

**APPENDIX C**  
**Referenced Data Requests:**

**AG 1-17**  
**AG 1-67**  
**AG 1-70**  
**AG 1-75 (Partial)**  
**AG 1-77**  
**AG 1-99**  
**AG 1-111 (Partial)**  
**AG 1-123**  
**AG 1-138**  
**AG 1-144**  
**AG 1-176 (Partial)**  
**AG 2-29**

**PSC 1-18**  
**PSC 2-49**  
**PSC 2-50**  
**PSC 2-52**  
**PSC 2-57**  
**PSC 2-64**  
**PSC 2-99 (Partial)**  
**PSC 2-115 (Partial)**  
**PSC 2-116**  
**PSC 3-9-2**  
**PSC 3-24**  
**PSC 3-30 (Partial)**  
**PSC 3-39**  
**PSC 3-44 (Partial)**

**LFUCG 1-19 (Partial)**  
**LFUCG 1-42**  
**LFUCG 1-57**

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2004-00103**  
**ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**  
**ITEMS 1-30**

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Witness Responsible:

Mike Miller

17. Reference: KAWC response to AG 1 – 150. Please identify, for the base period and future test year, the amount included in Southeast Region's management fees for each of the requested expense categories.

Response:

	<u>Base Period</u>	<u>Forecasted Period</u>
Business Development	\$111,865	\$117,525
Legal	35,425	44,464
Information Systems	770,507	819,399
Rates & Revenues	90,141	94,702

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2004-00103**  
**ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**  
**ITEMS 1-180**

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Witness Responsible:

James E. Salser

67. Please provide the lead/lag days filed by the Company in its last base rate case.

Response:

See attached file KAW\_R\_AGKYDR1#67\_attachment\_062504.pdf.

KENTUCKY AMERICAN WATER

AG DR 67

(A) Date Service Furnished and Date Collections Deposited	36.42
(B) Date Expenses Incurred and Date of Payment	<u>24.41</u>
(C) Net Interval	<u>12.01</u>

Average Median Service Days	13.64
Number of Days between the Reading Date and the Billing Date	5.97
Number of Days between the Billing Date and the Date the Bills are Paid	<u>16.81</u>
Total Average Days' Interval between Number of Days from Date Services are Furnished to Date Collections are Received	<u>36.42</u>

Payrolls Charged to Expense - Union/ATS Group	13.00
Payrolls Charged to Expense - Salaried	6.00
Fuel, Power and Electric	35.76
Chemicals	30.49
Service Company Charges	(5.56)
Group Insurance	(5.72)
Opeb	(0.50)
Insurance Other than Group	(47.19)
Transportation Expense	20.14
Rents	(0.61)
Telephone Expense	12.27
Postage Expense	23.47
Stock E	28.03
Maintenance Expense	36.33
Amortization	-
Uncollectibles	-
Reserved	-
Other Operating Expenses	<u>21.44</u>

Depreciation and Amortization	-
Taxes, Other than Income	
Payroll - FUTA	75.29
Payroll - SUTA	75.14
Payroll - FICA	11.08
Other	69.86
Income Taxes - Current - SIT	54.25
Income Taxes - Current - FIT	38.50
Deferred Income Taxes	-
Interest Expense - Long - Term Debt	90.45
Interest Expense - Short - Term Debt	45.63
Preferred Dividends	45.49
Net Income	-

Net Operating Funds

Average Days Interval between Date Expenses are Incurred and Date of Payment	<u>24.41</u>
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**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2004-00103**  
**ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**  
**ITEMS 1-180**

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Witness Responsible:

Michael Miller

70. Please describe all incentive compensation programs available to employees and provide the amount of incentive compensation awarded in each of the past five years or each such program.

Response:

Both the Long-term Incentive Plan (LIP) and Annual Incentive Plan (AIP) are described in the testimony of Mr. Miller beginning with question 71 on page 47 through the answer to question 81 on page 54.

	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>
LIP	\$0	\$3,067	\$0	\$0	\$61,701
AIP	\$73,220	\$102,490	\$109,998	\$0	\$0
Other	\$0	\$0	\$109,500	\$139,700	\$78,500*

\* Payment for 2003 was made on April 1, 2004

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2004-00103**  
**ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**  
**ITEMS 1-180**

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Witness Responsible:

Mike Miller

75. Please provide the most recent actuarial reports for the Company's a) pension plan and b) post-retirement benefits other than pension plan.

Response:

Please see attached file [KAW\\_R\\_AGKYDR1#75\\_attachment\\_062504.pdf](#) for 2003. The full actuarial reports for 2004 will not be finalized until later in the year. To arrive at the forecasted test year expenses for FAS 87 pensions and FAS 106 OPEB's the Company relied on updated estimates provided by Towers Perrin. The estimate and work schedule for pensions are shown on WP-3-7. Attached is the estimate for OPEB's and the worksheet. Also attached are the assumptions used to arrive at the 2004 OPEB expense and to adjust for expected medical cost increases for 2005.



**American Water**  
**Preliminary Allocation Percentages of 2004 FAS 106 Cost and Retiree Contributions**  
Retiree Welfare Plan: Annual Valuation  
Using data collected as of July 1, 2003

04/14/04

COMPANY	Total						FAS 106 Cost Allocation %**	Allocation of FAS 106 Cost	Contributions Allocation %***	Allocation of Expected Retiree Contributions
	Actives	Dependents of Actives*	Retirees and Disableds	Dependents of Retirees and Disableds	Surviving Spouses	Total Participants				
AMERICAN WATER WORKS COMPANY	7	5	3	2		17	0.18%	60,084	0.14%	2,400
AMERICAN WATER SERVICES (AAET, LP)	23	20	12	7	3	65	0.60%	187,738	0.83%	10,801
AMERICAN WATER SERVICES (Corp)	5	5	8	8		26	0.24%	76,098	0.48%	7,886
AMERICAN WATER RESOURCES			1	1		2	0.02%	6,258	0.06%	1,029
AMW SERVICE COMPANY										
Voorhees	134	104	83	71	22	424	3.98%	1,214,047	5.31%	91,034
Belleville, IL Lab (R)	35	24	1	-	-	60	0.55%	172,094	0.63%	814
Hershey, PA Data Center (W)	33	27	6	3	-	69	0.63%	187,128	0.29%	4,457
New England (K)			1	1	-	2	0.02%	6,258	0.06%	1,029
Richmond, IN Data Center (H)	2	2	3	2	-	9	0.08%	23,032	0.14%	2,400
Western (L)	17	13	2	1	-	33	0.30%	83,870	0.08%	1,643
Haddon Heights IS	14	11	-	-	-	25	0.23%	71,967	0.00%	0
Northeast Region	14	11	1	1	-	27	0.25%	78,225	0.06%	1,029
Southeast Region	28	23	1	-	-	52	0.48%	150,191	0.08%	814
Indiana Region	12	10	1	1	-	24	0.22%	68,638	0.06%	1,029
Illinois Region	25	17	-	-	-	42	0.38%	118,902	0.00%	0
Alton, IL Call Center	25	20	-	-	-	45	0.41%	128,288	0.00%	0
Shared Services	110	78	1	1	-	190	1.74%	544,444	0.02%	1,029
Total AMWS	449	340	110	81	22	1,002	9.17%	2,869,282	6.10%	104,878
CALIFORNIA - AM	143	123	66	60	10	404	3.70%	1,187,725	3.84%	87,547
HAWAII - AM	19	17				36	0.33%	103,287	0.00%	0
ILLINOIS - AM	282	236	187	138	23	866	7.93%	2,481,287	9.84%	170,410
INDIANA - AM	347	288	115	87	22	859	7.87%	2,482,613	8.40%	108,721
IOWA - AM	62	52	34	31	9	188	1.72%	538,188	2.11%	38,173
KENTUCKY - AM	134	100	37	30	5	315	2.89%	894,277	2.06%	36,318
LONG ISLAND	30	25				55	0.50%	158,445	0.00%	0
MARYLAND - AM	8	8	11	11		38	0.36%	112,844	0.63%	10,801
MICHIGAN - AM	6	5	4	2		17	0.16%	50,054	0.17%	2,914
MISSOURI - AM	503	429	217	182	87	1,428	13.09%	4,082,715	14.17%	342,827
NEW JERSEY - AM	456	384	196	145	28	1,211	11.09%	3,470,047	10.00%	181,725
NEW MEXICO - AM	22	18	7	7		65	0.60%	188,448	0.43%	7,372
OHIO - AM	72	60	33	31	9	205	1.88%	588,260	2.06%	35,831
ARIZONA - AM	8	8	5	5	1	28	0.26%	81,384	0.31%	6,816
PENNSYLVANIA - AM	906	804	478	362	55	2,655	24.32%	7,808,897	28.08%	458,196
TENNESSEE - AM	120	94	59	48	10	331	3.03%	948,063	3.34%	87,280
VIRGINIA - AM - EASTERN DISTRICT	7	6				13	0.12%	37,648	0.00%	0
VIRGINIA - AM	77	65	33	28	10	213	1.95%	610,163	2.03%	34,902
WEST VIRGINIA - AM	313	265	182	133	24	887	8.12%	2,640,738	8.83%	191,380
TOTAL SYSTEM	4,052	3,368	1,772	1,369	329	10,917	100.00%	\$31,289,675	100.00%	\$1,714,383

\* Based on assumption that 90% of active males and 80% of active females will be married at retirement.

\*\* The allocation percentage for each company is equal to the ratio of total participants for that company to total participants for the entire American system.

\*\*\* The allocation percentage for retiree contributions is equal to the ratio of total inactive participants for that company to total inactive participants for the entire American system.

**TOWERS  
PERRIN**  
HR SERVICES

4/14/2004



### Assumptions

Please note that these estimates are based on the same basic economic assumptions as were used in the December 31, 2003 disclosure, as follows:

- Discount rate: 6.25% per year (6.75% for 2002)
- Expected annual return on assets: 8.75% for pension; 8.40% for other postretirement benefits
- Rate of annual compensation increase: 4.75%, on average
- Health care cost trend rate (as specified by AW):

<u>Year</u>	<u>Trend</u>
2004	10.0%
2005	9.0%
2006	8.0%
2007	7.0%
2008	6.0%
2009+	5.0%

The health care cost trend rate increased from an initial rate in 2004 of 8% to 10%.  
The ultimate rate remains at 5%

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2004-00103**  
**ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**  
**ITEMS 1-180**

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Witness Responsible:

Michael Miller

77. Please provide, for each of the past five years as well as for the base year and forecast test period, a) the Company's FAS 106 expense and b) the actual out-of-pocket costs (pay-as-you-go) incurred by the Company.

Response:

	<u>FAS 106 Costs</u>
1999	\$512,664
2000	\$437,463
2001	\$498,823
2002	\$493,066
2003	\$670,966

The Company has been advised that the requested information for PAYGO (Pay As You Go) for retiree OPEB claims are not, and cannot be tracked by state. Payments for medical claims are handled by the external fund trustees (currently Horizon Blue Cross Blue Shield and previous to that, AETNA), and due to the confidentiality requirements, company personnel do not have access to disaggregated claim payment data by employee status and/or by state. Due to the fact the claim payments are not coded as to whether the payment is being made to an active employee or a retiree, it is not possible to sort the claim payments to provide the requested information.

