Purchased Power	11,592,979	11,592,979	11,592,979
Chemicals	4,412,693	4,412,693	4,412,693
Waste Disposal	2,087,543	2,087,543	2,087,543
Management Fees	16,264,263	17,111,977	15,957,777
Group Insurance	6,437,946	6,378,586	6,378,586
Pensions	2,857,778	2,857,778	2,857,778
Post Retirement Benefits	5,518,769	5,518,769	5,518,769
Regulatory Expense	501,154	501,154	501,154
Insurance Other Than Group	8,705,090	8,705,090	8,705,090
Customer Accounting	9,689,503	9,616,573	9,165,723
Rents	1,693,822	1,693,822	1,693,822
General Office	3,796,726	3,796,726	3,796,726
Miscellaneous	32,034,386	23,412,943	19,259,273
Maintenance Other	<u>11,805,625</u>	<u>11,805,625</u>	<u>11,805,625</u>
Total Operation & Maintenance	<u><u>164,232,676</u></u>	<u><u>156,046,128</u></u>	<u><u>150,287,408</u></u>

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PENNSYLVANIA-AMERICAN WATER COMPANY

FEDERAL INCOME TAX CALCULATIONS

	<u>Proposed</u>	<u>Revised Proposed</u>	<u>Per Order</u>
Operating Income Before FIT	175,472,357	177,025,697	160,481,400
Adjustments that Increase (Decrease) Taxable Income			
Interest Expense	(53,809,212)	(54,145,378)	(52,642,156)
Amortization of Tank Painting			
Amortization of Rate Case Expense			
Depreciation - Excess Tax Over Book	(14,858,094)	(13,981,282)	(11,723,903)
Amortization Others			
Relocation Expenses			
Other			
Taxable Meals and Entertainment	41,224	41,224	41,224
Uncollectable Reserve	0		
Total Adjustments	<u>(68,626,082)</u>	<u>(68,085,436)</u>	<u>(64,324,835)</u>
Adjusted Taxable Income	106,846,275	108,940,261	96,156,565
FIT @ 35%	37,396,196	38,129,092	33,654,798
Other Adjustments that Increase (Decrease) Taxable Income			
Amortization of Tank Painting			
Amortization of Rate Case Expense			
Excess ADR & ACRS Depreciation			
Reverse South Georgia			
Relocation Expenses			
Consolidated Tax Savings	<u>(2,639,000)</u>	<u>(2,639,000)</u>	<u>(2,639,000)</u>
Deferred FIT	<u>9,674,358</u>	<u>9,674,358</u>	<u>8,481,523</u>
Deferred ITC	<u>0</u>	<u>0</u>	<u>0</u>
Total Federal Income Tax Expense	<u><u>44,431,554</u></u>	<u><u>45,164,449</u></u>	<u><u>39,497,320</u></u>

PENNSYLVANIA-AMERICAN WATER COMPANY

STATE INCOME TAX CALCULATION

	<u>Proposed</u>	<u>Revised Proposed</u>	<u>Per Order</u>
Operating Income Before SIT	187,330,976	189,116,723	171,153,593
Adjustments that Increase (Decrease) Taxable Income			
Interest Expense	(53,809,212)	(54,145,378)	(52,642,156)
Depreciation - Excess Tax Over Book	(14,858,094)	(13,981,282)	(11,723,903)
Taxable Meals and Entertainment	41,224	41,224	41,224
 Total Adjustments	<u>(68,626,082)</u>	<u>(68,085,436)</u>	<u>(64,324,835)</u>
 Total Taxable	<u>118,704,894</u>	<u>121,031,287</u>	<u>106,828,758</u>
 Tax Rate	<u>9.99%</u>	<u>9.99%</u>	<u>9.99%</u>
 SIT	<u>11,858,619</u>	<u>12,091,026</u>	<u>10,672,193</u>

PENNSYLVANIA-AMERICAN WATER COMPANY

RATE BASE CALCULATION

	<u>Proposed</u>	<u>Revised Proposed</u>	<u>Per Order</u>
Utility Plant in Service	2,056,452,230	2,069,597,830	2,069,597,830
Construction Work in Progress	0		
Accrued Depreciation	366,992,602	367,431,008	367,431,008
Other			
Net Utility Plant	<u>1,689,459,628</u>	<u>1,702,166,822</u>	<u>1,702,166,822</u>
Deduct:			
Customer Advances	47,420,209	49,538,313	49,538,313
Contributions	80,487,721	80,487,721	80,487,721
Excluded Property	1,558,014	1,558,014	1,558,014
Cash Working Capital - Interest & Dividends	4,822,495	4,898,179	4,762,170
Extension Deposits in Suspense	39,127	39,127	39,127
Subtotal Deducted	<u>134,327,566</u>	<u>136,521,354</u>	<u>136,385,345</u>
Add:			
Materials & Supplies	3,432,726	3,432,726	3,432,726
Accrued and Prepaid Taxes	1,417,919	1,416,615	1,478,971
Cash Working Capital	18,245,598	17,353,536	16,866,696
Prepayments	0	0	
Acquisition Adjustments	60,266,797	60,266,797	17,537,616
Subtotal Added	<u>83,363,040</u>	<u>82,469,674</u>	<u>39,316,009</u>
Deduct:			
Deferred FIT	98,085,501	98,085,501	98,085,501
Deferred ITC	552,971	552,971	552,971
Other	0		
Subtotal	<u>98,638,472</u>	<u>98,638,472</u>	<u>98,638,472</u>
Total Rate Base	<u>1,539,856,630</u>	<u>1,549,476,670</u>	<u>1,506,459,014</u>

PENNSYLVANIA-AMERICAN WATER COMPANY**NARRATIVE**

On April 30, 2003 Pennsylvania-American Water ("PAW") filed a request to increase rates in its water operations. The request was for an increase in base rates of \$64,946,533 or 18.15%.

On May 22, the Pennsylvania Public Utility Commission ("PUC") initiated an investigation to determine the lawfulness, justness, and reasonableness of the Company's existing and proposed rates. The following parties participated actively in the proceeding: the PUC's Office of Trial Staff ("OTS"), the Office of Consumer Advocate ("OCA"), the Office of Small Business Advocate ("OSBA"), Pennsylvania-American Water Large Users Group ("PAWLUG"), Commission on Economic Opportunity ("CEO") and our largest customer, AK Steel. Eighteen Public Input hearings were held throughout the Company's service territories and five days of technical hearings were held in Harrisburg producing 663 pages of transcripts.

All of the major interveners filed briefs and reply briefs, which recommended revenue increases from \$2.5 million to \$ 29.1 million. Prior to the issuance of a recommendation, the Company reduced its requested revenue increase from \$64.9 million to \$59.2 million mainly due to a reduction to the on-going level of security expenses offset by investment in technology for security. The Administrative Law Judge ("ALJ") issued his decision early in December

recommending an increase of \$26.2 million utilizing a 10% return on common equity and denying recover of deferred security costs. At a PUC public meeting on January 16, 2004, a motion was presented by Commissioner Thomas, which adopted a large majority of the ALJ's decision but authorized recovery of deferred security expenses over 10 years and increased the common equity return to 10.6%. The motion recommended a revenue increase of \$34.3 million, an increase in overall revenue of 9.6%.

REVENUES

The Company made adjustments for several large customers who had left the system (a reduction in revenue of around \$1.5 million), the inclusion of revenues associated with the a new sales for resale demand contract customer (Western Allegheny Municipal Authority), the recovery of deferred revenues associated with negotiated contract rates and the inclusion of revenues for new customers. The Commission with one minor adjustment accepted the Company's adjusted present rate revenue amount.

EXPENSES

Service Company Charges

The Company's original claim was the 2003 Business Plan amount. The amount was later revised to reflect the reforecasted amount for 2003. Both

amounts were rejected since the Company was unable to provide 2003 plan details by functional area as was provided to support the 2002 expense.

Fuel Expense

The Company had projected its fuel cost per gallon for the future test year at \$1.64 per gallon based upon data as of March 27, 2003. The ALJ accepted the use of the OTS's three-year average fuel prices, \$1.45 per gallon and reduced the Company's claim by \$131,178.

Inflation

An adjustment of \$1,432,804 was proposed by PAW to inflate the historic test year unadjusted expenses by an inflation factor of 3.49% consisting of three indexes, CPI, PPI, and GDP. The PUC accepted the position of OTS who utilized an inflation factor rate of 1.43% resulting in a disallowance of \$845,133.

Uncollectibles

PAW used the most current twelve months experience to develop a ratio of uncollectible expense to revenues. The OTS proposal was to use a three-year average in its calculation of the ratio. The OTS adjustment was accepted reducing the Company's uncollectible expense by \$1.1 million.

RATE BASE

Citizen's Acquisition Adjustment

The Company's claim included the difference between the purchase price and utility plant acquired of \$46 million. The PUC accepted the OCA's position that PAW was unable to support all 9 of the criteria which must be met to earn a return on the premium of an acquired Company and eliminated the premium from rate base. The effect was to reduce the revenue requirement by \$5.5 million.

CAPITAL STRUCTURE AND RATE OF RETURN

The proposed capital structure and the cost rates for long term debt and preferred stock at December 31, 2003 was accepted by the PUC. The recommendations for the rate of return on common equity ranged from the Company's requested return of 11.75 % to the OTS return of 10 % and the OCA return of 8.43 %. The Commission Final Order authorizes a return on common equity of 10.6 % by taking the ALJ's recommendation of 10 % and adding to it the Company's risk factor of 60 basis points.

WITNESSES

I would like to thank all of the witnesses who participated in this case:

RESPONSIBLE WITNESS

RESPONSIBLE AREA

William C. Kelvington

Scope of Operations and Description of System

Charles W. Johnston

Acquisitions

Paul T. Diskin	Rate Base, Income Taxes, Tariff Riders and Rate Design
Robert W. Freeston	General Statement of Need for Rate Relief, Financing, Service Company Costs, and Business and Policy Matters
Steven J. Seidl	Future Test Year Additions
Charles A. Gilbert	O&M Expenses
Jo Anne Lontz	Revenues
Paul R. Herbert	Cost of Service Allocation, Bill Analysis and Customer Rate Design
Paul R. Moul	Rate of Return
John J. Spanos	Depreciation
William Patterson	Purchase price of Citizens
David R. Kaufman	Water Service Issues in Scranton/Wilkes-Barre and Lehman Pike
Paul A. Zielinski	Water Quality issues in Citizens service territory
Richard A. Jaehne	Facility Protection

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PENNSYLVANIA-AMERICAN WATER COMPANY

PROPOSED RATE FILING

RECONCILIATION OF CONSUMPTION AT PRESENT RATES PER FILING/ORDER

1. Consumption at Present Rates per Filing	<u>54,237,160</u>
2. ConAgra - decreased usage due to installation of water recycling equipment	(167,376)
3. Bechtel Bettis - decreased usage, discovered a large leak	(47,894)
	<hr/>
4. Consumption at Present Rates per Order	<u><u>54,021,890</u></u>

PENNSYLVANIA-AMERICAN WATER COMPANY

RECONCILIATION OF RATE ORDER WITH BUSINESS PLAN

Historical Test Period: December 31, 2002
 Projected Test Period: December 31, 2003
 Budget Business Plan: December 31, 2004

