

**Kentucky American Water - Case No. 2004-00103**

**Activation Fee**

(Expenses are based on forecasted test year unless otherwise noted)

				Comments
<b>1.</b>	<b>Labor and miscellaneous expenses:</b>			
	Total Field Service Labor in test year		\$ 488,200	
	Total Inside Customer Service Labor in test year		217,535	
	Subtotal direct service order labor		\$ 705,735	
	Total Remaining Distribution Department Labor in test year		\$ 2,238,574	
	Grand total labor distribution department labor		\$ 2,944,309	
	Direct service order labor as a % of grand total labor		23.97%	This allocation factor was developed by adding field service labor (\$488,200) to inside customer service labor (\$217,535) and dividing the total (\$705,735) by total labor for the distribution department (\$2,944,309)
	Total Operations Superintendent Labor		\$ 90,513	
	Allocated to Service Order Work		\$ 21,695	Total of Operation Superintendent labor (\$90,513) multiplied by 23.97%
	Direct service order labor eligible for incentive pay		\$ 122,631	
	Incentive pay as a % of eligible labor		8.81%	Developed by dividing total incentive pay in forecasted year by labor in forecasted year eligible for incentive pay
	Incentive pay allocated		\$ 10,804	Service order labor eligible for incentive pay times 8.81%
	Miscellaneous expenses:			
535000	14	Contract Services - Other	\$ 32,519	
520100	14	M & S Oper TD	114,418	
575000	14	Misc Oper TD	72,612	
575320	14	Electricity	4,090	
575620	14	Office & Admin Supplies TD	17,835	
575480	14	Heat - Office TD	31,618	
575500	14	Janitorial TD	7,098	
575780	14	Trash Removal TD	8,182	
575820	14	Uniforms	8,911	
575741	14	Cell Phone TD	17,621	
	Subtotal miscellaneous expenses		\$ 314,904	
	Miscellaneous expense allocated to direct service order labor		\$ 75,481	Total of miscellaneous expense (\$314,904) multiplied by 23.97% to allocate miscellaneous expense for the distribution department to service order work based on a ratio of labor dollars
	Direct Customer Service Expenses			
520100	15	M & S Oper	\$ 4,910	
575000	15	Misc Oper Customer Service	4,963	
575620	15	Office & Admin	8,598	
575741	15	Cell Phone	742	
541400	15	Rents	5,521	
535000	15	Contract Services - Other	69,351	
535001	15	Contract Services - Temporary Labor	80,284	
	Subtotal customer service expenses		\$ 174,369	

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<b>2.</b>	<b>Payroll overhead:</b>		
	Direct service order labor plus allocated Operations Superintendent	\$ 727,430	
	Payroll overhead factor for forecasted test year	54.45%	
	Total payroll overhead allocated to direct service order labor	\$ 396,086	Total of direct service order labor (\$705,735) plus allocation of Operations Superintendent labor (\$21,695) times payroll overhead rate of 54.45%
<b>3.</b>	<b>Transportation expense:</b>		
	Total miles driven by field service persons in 2003	231,434	
	Total service orders worked by field service persons in 2003 (Central)	73,728	
	Miles driven per service order in 2003	3.14	Ratio developed by using total miles driven (231,434) in 2003 and dividing by service orders worked (73,728) in 2003
	Total service orders worked by field service persons in 2003 (Central)	73,728	
	Average customers 2003 (Lexington) [(Dec 2002 + Dec 2003)/2]	104,632	
	Service orders worked per average customer in 2003	0.705	Ratio developed by dividing total service orders worked (73,728) in 2003 by average customers (104,632) in 2003
	Average customers in forecasted test year (Central)	109,856	
	Service orders worked per average customer in 2003	0.705	
	Estimated service orders worked in forecasted test year	77,409	Estimated service orders to be worked in forecasted year (77,409) arrived at by multiplying average customers in forecasted year (109,856) by ratio of service orders to customers for 2003 (.705)
	Estimated service orders worked in forecasted test year	77,409	
	Miles driven per service order in 2003	3.14	
	Estimated miles driven by field service persons in test year	242,988	Estimated miles driven in forecasted year derived by multiplying 2003 ratio of miles driven per service order (3.14) times the estimated orders in the forecasted year (77,409)
	IRS rate per mile	\$ 0.375	
	Estimated transportation cost by field service persons in test year	\$ 91,120	
<b>4.</b>	<b>Allocation of Customer Service Center Costs</b>		
	Call center costs in KY management fees in test year (Central)	\$ 758,817	
	Total service orders worked by field service persons in 2003 (Central)	73,728	
	Average customers 2003 (Lexington) [(Dec 2002 + Dec 2003)/2]	104,632	
	Estimated calls per customer	1.45	By averaging calls per customer for YTD July 2003 (1.49); 2002 (1.49) and 2001 (1.36), we arrived at average calls per customer of 1.45
	Estimated # of calls received by the Kentucky American Water Call Center	151,652	We estimated the number of calls received by multiplying the average number of customers in 2003 (104,632) by the average calls per customer of 1.45

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	Ratio of service orders to calls received	48.6%
	Allocate CSC costs to service orders based on ratio of service orders to calls received	368,912
		Since not all calls result in a service order, many are inquiries only, we arrived at a ratio of service orders to calls received of 48.6% by dividing the 2003 service orders (73,728) by the estimated number of calls received (151,652) in 2003
		Total call center costs in the test (\$758,817) year were allocated to service order work based on the ratio of calls resulting in service orders to calls received (48.6%)
<b>5.</b>	<b>Totals</b>	
	Direct service order labor	\$ 705,735
	Operations Superintendent allocation	21,695
	Incentive pay	10,804
	Miscellaneous expenses	75,481
	Customer Service expenses (service order closing)	174,369
	Payroll overhead	396,086
	Transportation expense	91,120
	Customer Service Center costs	368,912
	Subtotal	\$ 1,844,202
	Estimated service orders worked during test year	77,409
	Cost per service order (activation fee)	\$ 23.82
	<b>Round activation fee to \$24</b>	<b>\$ 24.00</b>