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2004-00103**  
**ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**  
**ITEMS 1-180**

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Witness Responsible:

Linda Bridwell

99. Please provide, for each of the past five years as well as for the base year and forecast test period, the total quantity of water treated by KAWC.

Response:

Year	Volume of water treated (MG)
2003	15,344.10
2002	16,313.12
2001	15,371.13
2000	14,940.86
1999	15,432.44
Base year	15,395.37
Forecasted year	14,940.27

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2004-00103**  
**ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**  
**ITEMS 1-180**

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Witness Responsible:

Mike Miller

111. We are having difficulty reconciling the workpapers of the Company's claim for contributions in aid of construction with the rate base amount of \$34,547,915. Please identify which specific workpapers comprise the CIAC claim included in the Company's rate base claim.

Response:

The Central Division beginning balance of CIAC as of January 2004 included 5 errors: (1) inclusion of \$1,776,968 for Tri-Village, (2) a doubling of services for Tri-Village of \$183,790, (3) a doubling of services for Elk Lake of \$165,835, (4) incorrect Tri-Village beginning balance of \$49,650 and (5) an understatement of Elk Lake of \$80,988. The effect of these errors was an overstatement of \$2,095,255, shown below.

See attached Schedule KAW\_AGKYDR1#111\_attachment1\_062504.pdf for the beginning balance reconciliation. Schedule KAW\_AGKYDR#111\_attachment2.pdf and Schedule KAW\_AGDYDR#111\_attachment3.pdf reflect the results of the beginning balance changes through the forecast and thirteen month average for the Central and Tri-Village/Elk Lake respectively. The remaining difference is depreciation on Contributed Property based on the corrected beginning balances of Contribution in Aid of Construction for each system.

Original Filing total company	\$ 34,547,915
Corrected	<u>32,485,862</u>
Variance	<u>2,062,053</u>
Central Division variance	\$ 2,126,593
Tri-Village variance	49,650
Elk Lake variance	<u>(80,988)</u>
	2,095,255
Remaining variance	<u>\$ 33,202</u>

KENTUCKY AMERICAN WATER  
AG DR 111

	Balance as of January 2004		
	Revised	Original	Variance
CIAC - NT - MAINS	9,387,687	11,236,401	1,848,714
CIAC - NT - EXT DEP	7,719,042	7,719,042	-
CIAC - NT - SERVICES	7,144,698	7,512,278	367,580
CIAC - NT - METERS	167,158	167,158	-
CIAC - NT - HYDRANTS	402,819	402,819	-
CIAC - NT - OTHER	412,593	412,593	-
			-
			-
CIAC - TAX - MAINS	1,998,493	1,998,493	-
CIAC - TAX - EXT DEP	548,385	548,385	-
			-
CIAC - TAX - SERVICES	4,999,335	4,999,335	-
CIAC - TAX - METERS	3,299	3,299	-
CIAC - TAX - HYDRATXS	487,487	487,487	-
CIAC - TAX - OTHER	440,903	440,903	-
			-
			-
DEPRECIATION CONTR. PROPERTY	(6,232,361)	(6,322,062)	(89,701)
	0		-
TOTAL CIAC	<u>\$ 27,479,538</u>	<u>\$ 29,606,131</u>	2,126,593

TRI-VILLAGE

CIAC - NT - MAINS	\$ 1,682,879	\$ 1,662,879	\$ (20,000)
CIAC - NT - EXT DEP	0	0	
CIAC - NT - SERVICES	183,790	173,730	\$ (10,060)
CIAC - NT - METERS	0	0	
CIAC - NT - HYDRANTS	0	0	
CIAC - NT - OTHER	0	0	
CIAC - TAX - MAINS	0	0	
CIAC - TAX - EXT DEP	0	0	
CIAC - TAX - SERVICES	0	0	
CIAC - TAX - METERS	0	0	
CIAC - TAX - HYDRATXS	0	0	
CIAC - TAX - OTHER	0	0	
DEPRECIATION CONTR. PROPERTY	(89,701)	(9,991)	\$ 79,710
TOTAL CIAC	<u>\$ 1,776,968</u>	<u>\$ 1,826,618</u>	<u>\$ 49,650</u>
Per G/L		1,942,803	
Elk Lake	165,835	<u>84,847</u>	\$ (80,988)
Totals	<u>\$ 29,422,341</u>	<u>\$ 31,517,596</u>	<u>\$ 2,095,255</u>

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2004-00103**  
**ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**  
**ITEMS 1-180**

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Witness Responsible:

Michael Miller

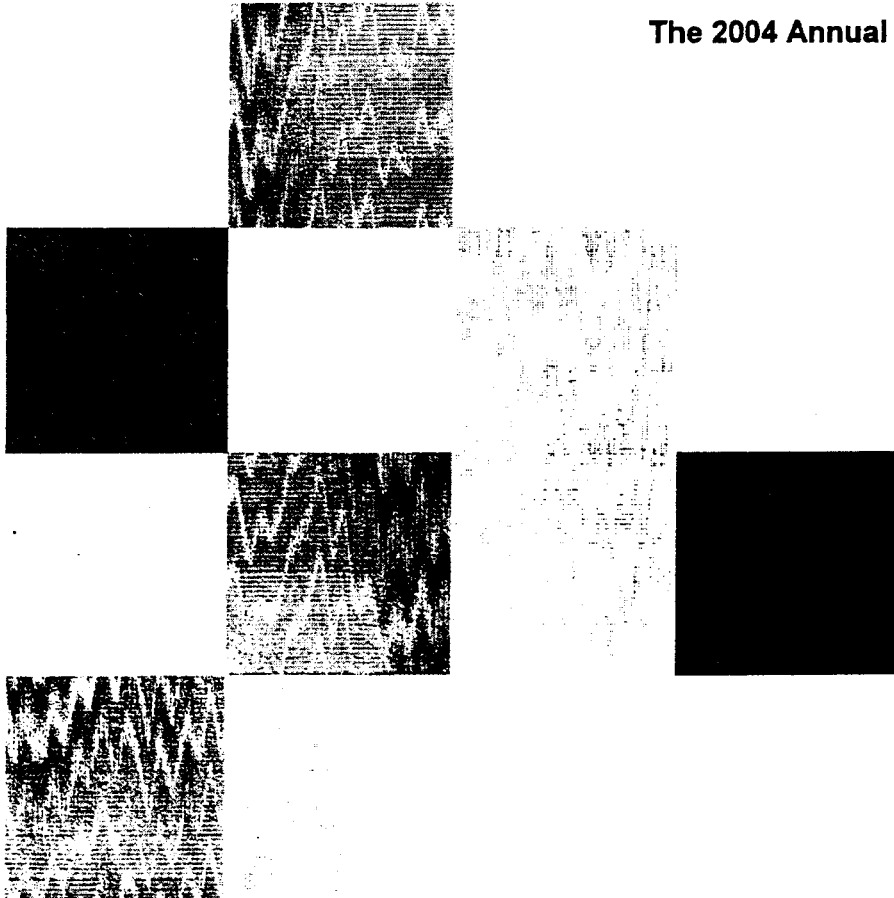
123. Please provide a copy of each incentive plan currently in effect.

Response:

Please see attached file KAW\_R\_AGKYDR1#123\_attachment\_062504.pdf.



*Rewarding Achievement*  
The 2004 Annual Incentive Plan



## ***The 2004 American Water Annual Incentive Plan***

The 2004 American Water Annual Incentive Plan (AIP) recognizes the opportunity and the accountability we share for achieving our goals. Your accomplishments have helped to build American Water's success to this point, and the AIP will reward you for the contribution you make to the achievement of our goals.

### ***Who Is Eligible for the 2004 AIP***

As in our previous plan, all full-time management, professional and technical employees (exempt from overtime) in American Water are eligible to participate in the 2004 AIP.

Eligible employees who join American Water before September 30 of a plan year (January 1 – December 31) are also eligible to participate in the plan on a prorated basis.

Eligible employees seconded from RWE/Thames Water will participate in the plan for the duration of their secondment.

### ***Your Award Opportunity***

Your award opportunity is based on your role. Your manager will confirm your award opportunity to you in writing.

If you are promoted during the plan year to a position with a higher award level, your opportunity will be prorated to reflect the full months at each award level. Similarly, if you are reclassified to a position with a lower AIP award level, your award opportunity will be prorated to reflect the full months at each award level.



**What the Plan Measures**

The AIP is designed to reward participants for the performance results they and the Company attain during the plan year. There are three performance components: financial, operational and individual.

- The **Financial** component includes two new measures – Value Added and Free Cash Flow I.

Goals will be set for the business unit in which you work based on the 2004 business plan. In 2003, goals were set at your work and at the next higher organizational level; in 2004, financial goals will only be based on your business unit level, e.g., California American.

- The **Operational** component includes performance measures tied to the American Water balanced scorecard through which customer service, environmental and health & safety measures and goals, as appropriate to your role, are the key performance indicators. Those in American Water Business Center roles in Voorhees will have a mix of financial and individual measures, but no Operational component.
- The **Individual** component includes objectives (Key Performance Indicators) within the company performance management process.

Financial Measures	Operational Measures	Individual Measures
<ul style="list-style-type: none"> <li>▪ Value Added</li> <li>▪ Free Cash Flow I</li> </ul>	<p>Examples include:</p> <ul style="list-style-type: none"> <li>▪ Customer Service – This will make up 50% of the total operational component. This measure deals with services that directly benefit the customer.</li> <li>▪ Environmental</li> <li>▪ Health &amp; Safety</li> </ul> <p>...as applicable to your business unit and role</p>	<ul style="list-style-type: none"> <li>▪ 5 Key Performance Indicators (KPI's) to be agreed by AIP participant and their manager by the end of April.</li> </ul>

## **A Note on "Value Added" and "Free Cash Flow I"**

In the 2003 AIP Plan, the measures were Operating Result and Net Debt. For 2004, we've chosen Value Added and Free Cash Flow I as the measures for the Financial component of the AIP because they are critical gauges of our business success, and are now the standard used by RWE. Here's how we define these new terms.

- **Value Added**

An established measure which reflects the contribution made by a business unit to the Group, relative to its cost of capital  
It is calculated using operating result and operating assets

- **Free Cash Flow I**

An important operating figure that is also linked to net debt performance.  
It is defined as the cash flow from operating activities (after interest and tax) plus capital expenditure. It does not include the impact of financial restructuring or any impact of acquisitions or disposals.

Each measure has equal weighting and business plan performance will deliver half the relevant financial bonus element. Therefore, if only one measure is met, there could be a potential award under the plan.

Each performance measure has a straight-line payment profile, with the mid-point defining "on-target" performance, i.e. 100%. The slope of the payment profile is determined by reference to the volatility (inconsistency) associated with the measure. For Value Added, volatility is determined by potential variations in operating result; for Free Cash Flow I ("FCFI"), volatility is determined by Earnings Before Interest Tax Depreciation and Amortization (EBITDA).

In all cases, the 2004 plans have been adjusted for the capital expenditure challenge that we have set as a company.

### **How Your Award Is Weighted**

Your award opportunity is based on up to three performance components, depending on your role. You can earn part of your award for each component independent of the others. That means you can receive an award based on all, some or none of the applicable components, depending on actual performance results.