	Per Order	Business Plan		
1. Revenues at Present Rates	357,867,390			
2. Amount of Increase	34,314,157			
3. Percent of Increase	0			
4. Revenues	392,181,547	393,015,046		
5. O & M	150,287,408	161,069,166		
6. Depreciation	57,956,697	57,784,674		
7. General Taxes	12,783,849	12,953,069		
8. Federal & State Income Taxes	49,883,643	46,065,177		
Subtotal	270,911,597	277,872,086		
9. Utility Operating Income	121,269,950	115,142,960		
10. Interest on Long-term Debt	52,642,156	52,821,436		
11. Other Interest	0	0		
12. Preferred Dividends	1,192,875	1,217,400		
13. Other Income	0	0		
Subtotal	53,835,031	54,038,836		
14a. Income to Common Stock (Fallout)	67,434,919	61,104,124		
14b. Calculated Inc. to Common Stock	67,386,925	69,302,903		
15. Original Cost Rate Base	1,506,459,014	1,550,026,014		
16. Rate of Return on Rate Base	8.05%	7.43%		
17. Rate Base as % of Capitalization	96.72%	96.65%		
18. Cost of Capital Per Order	Amount	Ratio	Cost Rate	Weighted
a. Long-term Debt	884,987,000	56.82%	6.15%	3.50%
b. Short-term Debt				
c. Preferred Stock	15,190,000	0.98%	8.08%	0.08%
d. Common Equity	657,329,000	42.20%	10.60%	4.47%
e. Deferred Taxes				
f. Other				
Totals	1,557,506,000	100.00%		8.05%
19. Cost of Capital Per Budget				
a. Long-term Debt	875,421,000	54.58%	6.15%	3.36%
b. Short-term Debt	36,682,000	2.29%	1.54%	0.04%
c. Preferred Stock	15,190,000	0.95%	8.08%	0.08%
d. Common Equity	676,526,000	42.18%	10.60%	4.47%
e. Deferred Taxes				
f. Other				
Totals	1,603,819,000	100.00%		7.94%

TENNESSEE-AMERICAN WATER COMPANY
RATE CASE PROGRESS REPORT

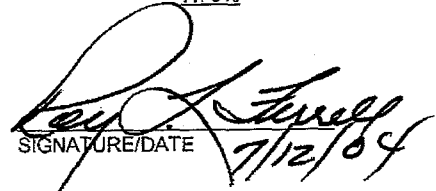
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DATE FILED: FEBRUARY 7, 2003
STATUTORY DATE: AUGUST 7, 2003
EFFECTIVE DATE:
HISTORICAL TEST PERIOD: JULY 31, 2002
PROJECTED TEST PERIOD: MARCH 31, 2004

AVERAGE RESIDENTIAL BILL:
ANNUAL USAGE: 57,120
PRESENT RATES: \$174.96
PROPOSED RATES: \$206.64
AUTH. RATES: \$188.89

		PROPOSED INCREASE	PER ORDER		
1.	REVENUES AT PRESENT RATES	\$30,409,356	\$30,040,618		
2.	AMOUNT OF INCREASE	3,866,813	2,745,273		
3.	% INCREASE	12.72%	9.14%		
4.	REVENUE	34,276,169	32,785,891		
5.	O & M EXPENSE	16,147,496	16,118,641		
6.	DEPRECIATION	4,121,753	4,121,753		
7.	GENERAL TAXES	3,764,126	3,482,263		
8.	INCOME TAXES	2,773,307	2,337,114		
	SUB-TOTAL	26,806,682	26,059,771		
9.	UTILITY OPERATING INCOME	7,469,487	6,726,120		
10.	INTEREST ON LONG - TERM DEBT	3,160,068	3,021,078		
11.	OTHER INTEREST	187,632	191,538		
12.	PREFERRED DIVIDENDS	69,816	69,650		
13.	OTHER DEDUCTIONS	0	0		
	SUB-TOTAL	3,417,516	3,282,266		
14a.	INCOME TO COMMON STOCK (FALLOUT)	4,051,971	3,443,854		
14b.	CALCULATED INCOME TO COMMON STOCK	4,049,355	3,447,685		
15.	ORIGINAL COST OF RATE BASE	\$87,270,579	\$87,062,756		
16.	RATE OF RETURN ON RATE BASE	8.56%	7.73%		
17.	RATE BASE AS % OF CAPITILIZATION	98.88%	98.64%		
18.	COST OF CAPITAL PER: PROPOSED CASE	AMOUNT	RATIO	COST RATE	WEIGHTED
a.	LONG-TERM DEBT	\$44,145,309	50.016%	7.24%	3.62%
b.	SHORT-TERM DEBT	5,429,000	6.151%	3.50%	0.22%
c.	PREFERRED STOCK	1,450,296	1.643%	5.01%	0.08%
d.	COMMON EQUITY	37,238,197	42.190%	11.00%	4.64%
e.	DEFERRED TAXES	0	0.000%	0.00%	0.00%
f.	JDITC	0	0.000%	0.00%	0.00%
g.	OTHER CAPITAL ELEMENTS	0	0.000%	0.00%	0.00%
	TOTALS	88,262,802	100.00%		8.56%
19.	COST OF CAPITAL PER: COMMISSION ORDER				
h.	LONG-TERM DEBT	\$46,087,305	52.216%	6.65%	3.47%
i.	SHORT-TERM DEBT	5,472,294	6.200%	3.50%	0.22%
j.	PREFERRED STOCK	1,412,205	1.600%	5.01%	0.08%
k.	COMMON EQUITY	35,290,999	39.984%	9.90%	3.96%
l.	DEFERRED TAXES	0	0.000%	0.00%	0.00%
m.	JDITC	0	0.000%	0.00%	0.00%
n.	OTHER CAPITAL ELEMENTS	0	0.000%	0.00%	0.00%
	TOTALS	88,262,802	100.00%		7.73%

SIGNATURE/DATE


SIGNATURE/DATE 7/12/04

TENNESSEE-AMERICAN WATER COMPANY
ANALYSIS OF PROPOSED REVENUES IN RATE FILING
PROFORMA AT PROPOSED RATES
GENERAL RATE INCREASE

REVENUE CLASSIFICATION	REV. FROM SERVICE CHG. OR MIN. BILL	CONSUMPTION ALLOWED UNDER MINIMUM BILL 1000 GALLONS	BILLED CONSUMPTION IN TEST YEAR	REV. FROM BILLED CONSUMPTION	REV. PER 1000 GALLONS	TOTAL REV.	% OF REV. FROM FIXED CHG. OR MIN. BILL
(1)	\$ (2)	(3)	(4)	\$ (5)	\$/ (6)	\$/ (7)	(8)
RESIDENTIAL	6,625,220		3,473,798.3	6,308,105	\$1.82	\$12,933,325	51.23%
COMMERCIAL	2,256,380		3,199,914.8	7,616,134	2.38	9,872,514	22.86%
INDUSTRIAL	228,575		2,217,624.0	3,127,148	1.41	3,355,723	6.81%
OTHER	427,456		1,921,171.5	3,015,091	1.57	3,442,547	12.42%
PUBLIC FIRE	891,680				0.00	891,680	100.00%
PRIVATE FIRE	1,201,881				0.00	1,201,881	100.00%
OTHER REVENUES							
MISC SERVICE REVENUES	675,636				0.00	675,636	100.00%
RENTS FROM WATER PROJ	101,764				0.00	101,764	100.00%
OTHER WATER REVENUES	310,821				0.00	310,821	100.00%
TOTAL	12,719,413	0.0	10,812,508.6	20,066,478		32,785,891	38.80%

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**TENNESSEE AMERICAN WATER COMPANY
DETAIL OF OPERATION AND MAINTENANCE EXPENSES**

<u>DESCRIPTION</u>	<u>PROPOSED</u>	<u>PER ORDER</u>
LABOR	\$5,066,666	\$5,066,666
PURCHASED WATER	17,561	17,561
FUEL AND POWER	1,551,622	1,551,622
CHEMICALS	740,531	740,531
WASTE DISPOSAL	130,151	130,151
MANAGEMENT FEES	2,507,276	2,507,276
GROUP INSURANCE	1,463,924	1,463,924
PENSIONS	387,895	387,895
REGULATORY EXPENSE	83,000	83,000
INSURANCE OTHER THAN GROUP	709,686	709,686
CUSTOMER ACCOUNTING	716,071	705,865
RENTS	42,729	42,729
GENERAL OFFICE EXPENSE	260,878	260,878
MISCELLANEOUS	1,820,924	1,802,276
MAINTENANCE/LABOR	700,320	700,320
AFUDC	<u>-51,739</u>	<u>-51,739</u>
TOTAL	<u>\$16,147,495</u>	<u>\$16,118,641</u>

TENNESSEE AMERICAN WATER COMPANY
DETAIL OF FEDERAL INCOME TAX CALCULATION

<u>DESCRIPTION</u>	<u>PROPOSED</u>	<u>PER ORDER</u>
OPERATING INCOME BEFORE FIT	\$9,981,944	\$8,776,588
ADJUSTMENTS THAT INCREASE (DECREASE) TAXABLE INCOME		
INTEREST EXPENSE	(3,347,700)	(3,210,004)
DEPRECIATION - EXCESS TAX OVER BOOK	(1,702,385)	(1,702,385)
AMORTIZATION OF CIAC	0	0
NON-DEUCTIBLE MEALS	7,638	7,638
COST OF REMOVAL	(24,200)	(24,200)
DIVIDEND RECEIVED CREDIT	(28,824)	(28,824)
OTHER	<u>(828,655)</u>	<u>(828,655)</u>
TOTAL ADJUSTMENTS	(5,924,126)	(5,786,430)
TAXABLE INCOME	4,057,818	2,990,158
FEDERAL INCOME TAX RATE	<u>35.00%</u>	<u>35.00%</u>
CURRENT FEDERAL INCOME TAX	<u>1,420,236</u>	<u>1,046,555</u>
<u>DEFERRED FEDERAL INCOME TAXES</u>		
EXCESS ADR & ACRS DEPRECIATION	595,835	595,835
REVERSE SOUTH GEORGIA	9,527	9,527
OTHER	<u>477,864</u>	<u>477,864</u>
TOTAL DEFERRED FIT	1,083,226	1,083,226
DEFERRED ITC	<u>(79,314)</u>	<u>(79,314)</u>
TOTAL FEDERAL INCOME TAX EXPENSE	<u>2,424,148</u>	<u>2,050,467</u>

TENNESSEE AMERICAN WATER COMPANY
 DETAIL OF STATE INCOME TAX CALCULATION

<u>DESCRIPTION</u>	<u>PROPOSED</u>	<u>PER ORDER</u>
OPERATING INCOME BEFORE SIT	\$10,242,794	\$9,063,234
ADJUSTMENTS THAT INCREASE (DECREASE) TAXABLE INCOME		
INTEREST EXPENSE	(3,347,700)	(3,210,004)
DEPRECIATION - EXCESS TAX OVER BOOK	(1,702,385)	(1,702,385)
AMORTIZATIONS	0	0
NON-DEUCTIBLE MEALS	7,638	7,638
COST OF REMOVAL	(24,200)	(24,200)
DIVIDEND RECEIVED CREDIT	0	0
OTHER	<u>(828,655)</u>	<u>(828,655)</u>
TOTAL ADJUSTMENTS	<u>(5,895,302)</u>	<u>(5,757,606)</u>
TAXABLE INCOME	4,347,494	3,305,628
STATE INCOME TAX RATE	<u>6.00%</u>	<u>6.00%</u>
CURRENT STATE INCOME TAX	<u>260,850</u>	<u>198,338</u>
<u>DEFERRED STATE INCOME TAXES</u>		
TOTAL DEFERRED SIT	88,309	88,309
TOTAL STATE INCOME TAX EXPENSE	<u>349,159</u>	<u>286,647</u>

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TENNESSEE AMERICAN WATER COMPANY
DETAIL OF RATE BASE CALCULATION

<u>DESCRIPTION</u>	<u>PROPOSED</u>	<u>PER ORDER</u>
UTILITY PLANT IN SERVICE	\$146,234,775	\$146,234,775
CONSTRUCTION WORK IN PROGRESS	801,659	801,659
ACCUMULATED DEPRECIATION	(44,221,915)	(44,221,915)
ACCUMULATED AMORTIZATION	(565,511)	(565,511)
RWIP	64,899	21,915
LIMITED TERM UTILITY PLANT	(20,953)	(20,953)
UTILITY PLANT CAPITAL LEASE	1,590,500	1,590,500
UNAMORTIZED SECURITY COSTS	<u>0</u>	<u>0</u>
NET UTILITY PLANT	<u>103,883,454</u>	<u>103,840,470</u>
DEDUCT:		
CUSTOMER ADVANCES	2,007,438	2,007,438
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>5,064,245</u>	<u>5,064,245</u>
SUBTOTAL DEDUCTED	<u>7,071,683</u>	<u>7,071,683</u>
ADD:		
CASH WORKING CAPITAL	1,567,918	<u>1,403,079</u>
DEFERRED MAINTENANCE	12,276	12,276
SUBTOTAL ADDED	<u>1,580,194</u>	<u>1,415,355</u>
DEDUCT:		
DEFERRED FIT	11,070,493	11,070,493
DEFERRED ITC	50,893	50,893
UTILITY PLANT ACQUISITION ADJ	<u>0</u>	<u>0</u>
TOTAL OTHER DEDUCTIONS	<u>11,121,386</u>	<u>11,121,386</u>
TOTAL RATE BASE	<u><u>\$87,270,579</u></u>	<u><u>87,062,756</u></u>

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TENNESSEE AMERICAN WATER COMPANY
Case No. 03-00118

On June 25, 2004, the Tennessee Regulatory Authority ("TRA") issued a final order in Case No. 2003-00118. The Final Order affirmed the rulings that had been approved by the Directors of the TRA on August 4, 2003. The approvals included the TRA reversing its prior decision in Docket No.1999-00891 that imputed a public fire hydrant discount. All issues were approved unanimously with the exception of the public fire hydrant discount that passed on a vote of two to one. The Company was awarded an annual increase of \$2,745,411 or 71% of the original amount requested of \$3,866,813.

OVERALL SUMMARY:

The Attorney General and the Company had "hammered out" a proposed settlement agreement that covered all disputed issues except the public fire hydrant discount. On this item, the parties to the stipulation had agreed to disagree and present their cases before the TRA for final resolution.

The Final Order approved a 7.73% overall return on investment that included a 9.9% return to common equity. As shown on the attached RRD-3 schedules and summarized below, the differences in the remaining cost of service elements are either extremely small or related to the revenue requirement on the change in overall return: (1) \$28,854 reduction in O&M expenses (\$10,206 in customer accounting due to change in uncollectible expense on disallowed revenues and \$18,648 reduction in miscellaneous expenses attributable to a minor difference in inflation factors used), (2) a \$207,823 reduction in Rate Base primarily related to removing from rate base an incomplete management audit, (3) received 100% of the requested depreciation expense, (4) a \$281,863 reduction in taxes other (\$44,856 in gross receipt taxes on disallowed revenues and \$237,007 in property taxes --the AG's used more current information available for calculating property taxes), and (5) income tax reduction due to the disallowed revenue requirement on the change noted above in overall return.


Roy L. Ferrell, Director 7/12/04
Rates & Revenue

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**TENNESSEE AMERICAN WATER COMPANY
RECONCILIATION OF CONSUMPTION AT PRESENT RATES
PER FILING AND PER ORDER**

CONSUMPTION AT PRESENT RATES PER FILING \$14,839,426

AJUSTMENTS PER ORDER:

Loss of Industrial Sales 422,748

0

0

0

0

0

TOTAL ADJUSTMENTS 422,748

CONSUMPTION AT PRESENT RATES PER ORDER \$14,416,678

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**TENNESSEE-AMERICAN WATER COMPANY
RECONCILIATION OF COST OF CAPITAL
PER FILING AND PER ORDER**

	<u>PER FILING</u>	<u>ADJUSTMENT</u>	<u>PER ORDER</u>
LONG-TERM DEBT	\$44,145,309	\$1,941,996	\$46,087,305
SHORT-TERM DEBT	5,429,000	43,294	5,472,294
PREFERRED STOCK	1,450,296	-38,091	1,412,205
COMMON EQUITY	37,238,197	-1,947,198	35,290,999
DEFERRED TAXES			
JDITC	0		0
TOTAL CAPITALIZATION	<u>\$88,262,802</u>	<u>\$0</u>	<u>\$88,262,802</u>

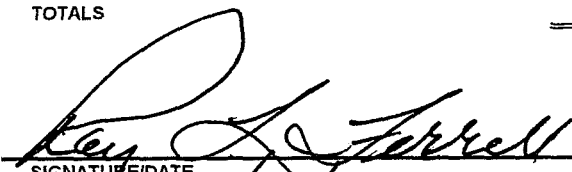
VIRGINIA-AMERICAN WATER COMPANY
PROPOSED RATE CASE PROGRESS REPORT

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DATE FILED: June 24, 2002
STATUTORY DATE: November 22, 2002
EFFECTIVE DATE: January 1, 2004
HISTORICAL TEST PERIOD: December 31, 2001
PROJECTED TEST PERIOD:

AVERAGE RESIDENTIAL BILL:
USAGE: See attached
PRESENT RATES: See attached
PROPOSED RATES:
AUTH RATES: See attached

	JURISDICTIONAL		NON-JURISDICTIONAL		TOTAL COMPANY	
	CURRENT CASE FILING	PER ORDER	CURRENT CASE FILING	PER ORDER	CURRENT CASE FILING	PER ORDER
1. REVENUES AT PRESENT RATES	\$30,329,714	\$ 30,307,802	\$3,129,202	\$ 3,129,202	\$33,458,915	\$ 33,437,004
2. AMOUNT OF INCREASE	1,137,741	646,991	95,991	59,667	1,233,732	706,658
3. % INCREASE	3.75%	2.13%	3.07%	1.91%	3.69%	2.11%
4. REVENUE	31,467,455	30,954,793	3,225,193	3,188,869	34,692,647	34,143,662
5. O & M EXPENSE	19,175,014	19,414,160	2,188,949	2,375,890	21,363,963	21,790,050
6. DEPRECIATION	2,721,696	2,528,065	189,823	176,318	2,911,519	2,704,383
7. GENERAL TAXES	1,789,081	1,690,004	164,147	155,057	1,953,228	1,845,061
8. INCOME TAXES	1,603,316	1,444,205	203,050	70,155	1,806,366	1,514,360
SUB-TOTAL	25,289,107	25,076,434	2,745,969	2,777,420	28,035,076	27,853,854
9. UTILITY OPERATING INCOME	6,178,348	5,878,359	479,224	411,449	6,657,571	6,289,808
10. INTEREST ON LONG - TERM DEBT	2,803,579	2,805,220	199,624	196,549	3,003,203	3,001,769
11. OTHER INTEREST	7,061	17,285	556	1,211	7,617	18,496
12. PREFERRED DIVIDENDS	36,177	36,011	2,779	2,523	38,956	38,534
13. OTHER DEDUCTIONS (INCOME)	123,086				123,086	-
SUB-TOTAL	2,969,903	2,858,516	202,959	200,283	3,172,862	3,058,799
14a. INCOME TO COMMON STOCK (FALLOUT)	3,208,445	3,019,843	276,265	211,166	3,484,709	3,231,009
14b. CALCULATED INCOME TO COMMON STOCK	\$3,331,526	3,019,843	256,925	211,587	3,588,451	3,231,430
15. ORIGINAL COST OF RATE BASE	\$72,064,153	72,021,058	5,557,533	5,046,197	77,621,687	77,067,255
16. RATE OF RETURN ON RATE BASE	8.57%	8.162%	8.623%	8.15%	8.58%	8.16%
17. RATE BASE AS % OF CAPITALIZATION	91.17%	91.12%	7.08%	6.38%	98.20%	97.50%
18. COST OF CAPITAL PER: <u>RATE CASE FILING</u>		<u>AMOUNT</u>	<u>RATIO</u>	<u>COST RATE</u>	<u>WEIGHTED</u>	
a. LONG-TERM DEBT		\$43,433,962	55.350%	7.031%	3.891%	
b. SHORT-TERM DEBT		\$231,167	0.290%	3.3214%	0.010%	
c. PREFERRED STOCK		757,046	0.960%	5.2075%	0.050%	
d. COMMON EQUITY		32,506,717	41.410%	10.7500%	4.452%	
e. DEFERRED TAXES						
f. JDITC		1,560,963	1.990%	8.5889%	0.171%	
g. INVESTMENT TAX CREDITS						
TOTALS		<u>\$78,489,855</u>	<u>100.00%</u>		<u>8.5740%</u>	
19. COST OF CAPITAL PER: <u>COMMISSION ORDER</u>		<u>AMOUNT</u>	<u>RATIO</u>	<u>COST RATE</u>	<u>WEIGHTED</u>	
a. LONG-TERM DEBT		\$43,279,098	54.755%	7.114%	3.895%	
b. SHORT-TERM DEBT		936,854	1.185%	2.054%	0.024%	
c. PREFERRED STOCK		757,046	0.958%	5.199%	0.050%	
d. COMMON EQUITY		32,506,717	41.127%	9.800%	4.030%	
e. DEFERRED TAXES						
f. JDITC		1,560,963	1.975%	8.235%	0.163%	
g. OTHER CAPITAL ELEMENTS						
TOTALS		<u>\$79,040,678</u>	<u>100.00%</u>		<u>8.162%</u>	


SIGNATURE/DATE 11/23/03

VIRGINIA AMERICAN WATER COMPANY
 PROPOSED RATE CASE FILING REPORT

Average Bill

<u>Average Residential Bill:</u>	<u>Alexandra</u>	<u>Hopewell</u>	<u>Prince William</u>
Average Usage : (000 Gallons)	66.0	57.6	74.4
Average Residential Bill at Present Rates	\$152.04	\$252.72	\$253.92
Plus: Purchase Water Surcharge	44.35		118.52
Average Residential Bill at Present Rates	\$196.39	\$252.72	\$372.44
Average Residential Bill at Proposed Rates	\$152.04	\$269.14	\$253.92
Plus: Purchase Water Surcharge	44.35		118.52
Average Residential Bill at Proposed Rates	\$196.39	\$269.14	\$372.44

VIRGINIA AMERICAN WATER COMPANY
PROPOSED RATE CASE FILING
DETAIL OF OPERATION AND MAINTENANCE EXPENSES

<u>DESCRIPTION</u>	JURISDICTIONAL		NON-JURISDICTIONAL		TOTAL COMPANY	
	PROPOSED FILING	PER ORDER	PROPOSED FILING	PER ORDER	PROPOSED FILING	PER ORDER
LABOR	\$3,130,414	\$3,218,151	\$483,594	\$491,950	\$3,614,008	\$3,710,101
PURCHASED WATER	2,573,367	2,837,640	779,226	810,616	3,352,593	3,648,256
FUEL AND POWER	509,579	516,885	37,704	38,287	547,283	555,172
CHEMICALS	605,249	632,146	54,739	61,982	659,988	694,128
WASTE DISPOSAL	700,795	662,339	52,181	111,512	752,976	773,851
MANAGEMENT FEES	927,714	924,117	127,460	115,701	1,055,174	1,039,818
GROUP INSURANCE	648,965	741,374	100,799	110,399	749,764	851,773
PENSIONS	137,898	235,537	20,733	35,080	158,631	270,617
REGULATORY EXPENSE	86,527	70,416	5,245	5,921	91,772	76,337
INSURANCE OTHER THAN GROUP	332,849	332,849	46,670	47,212	379,519	380,061
CUSTOMER ACCOUNTING	443,328	412,521	117,413	182,641	560,741	595,162
RENTS	15,747	2,009	3,415	6,072	19,162	8,081
GENERAL OFFICE EXPENSE	171,043	171,043	25,190	26,098	196,233	197,141
MISCELLANEOUS	2,244,083	2,013,436	264,588	254,572	2,508,671	2,268,008
MAINTENANCE/OTHER	733,147	735,471	69,993	77,848	803,140	813,319
TOTAL	\$13,260,706	\$13,505,935	\$2,188,949	\$2,375,890	\$15,449,655	\$15,881,825