Note that the American Water Board reserves the right to determine whether incentives are payable to any individual or group of individuals. The Board may withhold all incentive payments in exceptional circumstances, such as failing to meet minimum financial goals. In any case, individuals who do not meet our performance expectations will not be eligible to receive an incentive award.

The portion of your award opportunity you can earn for each component is reflected in weightings assigned to each, based on your role in the organization, as the following chart shows.

<b>If your position is...</b>	<b>Your Financial component weighting is...</b>	<b>Your Operational component weighting is...</b>	<b>And your Individual component weighting is...</b>
Regional Managing Directors & their direct reports*	70%	20%	10%
Business Center employees (Voorhees, Procurement, IT, Belleville, SSC)	70%	N/A	30%
Other eligible management and exempt employees	60%	25%	15%

\* (Does not apply for administrative or short-term special assignment employees who report to Regional Managing Directors. Those individuals would fit under the "other eligible management and exempt employee category in the chart above.)

Note that award opportunities for all Business Center (Voorhees) roles will have a mix of Financial and Individual measures, but no Operational component.

Your manager will discuss these with you and confirm in writing the measures and weightings that apply to you.

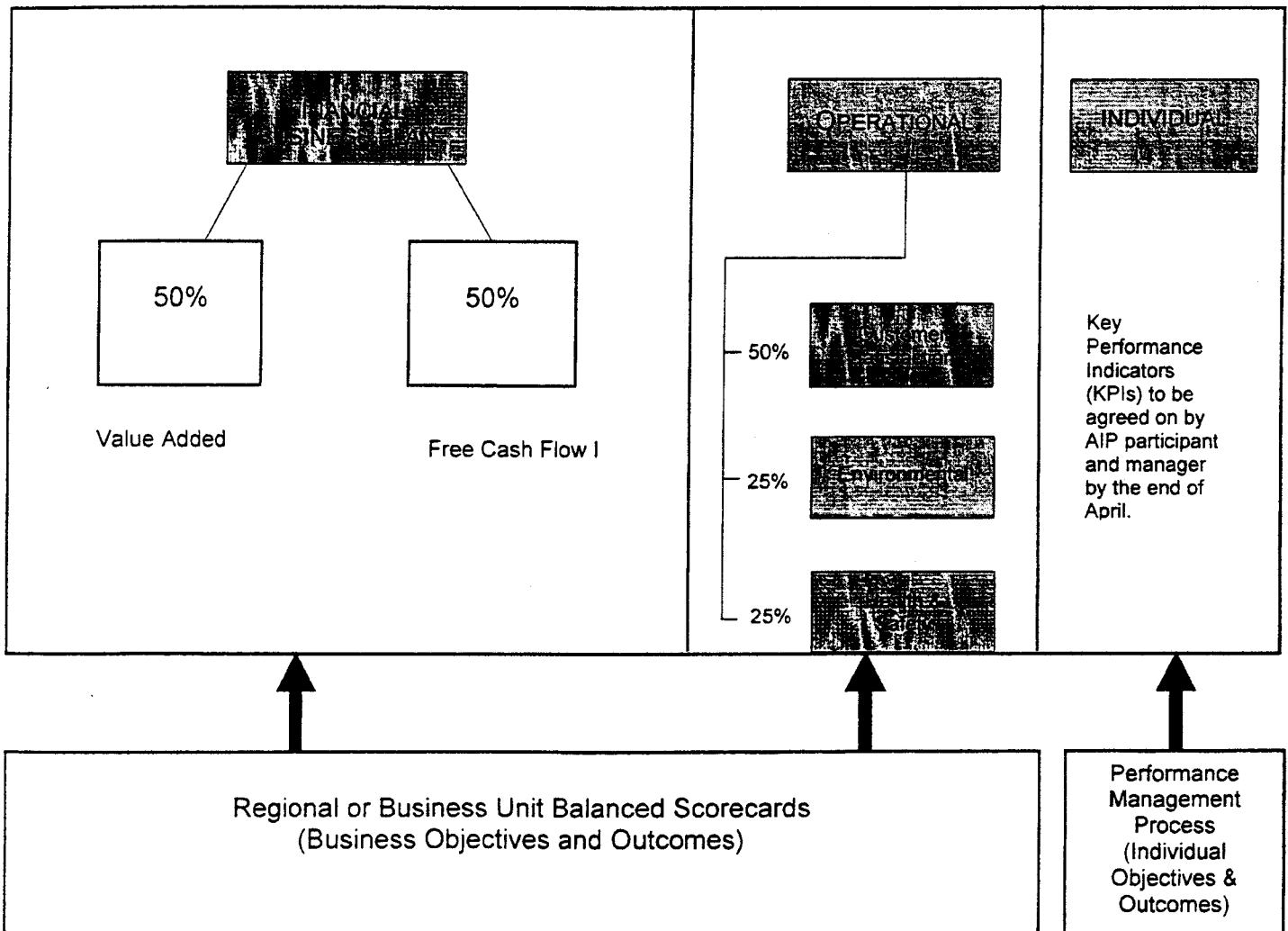
### How the Weightings Come Together

Here is an **example** of how the three performance components and their weightings come together. As you can see, the measures within each component are also weighted.

The weightings within the financial component are always based on your business unit measures of Value Added and Free Cash Flow I, to determine the portion of the financial component award opportunity that is payable.

You will receive a graph for your business unit. Each will detail the percentage of your financial award opportunity payable at a given level of combined Value Added and Free Cash Flow I achievement, ranging from a minimum level of achievement that qualifies for an award up to the maximum level. The closer actual results come to target financial performance, the higher the award for the financial component.

#### EXAMPLE



## ***Performance You Can Impact***

We believe it's essential that participants be accountable for, measured on and rewarded for performance that they can directly impact or influence. That's why performance measures for the financial component are based on your local or "home" organization, i.e., the business unit where you work.

Similarly, the operational and individual measures and goals that apply to you will reflect your role. Your manager will review and discuss all applicable financial and operational measures and goals with you.

## ***Individual Performance***

The individual performance will be assessed using American Water's Performance Management and Development Review (PDR) process. This process has been revised to align with the new Balanced Scorecard. The first section of the PDR form contains a scorecard in which your individual Key Performance Indicators (KPIs) will be documented. KPIs are individual performance objectives. You will jointly identify and agree to your individual KPIs and relative weightings to be achieved during the year with your direct supervisor.

In overview, the PDR requires each individual to have 5 KPIs agreed at the beginning of 2004. The KPIs should be specific and measurable and linked to the Balanced Scorecard. Each KPI needs to be weighted (out of 100%) according to its importance relative to other KPIs. In this way excelling at your highest priority KPI, which has the heaviest weighting, will drive a bigger award. At least one of the KPIs should be linked to a personal development objective. At the beginning of 2005, a structured performance review will be conducted to determine how well individuals performed against their KPIs in 2004.

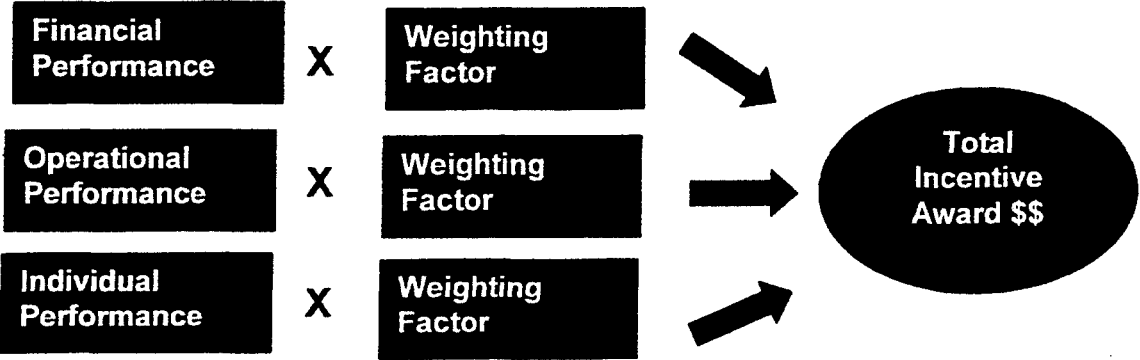
The percentage amounts paid for varying levels of achievement against each KPI should be as follows:

<b>Performance Category</b>	<b>Percent Amounts</b>
• Target not achieved	0 %
• Target partially achieved	25%
• Target largely achieved	75%
• Target fully achieved	100%
• Target exceeded	Up to 120%

Percentages other than these are possible. However, percentages must be expressed in 5% increments (so for example 50% would be a valid scoring, 51% would not). When targets are exceeded a percentage of up to 120% can be defined. This should be used only in cases of exceptional and outstanding performance against KPIs. If an individual received a "too soon to rate" on their PDR they would not be eligible for an AIP award.

**How Your Payout Is Determined**

At the end of the year, the amount for each component is based on performance against each goal within the component and its relative weighting. Here is a simplified way to think of it.



## Target Bonuses

As part of American Water's alignment with RWE's incentive processes, the focus of the bonus communication in the future will be on "target bonus." Target bonus is defined as the bonus paid at 100% for both company and individual awards. This means business plan is achieved for the company and operational element, and the employee has met his/her objectives for the individual element.

It is theoretically possible in the design to generate a combination of company and individual performance that would allow greater bonuses than the agreed maximums. However, the Company will cap the awards at a maximum percentage. The following example will illustrate how the award is calculated.

### EXAMPLE:

Regional Employee (other than a Regional Managing Director or their direct report) with an AIP target of 17.3% and 11.5% of their base pay. Example illustrates 100% achievement on each AIP performance component and how it totals each employee's AIP Target. Since it is possible to exceed 100% of each AIP component the company has established a maximum for plan participants. The "Maximum" column illustrates the maximum award for employee 1 and employee 2. <sup>(1)</sup> Meet Business Plan + 100% of personal KPIs met. <sup>(2)</sup> Maximum is defined as exceeding Business Plan

	60% Financial Component		25% Operational Component	15% Individual Component	AIP Target <sup>(1)</sup>	Maximum <sup>(2)</sup>
	Value Added	Free Cash Flow I	Operational	Individual		
Emp. 1	5.2%	5.2%	4.3%	2.6%	17.3%	22.5%
Emp. 2	3.5%	3.5%	2.9%	1.7%	11.5%	15.0%

<sup>(1)</sup> Meet Business Plan + 100% of personal KPIs met

<sup>(2)</sup> Maximum is defined as exceeding Business Plan

## Adjustments for uncontrollable events

The financial data included in the appendices has been prepared on the basis of the business plans agreed in 2003, using the assumptions set at that time. As in previous years, the actual results used for assessment will be amended to reflect the impact of events that are not considered to be within the control of local management. Any such amendments will require the explicit approval of the Water Division Finance Director, and where material the Board of RWE Thames Water plc, whose decision will be final. The following items are those most likely to be considered for amendment:

- The impact of movements in foreign exchange rates
- The impact of changes in intra-group recharges
- Disposal/acquisition of businesses not anticipated in the business plan, but subsequently mandated by the Board of Directors

### **Award Payments**

To be eligible to receive an AIP award, you must be actively employed at the end of the plan year for which the award is earned. However, in case of disability, retirement, layoff or death during the plan year, a prorated award based on full months' participation in the plan may be payable. Note that no AIP awards are payable if termination is for cause.