VIRGINIA AMERICAN WATER COMPANY
PROPOSED RATE CASE FILING
DETAIL OF FEDERAL INCOME TAX CALCULATION

DESCRIPTION	JURISDICTIONAL		NON-JURISDICTIONAL	
	PROPOSED FILING	PER ORDER	PROPOSED FILING	PER ORDER
OPERATING INCOME BEFORE FIT	7,781,664	7,322,564	682,274	481,604
ADJUSTMENTS THAT INCREASE (DECREASE) TAXABLE INCOME	781,207	(161,691)	154,417	(31,961)
JDITC INTEREST	(123,086)	(117,394)	0	0
INTEREST EXPENSE	(2,810,640)	(2,762,317)	(246,039)	(241,809)
DEPRECIATION - EXCESS TAX OVER BOOK OTHER	(1,826,092)	(1,835,596)	(126,972)	(127,633)
TOTAL ADJUSTMENTS	(3,978,611)	(4,876,998)	(218,594)	(401,403)
TAXABLE INCOME	3,803,053	2,445,566	463,680	80,201
FEDERAL INCOME TAX RATE	35.00%	35.00%	35.00%	35.00%
CURRENT FEDERAL INCOME TAX	1,331,069	855,948	162,288	28,070
DEFERRED FEDERAL INCOME TAXES				
EXCESS ADR & ACRS DEPRECIATION	639,132	642,459	44,440	44,671
OTHER DEFERED	(213,061)	(115,051)	(1,667)	(900)
OTHER NON CURRENT				
OTHER CURRENT	(9,836)	(4,326)	(522)	(230)
RESERVED				
RESERVED				
TOTAL DEFERRED FIT	416,235	523,082	42,251	43,541
TAX REDUCTION - PARENT INTEREST	(112,895)	95,577	-	-
DEFERRED ITC	(31,092)	(30,402)	(1,489)	(1,456)
TOTAL FEDERAL INCOME TAX EXPENSE	\$1,603,317	\$1,444,205	\$203,050	\$70,155

VIRGINIA AMERICAN WATER COMPANY
PROPOSED RATE CASE FILING
DETAIL OF RATE BASE CALCULATION

DESCRIPTION	JURISDICTIONAL		NON-JURISDICTIONAL	
	PROPOSED FILING	PER ORDER	PROPOSED FILING	PER ORDER
Net Utility Plant in Service	123,057,377	120,276,680	8,345,895	7,900,680
Construction Work in Progress	1,299,600	4,713,466	276,671	336,352
Tank Painting Reserve	1,169,856	549,246	102,823	51,484
Wastewater Treatment Plant	168,059	168,059	12,514	12,514
Other (SPECIFY)				
Other (SPECIFY)				
Other (SPECIFY)				
Other (SPECIFY)				
NET UTILITY PLANT	125,694,892	125,707,451	8,737,903	8,301,030
DEDUCTS:				
Accumulated Provision for Depreciation And Amortization Net of Ret WIP	24,095,921	24,035,088	1,671,045	1,671,087
Customer Advances	6,549,489	6,549,489	386,078	386,078
Contributions in Aid of Construction	15,212,752	15,212,752	736,594	736,594
Tax on CIAC				
Other (SPECIFY)	0	-	0	-
Other (SPECIFY)				
TOTAL DEDUCTS	45,858,162	45,797,329	2,793,717	2,793,759
ADDITIONS:				
Materials and Supplies	603,499	603,499	50,889	50,889
Cash Working Capital	822,000	688,288	60,468	53,920
Other (SPECIFY)				
Other (SPECIFY) Def Security net of FIT	143,697	-	20,584	0
Other (SPECIFY) Def SSC & CCC	459,725	-	96,290	0
Other (SPECIFY)				
Other (SPECIFY)				
Other (SPECIFY)				
TOTAL ADDITIONS	2,028,921	1,291,787	228,231	104,809
OTHER DEDUCTS:				
Other Cost Free Capital	0	-	0	-
Deferred Income Taxes	9,744,126	9,123,479	610,917	561,916
Deferred ITC (3%)	57,372	57,372	3,967	3,967
TOTAL OTHER DEDUCTS	9,801,498	9,180,851	614,884	565,883
TOTAL RATE BASE	\$72,064,153	\$72,021,058	\$5,557,533	\$5,046,197

VIRGINIA AMERICAN WATER COMPANY
PROPOSED RATE CASE FILING
RECONCILIATION OF RATE BASE TO CAPITALIZATION

<u>DESCRIPTION</u>	<u>PER FILING</u>
TOTAL CAPITALIZATION	<u>\$79,040,678</u>
ITEM (SPECIFY)	
Other Investments	(1,774,526)
Rate Case Expense	(139,508)
OTHER, NET	<u>59,389</u>
TOTAL	<u>(1,973,423)</u>
RATE BASE	<u><u>\$77,067,255</u></u>

DATE FILED: MARCH 5, 1998
 STATUTORY DATE: DECEMBER 31, 2001
 EFFECTIVE DATE:
 HISTORICAL TEST PERIOD: DECEMBER 31, 2000
 PROJECTED TEST PERIOD:

CASE
No. 01-0326-W-
42T

AVERAGE RESIDENTIAL BILL: 01-0326-W42
 ANNUAL USAGE: 50,400 GALLONS
 PRESENT RATES \$390.48
 PROPOSED RATE \$449.64
 AUTH. RATES: \$409.92

	PROPOSED INCREASE	REVISED PROPOSED INCREASE	PER ORDER	
1. REVENUES AT PRESENT RATES	\$92,265,901	\$92,265,901	\$92,265,901	
2. AMOUNT OF INCREASE	11,778,872	11,778,872	4,552,238	
3. % INCREASE	12.77%	12.77%	4.93%	
4. REVENUE	104,044,773 (1)	104,044,773 (1)	96,818,139 (1)	
5. O & M EXPENSE	37,444,108	37,941,558	37,166,071	
6. DEPRECIATION	11,440,493	11,402,352	11,399,736	
7. GENERAL TAXES	10,407,545 (1)	10,345,288 (1)	9,781,285 (1)	
8. INCOME TAXES	11,405,702	11,319,574	8,103,692	
SUB-TOTAL	70,697,848	71,008,772	66,450,784	
9. UTILITY OPERATING INCOME	33,346,925	33,036,001	30,367,355	
10. INTEREST ON LONG - TERM DEBT	15,692,628	15,837,083	\$15,513,668	
11. OTHER INTEREST	792,176	452,488	446,436	
12. PREFERRED DIVIDENDS	188,613	188,537	182,295	
13. OTHER DEDUCTIONS	0	0	0	
SUB-TOTAL	16,673,417	16,478,108	16,142,399	
4a. INCOME TO COMMON STOCK (FALLOUT)	16,673,508	16,557,893	14,224,956	
4b. CALCULATED INCOME TO COMMON STOCK	16,673,417	16,666,645	14,211,562	
15. ORIGINAL COST OF RATE BASE	\$377,226,631	\$377,073,409	\$372,030,414	
16. RATE OF RETURN ON RATE BASE	8.84%	8.76%	8.16%	
17. RATE BASE AS % OF CAPITILIZATION	96.15%	96.20%	94.92%	
18. COST OF CAPITAL PER:				
<u>REVISED PROPOSED CASE</u>	<u>AMOUNT</u>	<u>RATIO</u>	<u>COST RATE</u>	<u>WEIGHTED</u>
a. LONG-TERM DEBT	\$223,505,094	57.202%	7.33%	4.20%
b. SHORT-TERM DEBT	8,000,000	2.048%	6.00%	0.12%
c. PREFERRED STOCK	2,247,270	0.575%	8.54%	0.05%
d. COMMON EQUITY	156,974,831	40.175%	11.00%	4.42%
e. DEFERRED TAXES	0	0.000%	0.00%	0.00%
f. JDITC	1,233,000	0.000%	0.00%	0.00%
g. OTHER CAPITAL ELEMENTS	0	0.000%	0.00%	0.00%
TOTALS	391,960,195	100.00%		8.79%
19. COST OF CAPITAL PER:				
<u>COMMISSION ORDER</u>				
h. LONG-TERM DEBT	\$223,505,094	57.202%	7.29%	4.17%
i. SHORT-TERM DEBT	8,000,000	2.048%	6.00%	0.12%
j. PREFERRED STOCK	2,247,270	0.575%	8.54%	0.05%
k. COMMON EQUITY	156,974,831	40.175%	9.50%	3.82%
l. DEFERRED TAXES	0	0.000%	0.00%	0.00%
m. JDITC	1,233,000	0.000%	0.00%	0.00%
n. OTHER CAPITAL ELEMENTS	0	0.000%	0.00%	0.00%
TOTALS	391,960,195	100.00%		8.16%

(1) DOES NOT INCLUDE LOCAL B. & O. TAXES SURCHARGED

PROPOSED CASE 2,329,260
 REVISED PROPOSED CASE 2,329,260
 PER ORDER 2,167,477

[Handwritten Signature]
 SIGNATURE/DATE

WEST VIRGINIA-AMERICAN WATER COMPANY
 DETAIL OF OPERATION AND MAINTENANCE EXPENSES

<u>DESCRIPTION</u>	<u>PROPOSED</u>	<u>REVISED PROPOSED</u>	<u>PER ORDER</u>
LABOR	\$14,464,755	\$13,719,994	\$13,323,092 13930
PURCHASED WATER	391,915	391,915	391,915
FUEL AND POWER	2,543,697	2,543,697	2,544,265
CHEMICALS	1,024,988	1,024,988	1,025,205
WASTE DISPOSAL	610,277	610,277	610,277
MANAGEMENT FEES	1,559,420	1,559,420	1,547,625
GROUP INSURANCE	2,845,220	2,873,483	2,779,516
PENSIONS	0	0	0
REGULATORY EXPENSE	276,771	276,771	110,104
INSURANCE OTHER THAN GROUP	1,670,157	1,867,421	1,851,619
CUSTOMER ACCOUNTING	2,789,760	3,662,272	3,595,336
RENTS	2,988,475	2,988,475	3,188,475
GENERAL OFFICE EXPENSE	979,228	979,228	979,228
MISCELLANEOUS	3,715,790	3,859,961	3,641,540
MAINTENANCE/OTHER	<u>1,583,656</u>	<u>1,583,656</u>	<u>1,577,874</u>
TOTAL	<u>\$37,444,108</u>	<u>\$37,941,558</u>	<u>\$37,166,071</u>

WEST VIRGINIA-AMERICAN WATER COMPANY
 DETAIL OF FEDERAL INCOME TAX CALCULATION

<u>DESCRIPTION</u>	<u>PROPOSED</u>	<u>REVISED PROPOSED</u>	<u>PER ORDER</u>
OPERATING INCOME BEFORE FIT	\$42,586,136	\$42,210,681	\$36,825,997
ADJUSTMENTS THAT INCREASE (DECREASE) TAXABLE INCOME			
INTEREST EXPENSE	(16,484,804)	(16,289,571)	(15,960,105)
DEPRECIATION - EXCESS TAX OVER BOOK	(4,686,951)	(4,725,092)	(4,723,851)
NON-DEUCTIBLE BUSINESS MEALS	39,585	39,585	39,585
INTEREST DURING CONSTRUCTION	0	0	0
AMORTIZATION OF FIRE SETTLEMENT	0	0	0
AMORTIZATION OF PLANT HELD FOR FUTURE	0	0	0
COST OF REMOVAL	(264,983)	(264,983)	(264,983)
DIVIDEND RECEIVED CREDIT	(1,110)	(1,110)	(1,110)
PROPERTY GAINS (LOSSES)	0	0	0
DEFERRED SIT	<u>64,598</u>	<u>64,598</u>	<u>64,598</u>
TOTAL ADJUSTMENTS	(21,333,665)	(21,176,573)	(20,845,866)
TAXABLE INCOME	21,252,471	21,034,108	15,980,131
FEDERAL INCOME TAX RATE	<u>35.000%</u>	<u>35.000%</u>	<u>28.955%</u>
CURRENT FEDERAL INCOME TAX	7,438,365	7,361,938	4,627,047
DEFERRED FEDERAL INCOME TAXES			
ACCELERATED DEPRECIATION - POST 1981	1,646,421	1,658,317	1,657,871
EXCESS DEFERRED REVERSAL	(10,132)	(10,132)	(10,132)
TAX LIFE AMORTIZATION - CIAC PROPERTY	<u>228,605</u>	<u>228,605</u>	<u>228,605</u>
TOTAL DEFERRED FIT	<u>1,864,894</u>	<u>1,876,790</u>	<u>1,876,344</u>
DEFERRED ITC	<u>(64,048)</u>	<u>(64,048)</u>	<u>(44,749)</u>
TOTAL FEDERAL INCOME TAX EXPENSE	<u>\$9,239,211</u>	<u>\$9,174,680</u>	<u>\$6,458,642</u>

WEST VIRGINIA-AMERICAN WATER COMPANY
 DETAIL OF STATE INCOME TAX CALCULATION

<u>DESCRIPTION</u>	<u>PROPOSED</u>	<u>REVISED PROPOSED</u>	<u>PER ORDER</u>
OPERATING INCOME BEFORE SIT	\$44,752,627	\$44,355,575	\$38,471,047
ADJUSTMENTS THAT INCREASE (DECREASE) TAXABLE INCOME			
INTEREST EXPENSE	(16,484,804)	(16,289,571)	(15,960,105)
DEPRECIATION - EXCESS TAX OVER BOOK	(4,686,951)	(4,725,092)	(4,723,851)
NON-DEUCTIBLE BUSINESS MEALS	39,585	39,585	39,585
INTEREST DURING CONSTRUCTION	0	0	0
AMORTIZATION OF FIRE SETTLEMENT	0	0	0
AMORTIZATION OF PLANT HELD FOR FUTURE	0	0	0
COST OF REMOVAL	(264,983)	(264,983)	(264,983)
DIVIDEND RECEIVED CREDIT	(1,110)	(1,110)	(1,110)
PROPERTY GAINS (LOSSES)	0	0	0
TAXABLE ADVANCES AND CONTRIBUTIONS	<u>0</u>	<u>0</u>	<u>0</u>
TOTAL ADJUSTMENTS	(21,398,263)	(21,241,171)	(20,910,464)
TAXABLE INCOME	23,354,364	23,114,404	17,560,583
STATE INCOME TAX RATE	<u>9.00%</u>	<u>9.00%</u>	<u>9.00%</u>
CURRENT STATE INCOME TAX	<u>2,101,893</u>	<u>2,080,296</u>	<u>1,580,452</u>
DEFERRED STATE INCOME TAXES			
TAX LIFE AMORTIZATION - CIAC PROPERTY	<u>64,598</u>	<u>64,598</u>	<u>64,598</u>
TOTAL DEFERRED SIT	<u>64,598</u>	<u>64,598</u>	<u>64,598</u>
TOTAL STATE INCOME TAX EXPENSE	<u>\$2,166,491</u>	<u>\$2,144,894</u>	<u>\$1,645,050</u>

WEST VIRGINIA-AMERICAN WATER COMPANY
 DETAIL OF RATE BASE CALCULATION

<u>DESCRIPTION</u>	<u>PROPOSED</u>	<u>REVISED PROPOSED</u>	<u>PER ORDER</u>
UTILITY PLANT IN SERVICE	\$470,707,333	\$470,553,663	\$465,481,658
REGULATORY ASSET	983,289	983,289	983,289
LEASEHOLD IMPROVEMENTS	7,273	7,273	7,273
ACCUMULATED DEPRECIATION	<u>(39,972,916)</u>	<u>(39,960,819)</u>	<u>(39,838,980)</u>
NET UTILITY PLANT	<u>431,724,979</u>	<u>431,583,406</u>	<u>426,633,240</u>
<u>DEDUCT:</u>			
CUSTOMER ADVANCES	8,788,565	8,788,565	8,788,565
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>31,734,142</u>	<u>31,734,142</u>	<u>32,184,946</u>
SUBTOTAL DEDUCTED	<u>40,522,707</u>	<u>40,522,707</u>	<u>40,973,511</u>
<u>ADD:</u>			
MATERIALS & SUPPLIES	1,557,279	1,557,279	1,557,279
PREPAYMENTS	587,486	587,486	587,486
RETIREMENT WORK IN PROGRESS	1,811,744	1,811,744	1,811,744
CASH WORKING CAPITAL	<u>123,000</u>	<u>113,000</u>	<u>400,249</u>
SUBTOTAL ADDED	<u>4,079,509</u>	<u>4,069,509</u>	<u>4,356,758</u>
<u>DEDUCT:</u>			
DEFERRED FIT	17,081,727	17,083,376	17,062,609
DEFERRED ITC	918,807	918,807	868,848
CUSTOMER DEPOSITS	<u>54,616</u>	<u>54,616</u>	<u>54,616</u>
TOTAL OTHER DEDUCTS	<u>18,055,150</u>	<u>18,056,799</u>	<u>17,986,073</u>
TOTAL RATE BASE	<u>\$377,226,631</u>	<u>\$377,073,409</u>	<u>\$372,030,414</u>

RRD-3
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WEST VIRGINIA-AMERICAN WATER COMPANY
CASE NO. PSC 01-0326-W-42T
NARRATIVE

INFORMATION RELATIVE TO HEARING:

A Hearing was held on October 10, 2001, for two purposes; (1) to address and respond to Commissioners' questions on an agreement that had been reached by the Company, the Staff, and the Consumer Advocate Division ("the Parties"), including a representation that the Parties also had reached an agreement concerning the Company's proposed standby service tariff, and (2) to present testimony on the standby service tariff that was being contested by other interveners in the case. In an effort to resolve outstanding issues on the standby service tariff, the Parties had exchanged proposals and counter-proposals, but no consensus had been reached at that time. The Parties agreed to submit a proposed settlement of the standby service tariff issue or a request for hearing of this issue by October 12, 2001. The standby service tariff is further discussed in this narrative.

RATEMAKING TREATMENT:

Listed below is the ratemaking treatment on major ACCOUNTING ISSUES that were requested and approved in this rate case.

- The Company had requested a one-year amortization of the cost of presenting this Rate Case, but agreed to a three-year amortization.
- The Company will be permitted to amortize costs associated with its effort to acquire the Parkersburg Municipal system over a twenty-year period.
- Cost incurred for the 2001 Cost of Service Study is to be amortized over a three-year period – approved as requested.
- Cost incurred for the 2001 Empirical Water Demand Study is to be amortized over a three-year period – approved as requested.
- Costs incurred for developing and processing Depreciation Case No. 98-0985-W-D is to be amortized over a five-year period – approved as requested.
- Costs incurred for developing continuing property records (required before the Company could file another depreciation study) is to be amortized over a five-year period – approved as requested.
- The transition costs from the Consolidated Call Center is to be amortized over a ten-year period.

- The new rate for “allowance for funds used during construction” (AFUDC), based on the approved weighted cost of capital, is 8.16%, detail shown below:

Long Term Debt	4.17 %
Short Term Debt	.12 %
Preferred Stock	.05 %
Common Equity	<u>3.82 %</u>
Total	<u>8.16 %</u>

REVISION TO ORIGINAL FILING:

The West Virginia Rules and Regulations (“Rules”) for tariff filings do not address the right of a utility to file an accounting revision to reflect any major change(s) that may have occurred after filing its case.

In all recent cases, including this case, the Company has been permitted to file an accounting revision to reflect material changes to its filing prior to the Commission Staff or interveners initiating audits, albeit no increase in revenues requested.

The Rules are specific that revenues requested couldn’t be increased for any change, unless the utility files a new notice and re-publishes its legal ad (re-starting the 300-day suspension period). To avoid re-starting the suspension period and still file a revision, the Company flows the rate impact of its proposed changes to the bottom line, thus lowering the equity return.

Simultaneously with filing direct testimony on May 9, 2001, the Company revised its accounting exhibit for four items, consisting of: (1) the move to a consolidated call center (net savings of \$117,260 dedicated to amortizing the Company’s allocated portion of the system start-up costs), (2) a \$234,849 increase to insurance (not identified at the time of the original filing), (3) change to long-term interest rate for a proposed financing (reducing revenue requirement by \$199,138), and (4) a small error in projected overtime hours (increasing payroll requested by \$16,675).

EXPLANATION FOR O&M DIFFERENCE BETWEEN LEVEL REQUESTED AND APPROVED:

Two items account for nearly 85% of this difference; (i) Labor (including Benefits) and (ii) regulatory expense.

(i) Labor/benefits:

- Eliminated four positions not presently filled
- Salary increases effective 7/1/02
- Substituted actual non union increases for estimates
- Eliminated overtime related to the Parkersburg acquisition
- Substituted union pay differentials

- (ii) Regulatory Expense - The Company proposed amortizing the cost associated with presenting this case over one year but as part of the negotiated settlement agreed to a three-year amortization. If the Company were to file another case within the three-year time frame, any unamortized portion from this case would be included and amortized with the new case.

DIFFERENCE IN RATE BASE:

Approximately 92% of the rate base difference is due to utility plant in service, specifically revenue producing additions that the Company had requested terminal rate base. The Consumer Advocate was suggesting that the Company had "low balled" expected revenues from customer growth. The Commission Staff proposed capping the revenue producing additions based on a pure thirteen-month average for the historical test year. For purpose of stipulation this case, the Company agreed to reducing utility plant in service by \$4.6 million.

IMPLEMENTATION OF THE APPROVED RATE INCREASE:

The Company and the Commission Staff had filed cost of service studies. The results of those studies were very close measured either against one another or measured against the rates approved by the Commission in the Company's last general rate case. For these reasons, the parties agreed and the Commission approved the rates and charges as an across-the-board to all customer classes, effective December 31, 2001.

STANDBY TARIFF:

Although the Standby Tariff, as initially filed (the "Initial Standby Tariff"), is significantly different from the version approved by the Commission (the "Approved Standby Tariff"), the two versions share the same policy goals advanced in the Company's direct testimony, which is summarized as follows:

The Company considered it unfair to its other customers to dedicate facilities and capacity to large customers who choose not to use them, holding capacity available in case those customers experience an interruption or outage in their alternative sources of supply and need backup service at a moment's notice. The Company believed that those peaking customers should have to pay a cost-based charge for the availability of backup service.

Under the Initial Standby Tariff, firm standby service would be available to any existing or new industrial, commercial, and self-resale customer that has or develops an alternative source of supply or makes any modification to an alternative source of supply after January 1, 2001, with the capacity available to supply the customer with an average of 100,000 gallons of water per day. The customer's nomination of its maximum day demand would be set at the maximum

day capacity of the customer's alternative source of supply. In the Initial Standby Tariff, however, the customer had no opportunity to renominate its standby requirements. Moreover, in the event of an excess standby event in which the customer's actual use exceeded the nominated amount, a higher nomination based on the actual use would remain in effect for the remainder of the agreement's 10-year term. In this instance, the customer would be charged a penalty based on the spread between the actual quantities used and the previously-nominated demand, all multiplied by the applicable demand charge and the number of months since the beginning of the agreement term.

The parties to the Initial Stipulation identified several outstanding issues relating to compromise language to which they had agreed, and requested additional time to rework the tariff. These discussions culminated in the Agreed Standby Tariff.