If you become eligible to join the AIP during a plan year, any payout for that year will be prorated to reflect the number of full months you participated in the plan.

Awards are usually determined and paid in cash as soon as practical after RWE's release of financial results. Payments will be made by the end of the first quarter of the following year. Appropriate taxes will be withheld from awards.

The American Water Board reserves the right to determine whether incentives are payable to any individual or group of individuals. The Board may withhold all incentive payments in exceptional circumstances, such as failing to reach minimum financial goals. Individuals with poor performance will not be eligible to receive an incentive award.

### **Rewarding Achievement**

Our AIP goals are challenging, but with your focus and contributions and effective teamwork, they can be achieved. Remember, your individual results do matter; our overall performance is the collective results of all AIP participants.

It's important that you clearly understand your goals, how we're performing against the goals, and how the AIP works so you know how you personally affect our performance. Be sure to talk to your manager or your local HR representative if you have questions.

This brochure describes the 2004 American Water Annual Incentive Plan. The Plan Administrator, whose decisions will be final and binding, will determine interpretations of the Plan. The Company reserves the right to amend, modify, or discontinue the Plan during the plan year or at any time in the future. Participation in the Plan does not convey any commitment to ongoing employment. If there are any differences between the information contained here and the Plan Document, the Plan Documents will govern.



**AMERICAN WATER WORKS COMPANY, INC.**

**LONG-TERM INCENTIVE PROGRAM  
2002 ADMINISTRATIVE GUIDELINES**

**I. ADMINISTRATION**

The Long-Term Incentive Program (the "Program") will be administered by the Compensation and Management Development Committee (the "Committee") of the Board of Directors of American Water Works Company, Inc. (the "Company") pursuant to the terms and conditions of the 2000 Stock Award and Incentive Plan.

**II. ELIGIBLE PARTICIPANTS**

Executives and other key associates of the Company who are designated from time to time by the Committee, based on the recommendation by the President of the Company, will be eligible for Program awards. The receipt of an award will not confer upon any participant the right to continued employment or the right to receive any additional awards. Eligible participants for 2002 Program awards will be limited to executives in Levels One and Two and selected executives in Levels Three and Four. The Committee may add a participant to performance cycles in progress so long as at least one year remains in the performance cycle, in which case the participant will be entitled to a pro rata award for such performance cycle based on a target award level established by the Committee.

**III. PROGRAM AWARDS**

Since the merger agreement between the Company and RWE prohibits the grant of stock options and restricted stock, the 2002 Program awards will consist entirely of Performance Share Units.

**IV. PERFORMANCE SHARE UNITS**

Performance Share Units for 2002 will be based on achievement of performance goals from January 1, 2002 through December 31, 2004 (the "2002-2004 Performance Cycle") as described below.

Target values will be established by the Committee for each participant based on a percentage of salary midpoint in effect at the beginning of the performance cycle, and such target values will not be adjusted during the performance cycle for changes in salary midpoints, promotions or otherwise. Target values are divided by the fair market value of Company Common Stock at the beginning of the 2002-2004 Performance Cycle to determine the target number of Performance Share Units awarded to a participant. (Fair market value for this purpose will be based on the average of the closing prices during the 20-day trading period consisting of the last ten trading days in December 2001 and the first ten trading days in January 2002.) The actual number of Performance Share Units earned by a participant will be based on the Company's achievement of cumulative net income during the 2002-2004 Performance Cycle in accordance with the Net Income Matrix set forth on Exhibit A.

The President of the Company will report to the Committee regarding actual performance as soon as practicable following the conclusion of each performance cycle. The Committee will determine the extent to which the performance goals have been met and the actual number of Performance Share Units earned in accordance with the Net Income Matrix set forth on Exhibit A.

It is anticipated that the Company's merger with RWE will be consummated prior to the expiration of the 2002-2004 Performance Cycle, in which case the number of earned Performance Share Units will be paid 100% in cash at or as soon as practicable after the closing based on the RWE merger closing price (currently \$46) for each Performance Share Unit earned, subject to proration. If the 2002-2004 Performance Cycle expires on 12/31/2004 and at a time when the Company is not prohibited from issuing restricted stock, 50% of the Performance Share Units earned will be paid in cash (based on the fair market value of Company Common Stock at the end of the 2002-2004 Performance Cycle), and the remaining 50% will be paid in restricted shares of Company Common Stock as soon as practicable after the end of the performance cycle. (Fair market value at the end of the 2002-2004 Performance Cycle will be based on the average of the closing prices during the 20-day trading period consisting of the last ten trading days in December 2004 and the first ten trading days in January 2005.) Shares of restricted stock will vest after three years of continued future employment following the grant date, subject to 100% accelerated vesting upon a change in control event, termination of employment due to death or disability, termination of employment following the date on which the participant is eligible promptly thereafter to commence receiving retirement benefits from the Company ("Retirement"), or involuntary termination of employment without cause. The Committee may, in its discretion, provide for the deferral of any component of the award and the terms and conditions thereof.

In the event of termination of employment of a participant during a performance cycle due to death, disability, or Retirement, awards will be calculated at the end of the performance cycle based on actual performance and will be paid on a pro-rated basis, provided the participant has been an associate for at least one year during the performance cycle.

Upon a change in control event, all awards that have been earned by participants will immediately vest and all restrictions applicable to the awards will immediately expire. In addition, for the performance cycles not yet concluded at the time of a change in control event, pro rata awards for each of those performance cycles (based on the greater of the award values earned for performance calculated through the quarter ending prior to the change in control event or target values) will be paid to each participant as soon as practicable, and such payments will be made 100% in cash.

V. **PERFORMANCE CYCLE GOALS**

Performance cycle goals will be established by the Committee based on recommendations by the President of the Company. Goals for the 2002-2004 Performance Cycle will be based on the Company's cumulative net income as set forth on Exhibit A.

VI. **DIVIDEND EQUIVALENTS**

A contingent shares ledger account will be established for each participant. Reflected in that ledger account, retroactive to 1/1/2002, will be a number of shares of Company Common Stock equal to the number of Performance Share Units that are earned by the participant. Dividends paid on these earned shares during the 2002-2004 Performance Cycle will be accumulated as if reinvested during the performance cycle in additional shares of Company Common Stock on the dividend payment date. The shares accumulated in this ledger account by virtue of dividend reinvestment will be added to the Performance Share Units earned by a participant in connection with the participant's 2002 Program award.

VII. **HOW THE PROGRAM WORKS**

An example of how the Program will work is set forth on Exhibit B.

EXHIBIT A

NET INCOME MATRIX

2002 Cumulative Net Income (a)		Award Achievement
<u>\$ Millions</u>	<u>% Achievement</u>	<u>% of PSUs Earned (b)</u>
[Less than \$182	Less than 95%	0%
\$182.0	95%	50%
\$191.7	100%	100%
\$201.0]	105%	150%

- (a) Net income to be calculated excluding nonrecurring items; in particular, expenses relating to the RWE transaction will not be included in the calculation. Committee discretion to adjust net income goals for impact (positive or negative) of acquisitions and divestitures or other unusual items. Quarterly net income goals to be referenced in the event of a change in control prior to 12/31/2002 are as follows:

<u>2002*</u>	
Q1	<u>\$26.7</u>
Q2	<u>\$55.2</u>
Q3	<u>\$67.9</u>
Q4	<u>\$41.9</u>

- (b) Interpolate between results. Upon a change in control, the percentage of PSUs earned cannot be less than 100% of target, subject to proration based on the portion of the performance cycle completed up to the change in control date.

\*Pre-Citizens

EXHIBIT B  
 Revision 1

**ILLUSTRATION OF 2002 LONG-TERM INCENTIVE PROGRAM**

*Determination of Target Performance Share Units*

Participant's Salary Grade Midpoint (1/1/02)	\$159,300
Participant's Target Award	\$23,895 (15% of salary grade midpoint)
Beginning AWK stock value <sup>(a)</sup>	\$42.06
Target Number of PSUs	568 PSUs ( $\$23,895 \div \$42.06$ )

*Hypothetical Results:*

Percentage of PSUs Earned <sup>(b)</sup>	120%
RWE Closing Date	June 30, 2003
Pro Rata Award Percentage	50% (one-half of 2002-2004 cycle)

*Calculation of Award:*

Target Number of PSUs	568
Percentage of PSUs Earned	<u>x 120%</u>
	682
Pro Rata Award Percentage	<u>x 50%</u>
	341
Ending AWK stock value	<u>x \$46</u>
Total Award	<u>\$15,686<sup>(c)</sup></u>

- (a) Average of last ten trading days in December 2001 and first ten trading days in January 2002.
- (b) Based on actual cumulative net income through quarter ended immediately prior to RWE closing compared to target cumulative net income for such period. Upon a change in control, the percentage of PSUs earned cannot be less than 100% of target, subject to proration.
- (c) Paid in cash at or promptly following the RWE closing.

**KENTUCKY-AMERICANWATER COMPANY**  
**CASE NO. 2004-00103**  
**ATTORNEY GENERAL'S FIRST REQUEST FOR INFORMATION**  
**ITEMS 1-180**

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Witness Responsible:

Sheila Valentine

138. Regarding W/P 3-11, page 1, please provide the current lease cost for each lease shown in this workpaper.

Response:

See attached schedule KAW\_AGKYDR1#138\_attachment\_062504.pdf.

The proforma forecast rent expenses have been overestimated due to several items. Lab equipment was included in the forecast in the amount of \$41,415 but will not be leased due to this equipment being purchased. A copier used in Customer Service is no longer being leased in the amount of \$5,532. Tri Village overestimated their lease obligations for the copier and postage machine. Over all, the rent expense forecast can be reduced by a total of \$58,295. In anticipation of contracting GIS with an outside party, \$13,660 has been included in the proforma forecast rent expense.

Kentucky-American Water Company						
Rent Expense - lease costs						
AG DR 1 Item 138 and 139						
CASE NO: 2004-00103						
<b>Lexington</b>						
541000	12	Rents-Real Prop Oper SS	13,660.00	13,660.00	GIS lease - budgeted with the anticipation the Company may contract with LFUGG.	
541000	14	Rents-Real Prop Oper TD	2,160.00	1,200.00	Various railroad crossing leases paid monthly, annually, bi-annually and every 10 years. Norfolk Southern and CSX Transportation \$100/monthly	
541400	11	Rents-Equipment Oper SS	4,800.00	2,380.00	Lynn Imaging -service contract on Xerox and HP equipment	
541400	13	Rents-Equipment Oper WT	41,415.00	0.00	Canon copier for Engineering/Distribution	
				300.00	No longer leasing lab equipment	
				576.00	Pager for water quality director \$25 monthly	
				3,696.00	Paggers for maintenance -production	
541400	14	Rents-Equipment Oper TD	3,000.00	0.00	Copier for stock building \$308 monthly	
541400	15	Rents-Equipment CA	5,521.00	0.00	Canon copier for Customer Service for 6 mos 2003-no longer leasing	
541400	16	Rents-Equipment AG	21,804.00	16,200.00	Xerox copier-2nd floor \$1,350 monthly	
				1,460.00	2nd floor postage machine-Pitney Bowes \$365 quarterly	
			92,360.00	45,082.00		
<b>Tri-Village</b>						
541000	14	Rents-Real Prop Oper TD	0.00	400.00	CSX Transportation \$100	
541000	16	Rents-Real Prop AG	0.00	1,460.00	Pitney Bowes \$365/quarterly-postage machine	
541400	14	Rents-Equipment Oper TD	178.00			
541400	16	Rents-Equipment AG	18,900.00	6,201.00	Duplicator Sales & Rental copier 477 monthly	
			19,078.00	8,061.00		
			111,438.00	53,143.00		
		Overestimate in rent expenses		58,295.00		

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2004-00103**  
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Witness Responsible: Mike Miller

144. For each of the past five years, a) please provide a list of the companies that have filed a consolidated income tax return with KAWC, b) please provide, by year, the taxable income or tax losses incurred by each company, and c) identify which companies are regulated utilities.