In addition to numerous technical, definitional and drafting changes, the Agreed Standby Tariff includes several substantive changes from the Initial Standby Tariff. The following changes are among the most significant substantive changes in the Agreed Standby Tariff:

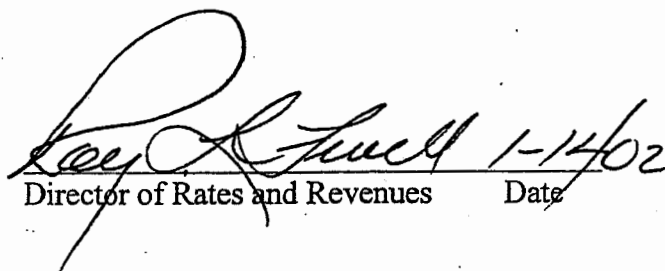
- a. Inapplicability to Sale for Resale Customers. The Agreed Standby Tariff applies only to large industrial and commercial customers, and not to sale for resale customers.
- b. Inapplicability to Existing Alternative Sources. The Agreed Standby Tariff does not apply to existing industrial or commercial customers that operate and use an existing alternative source of supply as of December 31, 2001. However, if such a customer were to develop an additional alternative source of supply or increase the capacity of an existing alternative source of supply, and consequently the customer reduced its monthly purchases of water from the Company, the Agreed Standby Tariff would apply to the additional capacity of the alternative source(s) of supply.
- c. Nomination of Firm Standby Demand Requirements. The Agreed Standby Tariff permits a standby service customer to renominate its "Maximum Day Demand Requirement" annually. The nominated amounts are at the discretion of the standby service customer, and are not tied to the capacity of the customer's alternative source of supply. The only exception to this provision involves an instance in which a standby service customer's actual maximum day demand during a standby event exceeds its prior nomination. In this instance, the standby service customer's new Maximum Day Demand Requirement will be renominated at the level of its actual maximum day demand during the standby event.
- d. Reduced Excess Demand Charge. The calculation of the "Excess Demand Charge" -- the penalty for making a Maximum Day Demand Requirement nomination that proves to be less than the standby service customer's actual maximum day demand during a standby event -- has been limited to the number of months (not to exceed six months) since the standby service

customer's most recent nomination or, if no renomination has been made, since the beginning of the standby service agreement. In addition, the standby service customer will have the option of paying the Excess Demand Charge either (i) in a lump sum during the month following the standby event, or (ii) in equal monthly installments over a period to be selected by the customer not to exceed 24 months, together with a monthly carrying charge of 8% per annum on the outstanding balance.

- e. **Simplification of Nomination.** Instead of requiring the standby service customer to nominate its average day, maximum day, and maximum hour demands and to pay a demand charge based on all three of these components, the Agreed Standby Tariff uses only a maximum day demand charge calculated to incorporate the average-day and maximum-day costs associated with standby service. In addition, the maximum day demand charge produces slightly less revenue than the aggregate of the average day demand, maximum day demand, and maximum hour demand charges previously used. The use of a single maximum day demand charge also avoids the potential for a standby service customer to prolong the duration of the standby event through the unnecessary use of extremely low amounts of standby water during the remainder of the month (thereby artificially depressing the actual average day demand during a standby event).

- f. **"Non-Standby Water".** The Agreed Standby Tariff provides that water used by an industrial or commercial customer on a regular basis in the normal course of its operations is considered "Non-Standby Water" and is priced through the rate blocks in the Company's general tariff.

All of the changes in the Agreed Standby Tariff served to circumscribe its application and therefore made it more favorable to any industrial or commercial customer to which it might apply. These changes were necessary to facilitate approval of the tariff. Nevertheless, the Agreed Standby Tariff still addresses the Company's policy goals.



Director of Rates and Revenues Date 1-14-02

WEST VIRGINIA-AMERICAN WATER COMPANY
RECONCILIATION OF CONSUMPTION AT PRESENT RATES

PER REVISED FILING AND PER ORDER

1.	CONSUMPTION AT PRESENT RATES PER REVISED FILING	13,978,646
2.	AJUSTMENTS PER ORDER:	
	TOTAL ADJUSTMENTS	<u>0</u>
3.	CONSUMPTION AT PRESENT RATES PER ORDER	<u>13,978,646</u>

WEST VIRGINIA-AMERICAN WATER COMPANY
 RECONCILIATION OF COST OF CAPITAL

PER REVISED FILING AND PER ORDER

	<u>PER REVISED FILING</u>	<u>ADJUSTMENT</u>	<u>PER ORDER</u>
LONG-TERM DEBT	\$223,505,094	\$0	\$223,505,094
SHORT-TERM DEBT	8,000,000	0	8,000,000
PREFERRED STOCK	2,247,270	0	2,247,270
COMMON EQUITY	156,974,831	0	156,974,831
DEFERRED TAXES	0		0
JDITC	1,233,000		1,233,000
TOTAL CAPITALIZATION	<u>\$391,960,195</u>	<u>\$0</u>	<u>\$391,960,195</u>

HISTORICAL TEST PERIOD: DECEMBER 31, 2000
PROJECTED TEST PERIOD:
BUSINESS PLAN PERIOD : DECEMBER 31, 2002

	<u>PER ORDER</u>	<u>BUSINESS PLAN</u>		
1. REVENUES AT PRESENT RATES	<u>\$92,265,901</u>	<u>\$92,004,446</u>		
2. AMOUNT OF INCREASE	4,552,238	4,552,238		
3. % INCREASE	4.93%	4.95%		
4. REVENUE	<u>96,818,139</u> *	<u>96,556,684</u> *		
5. O & M EXPENSE	37,166,071	37,165,918		
6. DEPRECIATION	11,399,736	12,176,152		
7. GENERAL TAXES	9,781,285 *	10,130,756 *		
8. INCOME TAXES	<u>8,103,692</u>	<u>8,778,221</u>		
SUB-TOTAL	<u>66,450,784</u>	<u>68,251,047</u>		
9. UTILITY OPERATING INCOME	<u>30,367,355</u>	<u>28,305,637</u>		
10. INTEREST ON LONG - TERM DEBT	15,513,668	15,199,373		
11. OTHER INTEREST	446,436	495,214		
12. PREFERRED DIVIDENDS	182,295	191,240		
13. OTHER INCOME / DEDUCTIONS	<u>0</u>	<u>(447,024)</u>		
SUB-TOTAL	<u>16,142,399</u>	<u>15,438,803</u>		
4a. INCOME TO COMMON STOCK (FALLOUT)	14,224,956	12,866,834		
4b. CALCULATED INCOME TO COMMON STOCK	<u>14,211,562</u>	<u>14,099,953</u>		
15. ORIGINAL COST OF RATE BASE	372,030,414	372,030,414		
16. RATE OF RETURN ON RATE BASE	8.16%	7.61%		
17. RATE BASE AS % OF CAPITILIZATION	94.92%	89.98%		
18. COST OF CAPITAL PER:				
<u>COMMISSION ORDER</u>	<u>AMOUNT</u>	<u>RATIO</u>	<u>COST RATE</u>	<u>WEIGHTED</u>
a. LONG-TERM DEBT	\$223,505,094	57.202%	7.29%	4.17%
b. SHORT-TERM DEBT	8,000,000	2.048%	6.00%	0.12%
c. PREFERRED STOCK	2,247,270	0.575%	8.54%	0.05%
d. COMMON EQUITY	156,974,831	40.175%	9.50%	3.82%
e. DEFERRED TAXES	0	0.000%	0.00%	0.00%
f. JDITC	1,233,000	0.000%	0.00%	0.00%
g. OTHER CAPITAL ELEMENTS	<u>0</u>	<u>0.000%</u>	0.00%	<u>0.00%</u>
TOTALS	<u>391,960,195</u>	<u>100.00%</u>		<u>8.16%</u>
19. COST OF CAPITAL PER:				
<u>BUSINESS PLAN</u>				
h. LONG-TERM DEBT	\$223,724,000	54.319%	7.29%	3.96%
i. SHORT-TERM DEBT	21,684,000	5.265%	6.00%	0.32%
j. PREFERRED STOCK	2,247,000	0.546%	8.54%	0.05%
k. COMMON EQUITY	164,213,000	39.870%	9.50%	3.79%
l. DEFERRED TAXES	0	0.000%	0.00%	0.00%
m. JDITC	1,570,000	0.000%	0.00%	0.00%
n. OTHER CAPITAL ELEMENTS	<u>0</u>	<u>0.000%</u>	0.00%	<u>0.00%</u>
TOTALS	<u>413,438,000</u>	<u>100.00%</u>		<u>8.12%</u>

• DOES NOT INCLUDE LOCAL B. & O. TAXES SURCHARGED --	PER ORDER	\$2,167,477
	PER BUSINESS PLAN	\$2,161,623

BUDGET RATE BASE AND CAPITAL IS PROJECTED AT YEAR END 2002

WEST VIRGINIA-AMERICAN WATER COMPANY
RATE CASE FILING REPORT

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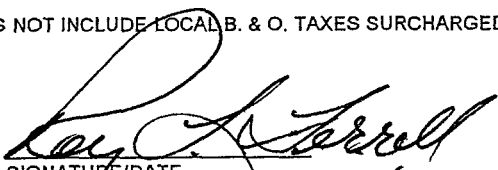
DATE FILED: MARCH 11, 2003
PETITION FILED: MARCH 11, 2003
TESTIMONY / EXHIBITS FILED: MAY 1, 2003 / MARCH 11, 2003
STATUTORY DATE: JANUARY 6, 2004
EFFECTIVE DATE: JANUARY 6, 2004
HISTORICAL TEST PERIOD: DECEMBER 31, 2002
FORECASTED TEST PERIOD:
END OF PERIOD, AVG, 13 MO AVG, OTHER:
CAPITAL CUT OFF DATE: DECEMBER 31, 2002
EXPENSE CUT OFF DATE: DECEMBER 31, 2004

AVERAGE RESIDENTIAL BILL:
USAGE: 48,000 GALLONS
PRESENT RATES: \$393.48
PROPOSED RATES: 443.76
AUTH. RATES: 393.48
PRESENT RATES (5,000 gallons) 476.16
PROPOSED RATES (5,000 gallons) 537.12
AUTH. RATES (5,000 gallons) 476.16

	PROPOSED INCREASE		REVISED PROPOSED INCREASE		PER ORDER	
1.	REVENUES AT PRESENT RATES	\$94,790,260	(1)	\$94,790,982	(1)	\$97,057,000
2.	AMOUNT OF INCREASE	15,550,687		15,271,808		1,827,870
3.	% INCREASE	16.41%		16.11%		1.88%
4.	REVENUE	110,340,947	(1)	110,062,790	(1)	98,884,870
5.	O & M EXPENSE	45,290,404		45,319,685		41,977,619
6.	DEPRECIATION	12,894,436		12,894,436		12,586,000
7.	GENERAL TAXES	10,562,904	(1)	10,553,015	(1)	11,871,431
8.	INCOME TAXES	9,502,125		9,434,190		6,317,676
	SUB-TOTAL	78,249,869		78,201,326		72,752,726
9.	UTILITY OPERATING INCOME	32,091,078		31,861,464		26,132,144
10.	INTEREST ON LONG - TERM DEBT	14,808,269		14,702,243		14,622,980
11.	OTHER INTEREST	518,888		515,173		236,490
12.	PREFERRED DIVIDENDS	199,572		198,143		197,075
13.	OTHER DEDUCTIONS	0		0		0
	SUB-TOTAL	15,526,729		15,415,559		15,056,545
14a.	INCOME TO COMMON STOCK (FALLOUT)	16,564,349		16,445,905		11,075,599
14b.	CALCULATED INCOME TO COMMON STOCK	16,564,506		16,445,905		11,075,626
15.	ORIGINAL COST OF RATE BASE	\$399,144,726		\$396,286,879		\$394,150,392
16.	RATE OF RETURN ON RATE BASE	8.04%		8.04%		6.63%
17.	RATE BASE AS % OF CAPITALIZATION	98.00%		100.24%		0.00%
18.	COST OF CAPITAL PER:					
	<u>REVISED PROPOSED CASE</u>	<u>AMOUNT</u>	<u>RATIO</u>	<u>COST RATE</u>		<u>WEIGHTED</u>
a.	LONG-TERM DEBT	\$224,055,276	55.172%	6.73%		3.71%
b.	SHORT-TERM DEBT	15,374,000	3.786%	3.50%		0.13%
c.	PREFERRED STOCK	2,227,704	0.549%	8.57%		0.05%
d.	COMMON EQUITY	164,448,999	40.494%	10.25%		4.15%
e.	DEFERRED TAXES	0	0.000%	0.00%		0.00%
	JDITC	1,188,000	0.000%	0.00%		0.00%
f.	OTHER CAPITAL ELEMENTS	0	0.000%	0.00%		0.00%
	TOTALS	407,293,979	100.00%			8.04%
19.	COST OF CAPITAL PER:					
	<u>COMMISSION ORDER</u>					
g.	LONG-TERM DEBT	\$217,137,451	55.090%	6.73%		3.71%
h.	SHORT-TERM DEBT	16,593,732	4.210%	1.40%		0.06%
i.	PREFERRED STOCK	2,167,827	0.550%	8.56%		0.05%
j.	COMMON EQUITY	158,251,382	40.150%	7.00%		2.81%
k.	DEFERRED TAXES	0	0.000%	0.00%		0.00%
l.	JDITC	1,188,000	0.000%	0.00%		0.00%
m.	OTHER CAPITAL ELEMENTS	0	0.000%	0.00%		0.00%
n.	TOTALS	395,338,392	100.00%			6.63%