**Response:**

144. See KAW\_SR\_AGKYDR1#144\_attachment\_081804.pdf for the requested information, although there is no historical precedent for the use of this information in the establishment of cost based rates for Kentucky American Water Company.



AMERICAN WATER WORKS COMPANY

CONSOLIDATED TAX SAVINGS CALCULATION

	1998	1999	2000	2001	2002
<b>NON-REGULATED COMPANIES</b>					
AMER. WATER WORKS CO., INC.	(\$25,838,687)	(\$31,489,901)	(\$34,578,894)	(\$25,623,391)	\$45,372,482
GREENWICH	(15,908)	(12,134)	(8,775)	(690)	
OCCOQUAN LAND CORP.	1,888,039	1,890,720			
AMER. COMMONWEALTH	(5,883)	21,582	(1,871)		
AWW SERVICE CO.	1,159,390	(1,367,969)	(1,580,528)	(1,632,593)	(171,974)
AMER.INTERN. WATER SVC CO.	(4,422,716)	(6,850,446)			
AMERICAN ANGLIAN ENVIRONMENTAL			(2,148)	(14,889)	(29,703)
AMERICAN WATER SERVICES CDM, INC.					(20,932)
AMERICAN WATER RESOURCES			871,688	2,956,710	6,248,007
AMERICAN WATER SERVICES, INC.			(2,886,541)	(1,850,233)	(16,366,994)
AMERICAN WATER SERVICES (USA), INC.					(2,608,118)
AMERICAN WATER SERVICES ENG, INC.				(59,190)	(167,158)
AMERICAN WATER SERVICES INDUSTRIAL OPERATIONS				(187,301)	(932,497)
AMERICAN WATER SERVICES OPERATIONS &				305,671	(6,025,851)
AMERICAN WATER SERVICES RESIDUALS				(38,681)	(4,353,548)
AMERICAN WATER SERVICES UNDERGROUND INFRASTRUCTURE				607,211	2,317,753
AZURIX CMD, INC				22,124	
AZURIX INDUSTRIALS CORP				34,333	
AZURIX NORTH AMERICA (USA), INC.				(948,751)	
AZURIX NORTH AMERICA CORP.				(16,620)	(96,573)
AMS INDUSTRIALS CORP					(39,004)
DITTMAN-MERKA ENTERPRISES, INC.				(5,778)	(34,666)
MAGNOLIA CONSTRUCTION COMPANY, INC.				(17,476)	(75,833)
MASSACHUSETTS RESORCE CO.	85,340	127,695	212,614	327,182	85,712
NEW JERSEY-AMER. RESORCE CO.	175,954	118,596	156,326		
PHILIP AUTOMATED MANAGEMENT CONTROLS, INC.				(111,029)	(633,779)
TRIMAX RESIDUALS MANAGEMENT (USA) INC.				240,154	1,684,863
U-LINER MID AMERICA, INC.					(521,586)
UTILITY MANAGEMENT & ENGINEERING, INC.				(881)	(6,085)
<b>REGULATED COMPANIES</b>					
BRISTOL					
HAMPTON	400,002	(263,111)	575,077	768,177	(358,124)
CONNECTICUT- AMERICAN	1,772,418	2,646,164	2,890,122	3,968,037	(688,132)
MASSACHUSETTS. AMERICAN - 1	663,963	802,352	136,866	320,537	(706,134)
SALISBURY	484,643	514,836	505,980	585,852	58,511
AMERICAN LAKE WATER COMPANY					1,013,557
PENNSYLVANIA - AMERICAN - 1	42,750,060	41,874,572	51,919,468	51,108,699	40,851,346
NEW YORK AMERICAN	318,707	1,302,977	901,396	988,200	(354,848)
LONG ISLAND WATER		4,856,892	2,965,962	4,420,092	1,512,238
NEW JERSEY-AMERICAN	35,975,390	43,441,046	44,259,591	48,792,387	31,835,102
IOWA - AMERICAN	596,073	3,457,742	3,426,734	2,745,483	3,668,313
ILLINOIS - AMERICAN	19,780,843	16,659,876	23,255,098	19,553,270	10,124,499
NORTHWEST ILLINOIS		2,470,443	1,068,752		
INDIANA - AMERICAN	14,406,866	13,081,835	27,099,414	21,203,339	11,524,369
NORTHWEST INDIANA		2,367,868			
MISSOURI - AMERICAN	4,968,294	6,972,606	3,878,247	5,521,838	22,171,706
CONTINENTAL WATER COMPANY		633,005	39,261		
JEFFERSON CITY WATER WORKS CO.			1,066,302	1,330,133	
ST. LOUIS COUNTY		13,948,523	21,034,030	26,705,375	
WATER UTILITY SERVICE COMPANY		823,979	37,731		
OHIO - AMERICAN	2,666,288	2,233,276	1,311,491	505,609	192,528
MICHIGAN - AMERICAN	198,741	273,234	232,735	190,068	187,599
CALIFORNIA AMERICAN	6,179,472	6,206,990	10,400,404	7,505,015	2,823,799
ARIZONA - AMERICAN	456,049	391,853	503,863	18,928	(1,860,920)
NEW MEXICO - AMERICAN	106,640	429,630	1,334,706	1,077,920	1,578,661
SOUTHWEST UTILITIES, INC				9,585	167,065
HAWAII - AMERICAN	505,107	1,217,773	925,889	1,021,369	686,327
WALKER WATER WORKS, INC.				7,651	119,573
VIRGINIA - AMERICAN	5,338,140	539,797	3,599,870	3,025,831	3,100,291
UNITED WATER VIRGINIA			145,469	179,207	176,161
WEST VIRGINIA - AMERICAN	5,691,313	8,556,221	12,287,927	3,042,521	234,863
BLUEFIELD VALLEY	20,332	14,879	(9,409)	(35,332)	(53,064)
MARYLAND - AMERICAN	441,927	450,790	586,304	676,275	164,924
KENTUCKY - AMERICAN	6,818,951	6,944,245	535,523	6,072,890	4,337,965
TENNESSEE - AMERICAN	5,850,592	555,828	5,900,848	3,858,291	2,158,771

**KENTUCKY-AMERICAN WATER COMPANY**  
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**ITEMS 1-180**

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Witness Responsible: Mike Miller

176. Reference: Application, Exhibit 25. Please provide a copy of Kentucky-American's current strategic business plan.

**Response:**

176. See KAW\_SR\_AGKYDR1#176\_attachment\_081804.pdf

**Kentucky-American Water Company  
Business Plan 2004-2008  
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## **Kentucky-American Water Company** **Executive Summary**

The 2004 – 2008 Business Plan continues the past achievements of Kentucky-American Water Company for earnings and dividends growth. The Company has positioned itself as the leader in providing quality water service in Kentucky. The Company has been impacted significantly by the change in ownership of American Water. The 2003 rate case was delayed as part of the settlement agreement. In addition, the City of Lexington is currently in the process of attempting to acquire the Company through eminent domain proceedings. This condemnation effort has forced the Company to spend considerable amounts to defend itself in this process. Those condemnation expenses and delay in the rate filing have significantly depressed the Operating Result and earnings for the Company in 2002, 2003, and continues into 2004. The Plan includes a rate filing in March 2004 to recover its increase in rate base and expense increases since the 2000 rate case. For this Plan to reach its full potential, the Company intends to have no further rate cases after 2004, and this will permit the Company to take full advantage of its Development Plan in increasing its financial performance, and Key Performance Indicators (KPI).

### **Market Plan**

Attached to this executive summary is the 2004-2008 Market Plan. That Market Plan's objectives support American Water's ("AW") initiatives for expansion, "best in class" customer service, and value creation. KAWC's initiatives align resources, efforts, and leadership in regulated and non-regulated business lines to pursue a full range of capabilities; pursue quick hit margin-improvement opportunities; expansion of wastewater business; and development of the industrial and commercial market.

The Market Plan will enhance potential achievement of earnings and dividend growth, and will enhance achievement of operational results in the future. The Market Plan will permit the Company to continue the high quality of service to which our customers are accustomed, and permit that service to be provided in a manner that will generate customer satisfaction levels at or above those achieved in the past. KAWC will expand its strong leadership position in the KY water market and effectively grow market share in the KY wastewater market.

The key areas covered in the Market plan are:

- Detailed listing of all presently known and anticipated development opportunities.
- Cross Selling between the regulated and non-regulated businesses and product lines.
- Routes to market including use of rainmakers, public/private partnerships, and enhanced government relations to increase potential for public partners.
- Developing new and innovative products and services.
- Better utilization of competitive position.
- Market objectives.

- Implementation Plan.
- Required Resources.
- Key Relationships
- Critical Success Factors.

### **Base Plan**

The Base Plan reflects growth in turnover from 44.5 million in 2003 to \$53.2 million in 2008, or an increase of 19.5% for a Compounded Annual Growth Rate (CAGR) of 3.6%. The Company delayed its expected 2003 rate case due to the proceedings and settlement in the RWE acquisition case. This placed the Company in a position of reduced earnings for 2003 due to significant rate base not yet recovered in rates, and the need to recover several significant increases in expenses for such items as deferred and on-going security, shared services transition costs, salary increases, and increased Pensions and OPEB's based on the latest actuarial evaluations. In addition, beginning in 2002 and continuing into 2003 the Company has expended significant amounts to fight the condemnation effort by the City of Lexington. Because of the current depressed level of earnings, the Company has included in the Plan a rate case to be filed in March 2004 to return Operating Results and KPI to acceptable levels. There is likely to be significant opposition to the rate case due to the condemnation efforts and the high level of negative reaction to foreign ownership, and the likely mistaken representation that this rate increase is tied to foreign ownership. The ultimate decision to file this case will be determined by the status of the condemnation effort at that time.

The rate case will return the Company to acceptable levels in KPI and value creation.

### **Development Plan**

The Company's development plan focuses on "tuck in" acquisitions, marketing "special contract" pricing to attract adjacent system for bulk sales, and marketing auxiliary services for such items as contract sewer billing, service line protection services, and new services in the leak detection and lab service areas. The Company has included in its 2004-2008 Business Plan package specific target lists for growth and development. While all of these targets are not expected to be realized due to local control and other issues, a significant portion of those opportunities will be attainable and have been included in the base plan, while others will develop over the timeframe of this Plan.

Significant improvement to the financial results and KPI's should be generated from the Development Plan and retained by the Company if the plan for no rate cases after 2004 can be maintained.