(1) DOES NOT INCLUDE LOCAL B. & O. TAXES SURCHARGED

PROPOSED CASE \$2,385,665
REVISED PROPOSED CASE 2,379,646
PER ORDER


SIGNATURE/DATE
11/6/04

WEST VIRGINIA-AMERICAN WATER COMPANY
 DETAIL OF OPERATION AND MAINTENANCE EXPENSES

<u>DESCRIPTION</u>	<u>PROPOSED INCREASE</u>	<u>REVISED PROPOSED INCREASE</u>	<u>PER ORDER</u>
LABOR	\$12,446,161	\$ 12,502,736	11,595,691
PURCHASED WATER	317,499	317,499	317,499
FUEL AND POWER	2,646,218	2,646,218	2,656,158
CHEMICALS	1,346,296	1,318,893	1,323,836
WASTE DISPOSAL	924,535	924,535	808,606
MANAGEMENT FEES	5,570,617	5,570,617	5,408,617
GROUP INSURANCE	3,485,886	3,486,288	3,237,125
PENSIONS	949,903	949,903	881,065
REGULATORY EXPENSE	262,909	262,909	208,446
INSURANCE OTHER THAN GROUP	2,190,639	2,192,919	2,062,389
CUSTOMER ACCOUNTING	3,637,141	3,632,451	2,988,565
RENTS	3,620,956	3,620,956	3,422,313
GENERAL OFFICE EXPENSE	894,405	894,405	894,405
MISCELLANEOUS	3,522,687	3,524,803	3,321,861
MAINTENANCE	1,098,306	1,098,306	1,098,306
MAINTENANCE/STEEL STRUCTURE PAINTING	278,215	278,215	278,215
SECURITY	2,098,032	2,098,032	1,474,522
TOTAL	<u>45,290,404</u>	<u>45,319,685</u>	<u>41,977,619</u>

WEST VIRGINIA-AMERICAN WATER COMPANY
DETAIL OF FEDERAL INCOME TAX CALCULATION

<u>DESCRIPTION</u>	<u>PROPOSED INCREASE</u>	<u>REVISED PROPOSED INCREASE</u>	<u>PER ORDER</u>
OPERATING INCOME BEFORE FIT	\$ 40,052,937	\$ 39,772,290	\$ 31,589,693
<u>ADJUSTMENTS THAT INCREASE (DECREASE) TAXABLE INCOME</u>			
INTEREST EXPENSE	(15,327,157)	(15,217,416)	(14,859,455)
NON-DEUCTIBLE MEALS	14,397	14,397	14,397
AMORTIZATION OF PREFERRED STOCK EXPENSE	-	-	-
DIVIDEND RECEIVED CREDIT	(1,110)	(1,110)	(1,110)
DEPRECIATION - EXCESS TAX OVER BOOK	-	-	-
DEPRECIATION - PRE 1981 PROPERTY	591,431	591,431	591,431
DEPRECIATION - POST 1980 PROPERTY	(9,541,338)	(9,541,338)	(8,422,763)
DEPRECIATION - TAXABLE CONTRIBUTED PROPERTY	(592,802)	(592,802)	(592,802)
COST OF REMOVAL	(186,219)	(186,219)	(186,219)
ABANDONEMENT LOSSES	-	-	-
ALL OTHER	-	-	-
DEFERRED SIT	<u>50,630</u>	<u>50,630</u>	<u>50,630</u>
TOTAL ADJUSTMENTS	<u>(24,992,168)</u>	<u>(24,882,427)</u>	<u>(23,405,891)</u>
TAXABLE INCOME	15,060,769	14,889,863	8,183,802
FEDERAL INCOME TAX RATE	<u>29.860%</u>	<u>29.860%</u>	<u>29.860%</u>
CURRENT FEDERAL INCOME TAX	<u>4,497,146</u>	<u>4,446,113</u>	<u>2,443,683</u>
<u>DEFERRED FEDERAL INCOME TAXES</u>			
ACCELERATED DEPRECIATION - POST 1981	3,339,468	3,339,468	2,888,621
EXCESS DEFERRED REVERSAL	(10,132)	(10,132)	(10,132)
TAX LIFE AMORTIZATION - CIAC PROPERTY	<u>180,126</u>	<u>180,126</u>	<u>180,126</u>
TOTAL DEFERRED FIT	<u>3,509,462</u>	<u>3,509,462</u>	<u>3,058,615</u>
DEFERRED ITC	<u>(44,749)</u>	<u>(44,749)</u>	<u>(44,749)</u>
TOTAL FEDERAL INCOME TAX EXPENSE	<u>7,961,859</u>	<u>7,910,826</u>	<u>5,457,549</u>

**WEST VIRGINIA-AMERICAN WATER COMPANY
DETAIL OF STATE INCOME TAX CALCULATION**

<u>DESCRIPTION</u>	<u>PROPOSED INCREASE</u>	<u>REVISED PROPOSED INCREASE</u>	<u>PER ORDER</u>
OPERATING INCOME BEFORE SIT	\$41,593,203	\$41,295,654	\$32,449,820
<u>ADJUSTMENTS THAT INCREASE (DECREASE) TAXABLE INCOME</u>			
INTEREST EXPENSE	(15,327,157)	(15,217,416)	(14,859,455)
NON-DEUCTIBLE MEALS	14,397	14,397	14,397
AMORTIZATION OF PREFERRED STOCK EXPENSE	-	-	-
DIVIDEND RECEIVED CREDIT	(1,110)	(1,110)	(1,110)
DEPRECIATION - EXCESS TAX OVER BOOK	-	-	-
DEPRECIATION - PRE 1981 PROPERTY	591,431	591,431	591,431
DEPRECIATION - POST 1980 PROPERTY	(9,541,338)	(9,541,338)	(8,422,763)
DEPRECIATION - TAXABLE CONTRIBUTED PROPERTY	(592,802)	(592,802)	(592,802)
COST OF REMOVAL	(186,219)	(186,219)	(186,219)
ABANDONEMENT LOSSES	-	-	-
ALL OTHER	-	-	-
ADD BACK DIVIDEND RECEIVED CREDIT	<u>1,110</u>	<u>1,110</u>	<u>1,110</u>
TOTAL ADJUSTMENTS	<u>(25,041,688)</u>	<u>(24,931,947)</u>	<u>(23,455,411)</u>
TAXABLE INCOME	16,551,515	16,363,707	8,994,409
STATE INCOME TAX RATE	<u>9.00%</u>	<u>9.00%</u>	<u>9.00%</u>
CURRENT STATE INCOME TAX	1,489,636	1,472,734	809,497
<u>DEFERRED STATE INCOME TAXES</u>			
DEFERRED SIT	<u>50,630</u>	<u>50,630</u>	<u>50,630</u>
TOTAL DEFERRED SIT	<u>50,630</u>	<u>50,630</u>	<u>50,630</u>
TOTAL STATE INCOME TAX EXPENSE	<u>1,540,266</u>	<u>1,523,364</u>	<u>860,127</u>
DEFERRED SIT			

WEST VIRGINIA-AMERICAN WATER COMPANY
DETAIL OF RATE BASE CALCULATION

<u>DESCRIPTION</u>	<u>PROPOSED INCREASE</u>	<u>REVISED PROPOSED INCREASE</u>	<u>PER ORDER</u>
UTILITY PLANT IN SERVICE	\$510,523,457	\$510,523,457	\$507,957,829
CONSTRUCTION WORK IN PROGRESS			
ACCUMULATED DEPRECIATION	(52,399,881)	(52,399,881)	(52,096,132)
UPAA			
COMMON PLANT - ALLOCATED			
FAS 109 REG. ASSET-NET OF LIABILITY			
UNCLASSIFIED PLANT IN SERVICE	69,071	69,071	69,071
	<hr/>	<hr/>	<hr/>
NET UTILITY PLANT	458,192,647	458,192,647	455,930,768
DEDUCTS:			
CONTRIBUTIONS IN AID OF CONSTRUCTION	35,181,115	35,181,115	35,631,919
DEPRECIATION ON CONTRIBUTED PROPERTY			
CUSTOMER ADVANCES	9,584,426	9,584,426	9,584,426
CUSTOMER DEPOSITS	0	0	9,510
OTHER DEFERRED CREDITS			
	<hr/>	<hr/>	<hr/>
TOTAL DEDUCTS	44,765,541	44,765,541	45,225,855
ADDITIONS:			
MATERIALS & SUPPLIES	1,585,089	1,585,089	1,585,089
DEFERRED CHARGES	5,456,790	5,456,790	5,456,790
CASH WORKING CAPITAL	439,000	(575,000)	(520,000)
ORIGINAL COST STUDY			
SAVINGS SHARING			
PREPAYMENTS	834,257	834,257	834,257
RETIREMENT WORK IN PROGRESS	1,304,638	1,304,638	1,304,638
	<hr/>	<hr/>	<hr/>
TOTAL ADDITIONS	9,619,774	8,605,774	8,660,774
OTHER DEDUCTS:			
DEFERRED INCOME TAXES	23,032,463	24,876,310	24,396,451
DEFERRED INVESTMENT TAX CREDITS	869,691	869,691	818,844
	<hr/>	<hr/>	<hr/>
TOTAL OTHER DEDUCTS	23,902,154	25,746,001	25,215,295
	<hr/>	<hr/>	<hr/>
TOTAL RATE BASE	<u>\$399,144,726</u>	<u>\$396,286,879</u>	<u>\$394,150,392</u>

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WEST VIRGINIA-AMERICAN WATER COMPANY
NARRATIVE CASE NO. 03-0353-W-42T

On January 2, 2004, the Public Service Commission issued its final order, addressing the Company's original request for a \$15.55 million (subsequently revised to \$15.27 million by the filing of a Revised Rule 42 Exhibit required financial information for the filing on May 1, 2003). The Revision was filed to include recent developments that were not known at the time of filing and the correction of certain information in the Rule 42 Exhibit, i.e., Pennsylvania Avenue Rental Revenues estimates and actual contract signed after filing.

The Commission's Order recognizes an increase of \$1.828 million and approves a revenue recovery that implements the Order without increasing the Company's existing usage rates. As explained in the Order, the revenue recovery will result from certain additional "new" miscellaneous service revenues that had been requested by the Company as "cost causer tariffs."