**Financial Analysis**

Financial targets set for the Base Plan are reflected in the following KPI summary:

	<b><u>Key Performance Indicators</u></b>				
	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>
Turnover (\$m)	47,235	51,331	52,079	52,635	53,192
Operating Result (\$m)	17,414	19,934	20,166	20,317	19,569
PBT (\$m)	12,319	14,624	14,952	15,226	14,972
Operating Result Margin %	36.9	38.8	38.7	38.6	36.8
ROCE %	11.3	12.6	12.5	12.5	12.1
Avg. Net Operating Asset (\$m)	154,009	158,461	161,312	162,035	161,142
Value Contribution (\$m)	5,093	7,257	7,261	7,354	6,678
Net Debt (\$m)	(89,771)	(91,986)	(89,891)	(87,821)	(82,618)
Capex Additions (\$m)	17,129	13,090	13,961	13,295	10,834

As indicated previously the rate case is critical to achievement of the financial projections and results included in the Plan.

## **Section 1 – Summary of Market Plan**

### **1.1 Description of Business**

KAWC has been serving customers in Kentucky for over 115 years. The Company is the largest investor owned water provider in the state, providing service to over 105,000 families and businesses. The Company serves a population of over 300,000 in 5 municipalities and 11 counties. It currently operates 2 separate water treatment facilities, and produced, treated, and delivered 15.9 billion gallons of water last year, an average of 43.5 million gallons per day. Investment in utility plant exceeds \$250 million; we employ 144 water supply professionals, maintain over 1,500 miles of main, and maintain 15 storage tanks and 7 booster stations.

### **1.2 Strategic Objectives**

The key Strategic Objectives are as follow:

- Remain the water provider of choice in existing service areas.
- Use existing market share to expand into new service areas and expand the types of services provided.
- Promote investor ownership regarding public/private partnerships by leveraging private investment into low cost public sector loans and grants.
- Attract and retain qualified employees capable of carrying out the mission and objectives of the Company.
- Use the well established relationships with national, state, county and local government officials to enhance achievement of the Company's goals and objectives.
- Maintain the excellent relationship with current and future regulators, keep the regulators abreast of current issues, and gain support for growth and service related initiatives.
- Enhance customer perception of the value of services provided by assessment of that perception and development of a marketing plan designed to meet those customer expectations.
- Improve cost containment initiatives in order to keep operating cost increases below the level of inflation.
- Assess each capital project in order to keep capital spending at levels covered by internal cash except for value added growth opportunities.
- Rate increases should be minimized or eliminated in order to maintain cost competitiveness.

### **1.3 Proposed Strategy**

The Plan continues the two-part growth strategy that has produced successful results in the past. The first part of the growth strategy is the continued investment in upgrades and replacement of aged plant at existing operations. This

investment is required to meet current and future water quality regulations and replacement of aged plant required to provide reliable, quality water service each day to the customers. The growth of this investment is largely a function of the basic nature of the water industry. The water industry is a more capital intensive business than any other utility. The 2003 rate case was delayed due to the settlement in the acquisition case. The Company has over \$15.0 million of rate base to be recovered in the current rate case. Capital improvements will become less of a driver of rate increases over the Plan period, unless a final solution to the source of supply issue is determined and a capital improvement project is developed to address that shortage. If that project develops within the timeline of this Plan, significant adjustment to the Plan will be required.

The second part of the growth strategy reflects the investment opportunities available through acquisition of water and wastewater systems as utilities consolidate. The opportunity for acquisition and merger is great in Kentucky. There are many small public and private systems that cannot replace aged plant, expand service area, and provide for economic development at affordable prices due to their small customer base. The State government is actively encouraging consolidation and privatization whenever possible, due to limited public sector funds available for water infrastructure improvements. The Company has and will continue to pursue these many opportunities when financially feasible to do so, through acquisition and innovative regional public/private partnership arrangements.

The Company plans to maximize the financial and operation impact from its development plan by attempting to avoid rate cases after 2004. This would permit the Company to retain the benefit and value creation from its growth as an offset to increased expenses and erosion of earnings.

#### **1.4 Key Actions**

The Company will increase its coordination with the non-regulated business to maximize the benefit of the market share advantage in KY and to obtain new markets for those non-regulated business lines. The business development efforts between the regulated and non-regulated operations should be coordinated more effectively in order present the full range of services provided by AW and to enhance the One Company/One Vision approach to business development. When approaching potential customers and clients business development representatives should be capable and free to discuss the full range of services provided by the Company, including acquisition, contract operations, design build, and auxiliary services.

#### **1.5 Major Factors**

The negative reaction to foreign ownership and the condemnation efforts have hampered the business development initiatives significantly. The Company



must develop a public relations effort to change the perception of the Company if its development efforts are to be successful. The Company has a large market share leading to a competitive advantage. It is critical that we overcome the impediments that are currently before us in order to move the business forward and leverage the competitive advantages that exist.

## Section 2 – Base Plan

### 2.1 Overview

The Base Plan reflects growth in turnover from 44.5 million in 2003 to 52.2 million in 2008, or an increase of 19.5% for a CAGR of 3.6%. This growth is primarily driven by the rate case, which is expected to produce \$4.667 million. The Company is forecasting no further rate relief in the five year planning period. The Company delayed its expected 2003 rate case due to the proceedings and settlement of the RWE acquisition filing. This has placed the Company in a position of reduced earnings in 2003 and 2004 due to over \$15 million of rate base not included in rates, recovery of security expenses, recovery of shared services transition costs, and significant increases in pension and group insurance expenses.

The successful completion of the rate strategy will increase Operating Result from \$15,058 in 2003 to \$19,569 in 2008. This represents an increase of \$29.9% for a CAGR of 5.4%. The Company's strategy to avoid rate increases after 2004, if successful, will permit the Company to improve Operating Result, ROCE, and Value Contribution through success in its Development Plan.

### 2.2 Key Assumptions

The Base Plan has been prepared conservatively. The key assumption is that water sales will fall within normalized levels. The Company has a volatile water sales level due to a significant summer time usage pattern tied closely to weather. In addition, during period of drought the current source of supply can be stressed, leading to conservation requirements. The Company has assumed that the level of industrial sales for the base period will remain flat. The Company has utilized the following financial assumptions in developing its plan:

	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
ST Interest Rate	2.5%	2.5%	2.6%	2.7%	2.7%
LT Interest Rate	6.6%	7.3%	7.5%	7.7%	7.7%
Salary Increases	3.0%	3.0%	3.0%	3.0%	3.0%
Health Care Increases	8.0%	12.0%	12.0%	12.0%	12.0%
Inflation	2.5%	2.5%	2.6%	2.7%	2.7%

The Company made the assumption that the current rate case will receive an authorized ROE of 10.25% versus the 11.0% currently authorized.

### **2.3 Sensitivities**

The key sensitivity has been and continues to be the fluctuation in the level of usage in any particular year based on the summer load tied to outdoor watering, and the impact weather can have on this pattern. Continued negative reaction to foreign ownership and continued rumblings of condemnation could lead to less than adequate results in the rate filings. It is critical that this trend in public opinion be reversed, or there could be a negative impact on the results and particularly on the development plan. No adjustments have been made to the Plan for weather, or a continued decline in the economic climate.

### **2.4 Key Actions**

The successful prosecution of the 2004 rate case is critical to the achievement of the 2004-2008 Business Plan. This rate case will return the Company to the levels of financial performance experienced in the past. Success in the rate case will provide the basis for enhancement of Operating Results, KPI, and provide a platform to further improve those results from the successful implementation of the Development Plan.

### **2.5 Past Performance and Results**

The Company has had a solid record of earnings growth and strong financial performance. The Company has no major capital improvements in the plan period, but this could change if a regional water supply solution is identified and defined within the current five year planning period. The years 2002, 2003 and 2004 have been underperforming due to the expenses of condemnation, weather not conducive to water sales, and increases in pensions and group insurance. The Company was not able to offset these negative impacts due to the delay in filing the 2003 rate case.

A successful 2004 rate case will permit the Company to regain solid financial footing and move forward through the remainder of the Plan period with a strategy of growth and development that can produce the earnings growth experienced in the past.

## **Section 3 Development Plan**

### **3.1 Development Plan Objective**

The Development Plan is a continuation of the successful strategy of the Company regarding tuck-in acquisitions and development of regional solutions using public/private partnerships. The Company will enhance these efforts through the use of wholesale contract arrangements to entice adjacent public systems who face source problems or face the need to increase capacity onto our system if the supply issue can be rectified. These arrangements can provide quick hits that produce significant revenue and operating result improvement with little capital investment. The Company will utilize its existing market position and extensive service area, along with the expertise gained from the acquisition, to develop the same type of success in the wastewater area. The Company will also develop an increased cooperation and coordination with AWS and AWR to increase the O&M contract opportunities and auxiliary services opportunities in its service area.

The strategic objectives of the Development Plan are incorporated into the overall business plan as follows:

- Complete integration with RWE/Thames. Promote an environment of support and commitment to the RWE/Thames business and the completion of integration objectives.
- Provide "best in class" water and wastewater service in the KY market to demonstrate capabilities to prospective customers in and around the KY market. Excellence will be pursued in the following areas: customer service, water quality, network reliability, environmental compliance, quality management, control of unsold water, safety, efficiency and financial returns.
- Increase profitability by delivering business plan targets.
- Create and protect value. Create business development opportunities that add value in the regulatory environment through acquisitions, O&M contracts, competitive bulk sales contracts, and develop new regulated and non-regulated value creation opportunities through interaction with TW, AWS, AWR and others.
- KAWC will enhance its competitive advantage by providing value added services in the area of customer relationship management, asset management, operations, financial services, project development and will develop new products and services that are technically compelling and cost effective for target customers.
- Establish a position of leadership in the provision of wastewater services in the KY market.

### **3.2 Timeframe for Development**

The Company has scheduled the various target growth and development projects in the Development Plan made a part of the Business Plan presentation. The efforts to meet this Development Plan have and continue to be a major focus of the Company. While all of the targets are not expected to be realized due to local control and other issues, a significant portion of those opportunities will be attainable and have been included in the base plan, while others will develop over the timeframe of the Plan.

### **3.3 Key Assumptions**

The key assumptions in developing the Growth Plan are as follows:

- Negative reaction to foreign ownership will be overcome by public relations efforts.
- Condemnation efforts will not cause concern about the Company in the future.
- Public systems will continue to not meet regulations and will require state and federal funding for capital needs.
- Regulators will begin to level the playing field by enforcing regulation.
- National competitors will not be a major player in the KY regulated area.
- Appropriate resources will be devoted to marketing, brand recognition, and business development efforts.
- Effective lobbying at the state and federal level will be provided.

# Kentucky-American Water Company 2004 – 2008 Market Plan

## 1. Executive Summary

Kentucky-American Water Company's ("KAWC") strategic objectives collectively support Thames Water's break-through initiatives for expansion within the United States, "best-in-class" customer service and value creation. KAWC's initiatives specifically align resources, efforts and leadership in regulated and unregulated business lines to sell a full range of capabilities; pursue quick hit margin improvement opportunities; expand wastewater business and develop the industrial & commercial market.

The Strategic Business Plan for 2004-2008 continues the past achievements of KAWC for earnings and dividend growth. Strong financial and operational results in the future will permit KAWC to continue the high quality of service to which its customers are accustomed and will permit that service to be provided in a manner that will generate customer satisfaction levels at or above those achieved in the past. KAWC has been among the top in total customer satisfaction for the last several years.

- Complete integration with RWE/Thames – promote an environment of support and commitment to the RWE/Thames business and the completion of integration objectives.
- Provide a "best-in-class" reference site for water and wastewater service to demonstrate Thames' capabilities to prospective customers in Kentucky.
- Increase profitability of the markets in Kentucky by delivering business plan targets.
- Increase profitability of contract operations by performing on contract, achieving high levels of customer satisfaction and receiving high-margin ancillary work.
- Excellence will be achieved and recognized in the following areas: customer service, water quality and network reliability, environmental compliance, quality management, control of unsold water, safety, efficiency and financial returns.
- Create and protect value – Create business development opportunities that add value in the regulatory environment through acquisitions, O & M contracts, competitive bulk sales contracts, and develop new regulated

and non-regulated value creation opportunities through interaction with Thames Water, AWS, AWR and others.

- We will enhance our competitive advantage by providing value added services in the areas of customer relationship management, asset management, operations and project development.
- Develop new products and services that are technically compelling and cost effective for target customers.
- Establish leadership in the provision of wastewater services serving residential and commercial customers.

How will KAWC be different in 5 years time?

- Integration completed with Thames Water
- Greater wastewater resources and customers
- Customers recognize the benefits of RWE/Thames acquisition
- Sharing of best practices across functional lines and state boundaries
- Alton Call Center completes transition and operates at peak expected efficiencies

Critical to achieving KAWC's strategic objectives is alignment with Thames' goal to develop and implement a plan to make the organization more fluid across regulated and non-regulated business lines and more important to make better use of collaboration to achieve business development goals through better alignment among all levels of the organization. It is essential that KAWC participate in this collaborative effort to achieve and recognize the following:

- One Vision
- One Team
- Accelerated profitable growth (Consistent and collaborative approach to financial modeling and accelerated approval processes)
- Single regionalized organization instead of an AW region and an AWS region
- Lower operating costs/ reduced overhead
- Elimination of redundant activities and processes – single business development program
- Enhanced customer focus and service throughout the organization
- A more seamless organization

The leadership role and proactive approach that KAWC has in achieving Thames Water's plan to transition the name recognition and reputation of KAWC to the new corporate identity is essential to achieving the One Company / One Vision organization. Once this transition is complete our probability of success

will be greatly enhanced in achieving positive results in meeting our strategic objectives.

Factors, which will impact the plan, are summarized below.

- The possible condemnation of KAWC by the local government has been well documented internally and in the media.
- The sale of American Water Works, Inc. to RWE, a German Company, has had an impact on business development results, at least to the extent that our proponents ask questions about the impact of the sale and our opponents use it to fuel any anti-foreign ownership sentiments, which have been bolstered by the position of Germany and the German people on the war in Iraq.
- KAWC faces a water supply deficit of 3.0 billion gallons in the Kentucky River in the event of a recurrence of the drought of record. Lack of a reliable source of supply in the Central Kentucky Area will hinder business development results.
- KAWC exceeded its rated treatment plant capacity of 70 mgd on August 5, 2002 with system delivery of 71.82 mgd during a moderately hot, dry period. Because resolution of the treatment capacity deficit is integrally fixed in the resolution of the source of supply deficit mentioned above, the preferred solution for resolving the treatment capacity deficit will be delayed until a long-term water supply solution is identified, designed and implemented. Until the problems of supply and treatment are resolved, business development results in Central Kentucky will be hindered. Not only will business development results be hindered by the lack of a product to sell, but also by any negative publicity that results from water restrictions in our existing service territories.
- The American Water National Call Center is experiencing the pain of a start up. Negative customer experiences have the potential to hinder business development results.
- The rates of American Water subsidiaries have been highlighted by our opposition and the press as being some of the highest in the country, often unfairly by use of such schemes as comparing our rates to in-city rates only, which are typically the lowest in a municipal system's rate structure, and by omitting any reference to up front costs such as system development charges, tap fees, etc.
- Historically, the lack of wastewater operation expertise has put us at a competitive disadvantage when presented with an opportunity for purchase or operation of a wastewater system. This condition should improve with our alignment with Thames Water.
- In acquiring facilities financed all or in part by grants, the question of grant repayment provides a significant obstacle.
- Real and perceived obstacles presented by affiliated transaction statutes can hamper business development results.



- Regulated utilities pay taxes and fees to state and local governments and income taxes to state and federal governments thereby operating at a substantial tax disadvantage to municipal competitors.

## 2. Opportunities:

The following table highlights and ranks opportunities for KAWC:

Opportunity	Regional strength and competitive advantage	New technology	Changing need of client or stakeholder	Other	Value of contribution to Regional Business	Compatible with value creation	Possess necessary skills and resources	Probability of success
Existing Service Area	Yes	No	Yes		High	Yes	Yes	High
Acquisition of Public and investor-owned systems within the State	Yes	No	Yes		High	Yes	Skills – Yes Resources - No	Med
Pursue and keep SFR contracts by using competitive rates	Yes	No	Yes	Non-competitive SFR rates at KAWC	High	Yes	Yes	Med
Bolt-on municipal and investor-owned systems	Yes	No	Yes		High	Yes	Skills – Yes Resources - No	Med
Public/private partnerships involving ownership of assets	Yes	No	Yes		High	Yes	Med	Med
Operation and Maintenance contracts	Yes	No	Yes		Med	Med	Med	Med
Market Laboratory Services	Yes	Yes	Yes		High	High	Skills – Yes Resources - No	Med
Market AWS Products and Services	Yes	Yes	Yes		High	Med	No	Med
Market AWR Products and Services	Yes	Yes	Yes		High	Med	No	Low
Full Service Billing and Collection Services	Yes	No	Yes		High	Med	Yes	Med
Leak Detection and Line Location Services	Yes	No	Yes		Med	Med	Skills – Yes Resources - No	High
Backflow prevention/cross connection inspections	Yes	No	Yes		Med	Med	Yes	High
Bulk Sales Stations/Water Hauling	Yes	No	Yes		Yes	Med	Yes	Med
Industrial Services	Yes	Yes	Yes		Yes	Med	No	Med

Notwithstanding many of the factors mentioned above, there are many opportunities within Kentucky to effectively grow the organization albeit at a slower rate until some of the major obstacles are out of the way. In order to do

so, it is imperative that KAWC maintain its strong market position in the water business and significantly expand its market position in the wastewater business.

The KAWC plan will implement a three-part growth strategy that has produced successful results in Kentucky and for other companies within the American System. The first part of the growth strategy is the continued investment in upgrades and replacements of aged plant, which is required:

- To meet current and future water quality regulations.
- To ensure the security of water facilities for the protection of our customers.
- To replace aged plant in order to provide reliable water service each day to our customers.

The Strategic Business Plan includes the necessary rate filings during the 2004-2008 planning period. As a condition of the sale to RWE/Thames, KAWC agreed to not file for any rate increase prior to March 16, 2004.

The second part of the growth strategy reflects the investment opportunities available through acquisition of water and wastewater systems as utilities consolidate. The opportunity for large acquisitions is not great in and around the existing service areas of KAWC due to the existence of many well-funded medium sized municipal systems. The Company plans to explore contract opportunities for services and operations as they arise. There is, however, an opportunity to pursue acquisitions in other parts of the state. KAWC has and will continue to pursue these many opportunities when it is financially feasible to do so through acquisition and innovative regional public/private partnership arrangements.

The third part of the growth strategy is the alignment with Thames' goal to develop and implement a plan to make the organization more fluid across regulated and non-regulated business lines. By leveraging the brand recognition and reputation of KAWC with the product and service offerings of AWS and AWR, we will be able to streamline development efforts, reduce redundancies and position ourselves to effectively offer, by referral or direct marketing, the AWS and AWR group of products and services to develop new markets.

### **Cross Selling**

KAWC personnel have worked cooperatively with AWS personnel in the pursuit of non-regulated opportunities. Prior to the Azurix North America acquisition very little non-regulated cross selling took place primarily because of a lack of information regarding capabilities of the non-regulatory business. This

effort can be greatly improved with quality information exchange, proper incentives, and a coordinated business development effort.

The regulatory review of "Affiliated Transactions" will be closely scrutinized in Kentucky, which has very strict regulations regarding these transactions and may prohibit or reduce the profitability of these arrangements. The use of a regulated subsidiary similar to New Jersey Resources to address these markets may be beneficial.

One example of a cooperative effort between KAWC and AWS is the current AWS O & M contract in Martin County, Kentucky. Future possible non-regulated activities include:

- AWR Service Line Protection Program
- AWS Underground Rehabilitation Services
- AWS Industrial Operations Services
- AWS Residuals Management Services

KAWC has been successful in offering some of the following services and will pursue opportunities in the future for the full range of services below:

- Full Service Sewer Billing & Collections
- Leak Detection Services
- Line Location Services
- Backflow Prevention
- Bulk Sales Stations
- Meter Testing
- Water Hauling

### **Routes to Market**

Rainmakers provide effective tools for growing the business especially in markets where KAWC does not currently hold a strong position.

Call Center outbound calling has been mentioned as a means to identify, engage, and inform potential new business targets.

Enhanced government relations activity at the federal and state level will greatly improve the Company's growth potential. Public systems are not meeting regulatory standards, are unfairly subsidized by federal and state tax dollars, and are controlled or funded by large bureaucracies averse to privatization attempts.

On a limited basis, KAWC has successfully partnered with public systems.

Very little partnering has been accomplished with organizations other than public utilities with the exception of local consulting engineering firms. This is an area that requires greater evaluation for future business development potential.

### **Sales Plan and Methods**

We rely on leads garnered at industry and trade association meetings, government relations' contacts, employees, rainmakers (on a limited and unpaid basis), and referrals from previous deals, etc. A more formal sales plan must be adopted.

### **New Products and Revenue Sources**

KY-AM has a leak detection and line location contract.

Future potential business development opportunities include; meter testing, bulk sales stations, lab services, safety inspections, backflow/cross-connection inspections, training services, operator assistance and support, hydrant maintenance, technical consulting, instrumentation repair, water hauling, other consumer protection plans, operation and maintenance services, rate case preparation, billing services, and emergency call center services.

### **3. Competitive Position**

KAWC is currently involved in acquisition initiatives that will utilize both traditional asset purchase and public/private partnership arrangements. KAWC can expect competition for new service areas from both investor owned water service providers and the many large public sector providers around us. KAWC will have to bring forth innovative operational and financial solutions in order to be successful in maintaining and expanding its existing service area in order to meet our growth objectives.

Our state and local competitors:

- Large National and International Competitors (private)
- Large Municipals
- Water Districts
- Local Engineering Firms (where we compete for AWS type services)
- All Contiguous Systems
- Rural Water Association
- Area Development Districts

### **4. Assumptions**

The principal assumptions of KAWC in offering this Market Plan are summarized below:

- If the local government proceeds with condemnation, this long and costly battle will influence business development results for the next five years.
- National competitors will not be a major player in the regulated side of our business.
- KAWC will experience more regulatory pressure concerning rates, service (the possible application of service standards) and affiliated transactions.
- We will have the resources necessary to maintain our "best-in-class" initiatives.
- Public systems will continue to not meet regulation and will require state and federal funding for capital needs.
- Regulators will level the playing field by enforcing regulation.
- We will keep pace with most efficient technology (within reason).
- Local governments will continue to face budget constraints creating a more favourable environment for privatization.
- Customer growth in existing systems will continue at or slightly above historical trends per year.
- Neighboring systems will be openly friendly but covertly subversive.
- Aggressive growth goals of some of the larger and better-operated municipal systems will stymie KAWC growth.
- KAWC will continue to experience a decline in water use by customers.