The specific cost causer tariffs approved were \$1.860 million from a 10% delayed payment penalty; \$.234 million from reconnection charge, and \$.017 million from a bad check charge. Overall these tariffs are projected to produce \$2.111 million, or about \$.283 more than the Commission determined revenue deficiency. The negative balance could have come from reducing existing usage rates; however, the Commission chose not to reduce existing rates, because of the potential volatility of the customer specific tariff items and the relatively small difference between the two amounts.

Two thirds of the revenue disallowed (approximately \$9.06 million) is directly related to the low return on equity authorized in the Order and the capitalization used. The Commission authorized a return on equity of only 7.00% and an overall return of 6.63%, compared with the Company's request of 10.25% on equity and an overall of 8.04%. The remaining reduction of \$4.39 million is discussed later in this narrative.

Intervenors in this case raised two issues that had never been raised before. First, although the Consumer Advocate Division (“CAD”) testified that the Company’s case supported an increase of approximately \$4 million, the CAD recommended “that the Commission deny any increase in this case until such time as the income of the Company’s customers improves or the Company can show that it requires additional revenue to avoid financial distress,” essentially arguing that the magnitude of rates, in and of itself, could warrant disallowance of any increase. The Commission denied CAD’s level of revenues as presented but also found that the Company was not entitled to an increase in rates. Second, the Board of Education (“BOE”) raised as an issue the level and cost of services provided by the Service Company. The BOE requested argued that the total Service Company charges (\$5,570,617) should be denied, arguing that the Company had not demonstrated the services were being provided on a competitive basis. The Commission denied BOE’s request but the Commission placed the Company on notice “that the Commission may, in the future, opt to open an investigation into the level and content of the affiliate charges to review those charges on an-going basis”.

The Commission was under enormous public pressure to hold down the rate increase, particularly given the publicity about the change of control and the fact that there are currently major rate increases pending for virtually every West Virginia gas utility as a result of purchased gas cost escalations.

The Company was able to maintain the rate base treatment for terminal test year and post-test year treatment on non-revenue and non-expense reducing additions, revenue recovery for the deferred security expenses, post-test year adjustments to capital structure, and non-inclusion of non-regulated AW subsidiary tax losses in the consolidated tax savings calculations, all major issues with potential negative impact.

The remaining reduction to requested revenues is primarily driven by adjustments to capital structure, rate base, level of capitalized payroll, security expenses (as provided by the Company based on current levels of reduced expense), service company allocations, and uncollectible expense.

Capital Structure

Adjustments to the Company capital structure accounted for a 3% reduction in the requested revenue requirement. Approximately one-half of this reduction was related to the short-term interest rate indicated in the Order. The Company's filing projected short-term rates based on the 2004 Value Line estimate. The short-term market rates have not increased as expected in the Value Line projection of February 2003 used by the Company. The short-term debt interest rate used by the Commission is slightly higher than current interest rates. The Capital Structure in the Order was predicated on an average of those proposed by the Company and the Staff, and partially eliminates the test-year average short-term debt level historically used by the Staff.

Rate Base

The Order upheld the Commission's practice of permitting terminal rate base for test-year and post test-year additions that are non-revenue producing or and non-expense reducing. The difference in rate base is less than \$5.0 million and relates to the CIS and Residuals Projects that were determined to be expense reducing by the Commission.

O&M Expenses:

Labor

The Commission did not allow the Company's projected 23% capital payroll used by the Company in its filing and held that the actual test-year ratio should be used in this case, accounting for \$1,332,477 of the total operating expense reduction. However, they did allow the Company's requested staffing level of 323 employees that included the filling of eight vacancies after the end of the test year

Deferred Security Expense

As part of the commitments made in the Acquisition proceeding, the Company updated its filing to indicate any synergy savings post acquisition. The Company included in this filing a \$623,510 reduction in on-going security expenses based on the latest estimate of those on-going costs. The Commission also recognized over \$2.75 million of post test-year capital investment required to generate these savings.

Uncollectible Expense

The Commission held to its historical use of a three-year average of the uncollectible expense to revenue at arriving at its level of uncollectible expense. The Company had argued that the use of a three-year average was not representative of on-going expense in this case due to the steady increase in this expense over the last five years.

Increased Amortization for the Consolidated Call Center (CCC)

The Company had requested and received approval in its last case to recover the start-up cost for operating the CCC over an amortization period of 10 years. In this case, the Company had proposed to adjust the amortization by \$101,590 per year to recoup its unrecovered balance over the remaining eight years, i.e., the estimated amount originally approved in rates was lower than total cost. Staff recommended a \$90,250 adjustment to reflect annual amortization of the CCC transition costs. Although Staff agreed with the total cost for the CCC, it disagreed with the level amortized by the Company in 2002 and 2003.

Incentive compensation

The Company argued that its Long-Term Incentive Plan was part of the overall compensation package for executives and is integral to effort to attract and retain talented and capable individuals. CAD argued that the payments were for certain management employees in furtherance of corporate financial goals, i.e., that the stockholders were the primary beneficiaries in meeting performance targets. The Commission allowed the inclusion of the Company request.

Rate Case Expense

The Company proposed a three-year amortization of rate case expense, the same method approved in its prior case. Only two years had passed since the conclusion of its last case. The Company proposed to add the unamortized portion of its actual rate case expense from the 2001 case to its estimated rate case expense for processing this case and to amortize the combined amount over three years. Staff agreed with

the Company's proposed three-year amortization but recommended the Commission disallow the difference between the actual and estimated rate case expense into the current case. The Commission accepted Staff's proposal.

Workers Compensation

In its filing, the Company projected its Workers Compensation base rate would increase 25%, using published information available. In the late stage of processing this case the actual base rate increase became available. The effect of a favorable modification to the Company's claims experience rating, aggregated with an approved 15% increase in the premium rate reduced the Company's projection by \$93,034. The Commission approved the adjusted amount.

Waste Disposal Expense

The Company sought an adjustment based on expected costs of operating its new Kanawha Valley sludge disposal system, and forecasted costs for waste handling at its other eight water treatment plants, a \$145,601 adjustment. The Commission rejected the Company's proposal as being speculative and violative of the known and measurable principle.

Revenues:

Industrial Revenues attributable to a loss in an industrial customer

The Great Lakes Chemical Plant closed in March 2002, stopped using water entirely in February 2003, and demolished its facility by mid-year 2003. The Company removed both test year revenues and related production expenses for this customer. There was no dispute about the Plant closing and the destruction of the facility. However, the adjustment was denied on the basis that there may have been increases in other customer classes or usage levels sufficient to offset the small \$177,000 loss.

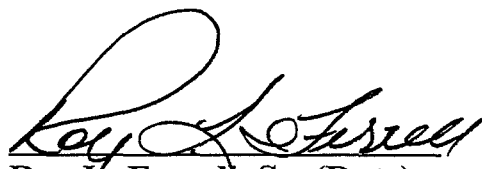
Revenues for Providing Sewer Billing and Collecting

CAD was recommending that the Commission impute additional revenues for performing billing and collecting services for sewer entities by \$127,051. The Company argued that the \$0.79 per item being charged continues to be cost based under the calculation provided for in the Contract. An updated calculation was provided demonstrating a net change of less than one cent, and the Commission rejected the CAD's recommendation.

Summary

In its review of the Order, the Company has not discovered any mathematical or mechanical errors or omissions in the Order and sees no benefit to asking the Commission for reconsideration. A Petition for Reconsideration provides no time limit for the Commission to act, and a lengthy reconsideration by the Commission is likely to produce little if any additional revenue. In addition, the Petition for Reconsideration will only alert the Commission and Staff to our position on appeal and provide the opportunity to strengthen the Commission Order for appeal. Further, under West Virginia's anti-pancaking statute, the Commission has held that Petition for Reconsideration prevents the filing of another rate case until the Commission has acted on the Petition for Reconsideration.

The Company believes that it should appeal the Order directly to the West Virginia Supreme Court and limit that appeal to the ROE issue. The ROE issue is the largest revenue item and is an area that the Court has previously addressed. It is unlikely the Court would act on any of the other issues given the wording of the Order and the Commission's reliance on historical regulatory discretion in arriving at its decision.


Roy L. Ferrell, Sr. (Date)
1/6/04

WEST VIRGINIA-AMERICAN WATER COMPANY
RECONCILIATION OF CONSUMPTION AT PRESENT RATES
PER REVISED FILING AND PER ORDER

CONSUMPTION AT PRESENT RATES PER REVISED FILING 13,395,388

INDUSTRIAL CUSTOMER LOSS (GREAT LAKES CHEMICAL) 50,315

CONSUMPTION AT PRESENT RATES PER ORDER 13,445,703

HISTORICAL TEST PERIOD: DECEMBER 31, 2002
 FORECASTED TEST PERIOD:
 BUSINESS PLAN PERIOD: DECEMBER 31, 2004

		<u>PER ORDER</u>	<u>BUSINESS PLAN</u>		
1.	REVENUES AT PRESENT RATES	\$ 97,057,000	\$ 101,625,583		
2.	AMOUNT OF INCREASE	1,827,870	9,544,000		
3.	% INCREASE	1.88%	0		
4.	REVENUE	<u>98,884,870</u>	<u>111,169,583</u>		
5.	O & M EXPENSE	41,977,619	45,995,266		
6.	DEPRECIATION	12,586,000	13,202,001		
7.	GENERAL TAXES	11,871,431	13,035,242		
8.	INCOME TAXES	<u>6,317,676</u>	<u>9,542,511</u>		
	SUB-TOTAL	72,752,726	81,775,020		
9.	UTILITY OPERATING INCOME	<u>26,132,144</u>	<u>29,394,563</u>		
10.	INTEREST ON LONG - TERM DEBT	14,622,980	14,988,265		
11.	OTHER INTEREST	236,490	341,942		
12.	PREFERRED DIVIDENDS	197,075	190,205		
13.	OTHER DEDUCTIONS	-	(16,587)		
	SUB-TOTAL	<u>15,056,545</u>	<u>15,503,825</u>		
14a.	INCOME TO COMMON STOCK (FALLOUT)	<u>11,075,599</u>	<u>13,890,738</u>		
15.	ORIGINAL COST OF RATE BASE	394,150,392	394,150,392		
16.	RATE OF RETURN ON RATE BASE	6.63%	7.46%		
17.	RATE BASE AS % OF CAPITILIZATION	99.70%	93.82%		
18.	COST OF CAPITAL PER: <u>COMMISSION ORDER</u>	<u>AMOUNT</u>	<u>RATIO</u>	<u>COST RATE</u>	<u>WEIGHTED</u>
a.	LONG-TERM DEBT	\$217,137,451	55.090%	6.73%	3.71%
b.	SHORT-TERM DEBT	16,593,732	4.210%	1.40%	0.06%
c.	PREFERRED STOCK	2,167,827	0.550%	8.56%	0.05%
d.	COMMON EQUITY	158,251,382	40.150%	7.00%	2.81%
e.	DEFERRED TAXES	0	0.000%	0.00%	0.00%
f.	JDITC	1,188,000	0.000%	0.00%	0.00%
	OTHER CAPITAL ELEMENTS	0	0.000%	0.00%	0.00%
	TOTALS	<u>395,338,392</u>	<u>100.00%</u>		<u>6.63%</u>
19.	COST OF CAPITAL PER: <u>BUSINESS PLAN</u>				
g.	LONG-TERM DEBT	\$224,640,000	53.616%	6.73%	3.61%
h.	SHORT-TERM DEBT	21,422,917	5.113%	1.40%	0.07%
i.	PREFERRED STOCK	2,230,000	0.532%	8.56%	0.05%
j.	COMMON EQUITY	170,689,222	40.739%	7.00%	2.85%
k.	DEFERRED TAXES	0	0.000%	0.00%	0.00%
	JDITC	1,143,492	0.000%	0.00%	0.00%
l.	OTHER CAPITAL ELEMENTS	0	0.000%	0.00%	0.00%
	TOTALS	<u>420,125,631</u>	<u>100.00%</u>		<u>6.58%</u>