## **5. Market Objectives**

The Strategic Business Plan for 2004-2008 continues the past achievements of KAWC for earnings and dividend growth. The continued strong financial and operational results into the future will substantially contribute to support Thames Water's strategic objective of a 10% year over year operating result. KAWC's plan is in alignment with the capital expenditures objective of spending no more than internally generated funds except for growth projects that meet value contribution goals.

## 6. Implementation Plan

Area	Key Action	Implementation Plan	Date
Leadership Role	KAWC Sr. Leadership Team	- Enhance relationships with local state and federal officials	Ongoing
	Bluegrass Water Supply Consortium	- Maintain our presence as a leader in the effort to resolve the water supply deficit by active participation in all Consortium activities	Ongoing
	Kentucky Infrastructure Authority ("KIA")	- Maintain position on board of KIA	Ongoing
	Environmental Regulation Enforcement	- Review KY DOW Regulations and outline areas where enforcement should be more equitably applied - Present to Director of State Division of Water	Q4 CY 2003 Q1 CY 2004
Bolt-on acquisitions, other state acquisitions, O & M agreements, SFR contracts, AWS/AWR results	Rainmakers	- Negotiate agreement with Rainmaker(s)	Q1 CY 2004
	Networking Opportunities	- League of Cities Meetings - Rural Water Association - County Judges Association - KY/TN AWWA Meetings - Various Chambers of Commerce - Kentucky Industrial Development Council - Regular outreach to prospects	Ongoing and regularly scheduled throughout the year
	Sale for Resale Contracts	- Develop competitive SFR tariff - Submit tariff to PSC for approval	Q3 CY 2003 Q1 CY 2004
Marketing basic utility services		- Target one area per quarter for analysis and strategy development	Q1 CY 2004 and quarterly thereafter

## **7. Resources**

### **Skills & Funding**

The resources necessary to achieve KAWC's objectives include the following:

#### **1. Operational Development:**

- We need to be highly proficient in wastewater system analysis and operation.
- We need to develop a bench of qualified O & M operators. Develop a process to develop a team bench within American Water.
- Better access to skill set of other American Water employees. Other states assist where practical to do so (due to driving times, availability, etc.).
- Public relations and media relations.
- We feel that we have the right skill sets at KAWC and within the region, but we often lack the necessary resources to effectively pursue opportunities.
- With the addition of paid "Rainmakers" along with a more collaborative approach with Voorhees for financial modeling and continuing development of other local staff to assist with business development activities, it is likely that we will see our success rate improve, but it is difficult to say if that will be enough until the plan based on the new strategy has been in place for some time.
- We need to focus less on short-term expectations.
- We need to rely more on upselling.
- We need to gain better understanding of competitive environment.
- We need to improve focus on competitive environment.
- KAWC will pursue all available funding options to produce growth projects that have financial feasibility and contribute to the strategic initiatives. (IGF, debt, equity, public/private partnerships, public debt/grants).
- Where appropriate we should consider modeling each business opportunity as a part of the KAWC operation, not as a stand-alone transaction. Insert in the business plan a piggyback approach for consecutive models so that the overall financial integrity of the Company stays intact.
- Be aware of the regulated environment (you only keep synergies until your next rate case).
- As long as an opportunity does not significantly impact the planned operating result of KAWC, we need to take advantage of current

favorable circumstances to make a deal that might produce less than optimal results in the short-term.

- The current model does not allow for strategic acquisitions.

KAWC has the requisite skills to do this job, but at times we don't know the rules of the game. It is crucial that local business development directors understand completely the financial models and drivers of value, but time spent running financial models is time away from market development and relationship development. We suggest a different approach to improve "time to value" by use of an American Water template (including assessment, capital expenditure identification, operating cost projections, financial modeling and integration checklist) to evaluate and categorize opportunities and by replacing the sometimes adversarial corporate approval model for evaluating opportunities with a collaborative model for success.

2. Market Development – This will be a product of strategy consisting of:

- An overall American Water Branding/Marketing Plan that is developed with the input of operating subsidiaries
- Development of a proactive KAWC marketing plan, which has as its major component the American Water Marketing Plan. This includes a complete understanding of the nature and marketing of the products and services of AWS and AWR
- Effective identification of markets and targeting of opportunities

3. Relationship Development –

- Government Relations skills need to be strengthened at the local, state and federal levels through internal government relations staff to maintain relationships and to find new opportunities.
- Once the prospect is identified, the relationship between the business development person and the client becomes paramount to success. Some opportunities, which become successes, are often the product of years of development effort. It is crucial that this person understand the critical importance of relationship building as well as finance and operations.
- The use of paid "Rainmakers" who can utilize their relationships and influence throughout the state to find viable opportunities

## 8. Key Relationships

KAWC currently maintains good relationships with all the regulatory agencies that have authority over its operations. In some cases, our regulators have looked to us for assistance in helping small and financially distressed utility operations. This emphasis may present many opportunities, and where financially feasible we need to be able to meet this calling. Legislation was



proposed, but has not been enacted, that would allow state regulators to take control of seriously troubled operations. We need to continue to exert pressure in this area to open up further opportunities.

KAWC has a troubled relationship with the Lexington-Fayette Urban County Government, but we enjoy a favorable relationship with local officials in contiguous counties who support our effort in resisting condemnation. We will continue to build on these strengths as well as on the strong relationships that we have with state officials.

Commonwealth of Kentucky Public Service Commission ("PSC") – Notwithstanding the attachment of 61 conditions to the sale of American Water to RWE/Thames, our relationship with the PSC has been and remains strong. We are respected for our management skills and customer service levels.

LFUCG Council – Not much needs to be said here except that we need to work harder to get people elected to the LFUCG council who have a pro-free enterprise philosophy.

State Division of Water ("DOW") – The DOW has recently undergone a shake-up in personnel. During this process and for other reasons, some of our relations have been damaged or lost. We need to reestablish those relationships for the reasons of basic good business judgment and to foster equal enforcement of environmental regulations for all water and wastewater operations.

Bluegrass Water Supply Consortium – KAWC's involvement as a key player in the Consortium is vital to resolving the water supply deficit.

Coalition Against Government Takeover – The Coalition now has over 14,000 members who are in support of KAWC's efforts to resist a takeover by the local government.

## **9. Critical Success Factors**

The critical success factors of KAWC are summarized below:

- Meet or exceed all customer service KPIs. Emphasize a customer focus with commitment to customer education, guaranteed standards of service, and customer feedback
- Solution to water supply and treatment deficits
- Solution to infrastructure replacement needs
- Effective management of issues related to condemnation effort by local government
- Access to grants and low interest loans for infrastructure replacement
- Regulated O&M opportunities (non-AWS)

- Dedicate resources to strategic marketing plan (increased brand awareness, promotion of products & services, improved media relations, improved customer relations, increase business development opportunities)
- Align company more closely with environmental issues
- Grant repayment issues especially with UDDA/RUS and USEDA
- Breakdown internal barriers, promote cross-selling of products and services
- Regulatory enforcement that levels the playing field
- Eliminate barriers that are impediments to business development progress
- We need one Region management structure for regulated and non-regulated opportunities
- Better method to account for non-regulated activities
- Identify, develop and train qualified management and operations personnel for O&M assignments.
- Personalize Thames and especially RWE. Promote good deeds, achievements, awards, milestones and do this regularly
- Each state needs an operating champion (VP of Operations) for operating oversight
- Work within capital structure of state – don't analyze opportunities on a transaction basis only
- Develop and promote wastewater expertise
- Develop a more streamlined approach to business development opportunity analysis and review
- Develop plan for rainmakers
- Maintain an effective cost control program

## **10. Key Issues**

The key issues of KAWC are summarized below:

### **INTERNAL**

- Supply and treatment deficits
- Allow the Alton Call Center to mature on a reasonable timetable so as not to interfere with level of service.
- Reduce the frequency of rate filings by developing alternative source of revenue. High rates are a national public relations issue, which will not subside in the term of the plan.
- Lack of water and wastewater operation expertise. The development of management bench strength is critical to future successes.
- The issue of federal grant repayment looms over every acquisition.
- Regulated utilities pay gross receipts taxes, property taxes and franchise fees to state and local governments and income taxes to state and federal governments thereby operating at a substantial tax disadvantage to municipal competitors.

- Real and perceived obstacles presented by affiliated transaction statutes hamper business development results.
- Modeled value contribution year one is very restrictive. Due to the often significant rate disparity that exists between the operating company and the target, a graduated phasing in of rates is the only acceptable solution. Allow for a more long-term view and an allowance for strategic acquisitions.

## **EXTERNAL**

- Condemnation threats by local government have influenced business development efforts in all markets.
- The RWE acquisition has had an impact on business development results fueled by negative newspaper ads (Public Citizen) promoting anti-foreign ownership sentiments, which have been bolstered by the position of the German government over the war in Iraq.
- Rate filings will be subjected to ever greater scrutiny and will be met with severe public opposition.
- Improved media relations and public relations must be afforded greater emphasis.
- USDA-RUS relationship must be improved.
- Our efforts often displace community specialists such as engineers, accountants and attorneys and unless a strategy is developed to retain these specialists in some role, they often take an adversarial position.
- Enhanced government regulations at the federal and state level will improve business development potential. Public systems are not meeting regulatory standards, are unfairly subsidized by federal and state tax dollars, and are controlled or funded by large bureaucracies averse to privatization attempts.

File Edit Function Go Path Help

Path: [ ] Representative: MCLURBK Name: [ ]

Sort by Rep: [ ]

Show Subset for Rep: [ ] Open Contacts Only?  Yes  No

Name	Contact #	Type	Date	Last Name	OK

Refresh New UC Fold/Unfold Select Refresh Print

Close Drop Log Cancel

No records selected to display ? [ ] [ ] [ ] OK Cancel

Kentucky - American IAS

Operating Income Detail  
(The "Kalleher" Schedule)

	Year 2003	Year 2004	Year 2005	Year 2006	Year 2007	Year 2008
<b>Billed Water Rev &amp; Water Sales (Excl WW &amp; Unbill)</b>						
Revenue						
Residential Revenues	\$ 22,758,268	\$ 25,391,027	\$ 27,589,105	\$ 28,077,532	\$ 28,456,270	\$ 28,835,177
Commercial Revenues	\$ 10,853,964	\$ 11,407,640	\$ 12,488,633	\$ 12,624,930	\$ 12,761,227	\$ 12,897,524
Industrial Revenues	\$ 1,509,616	\$ 1,612,598	\$ 1,773,572	\$ 1,773,572	\$ 1,773,572	\$ 1,773,572
Other Revenues	\$ 4,423,880	\$ 4,636,733	\$ 4,984,052	\$ 5,066,045	\$ 5,066,045	\$ 5,066,045
Total Revenues	\$ 39,545,728	\$ 43,047,998	\$ 46,835,362	\$ 47,542,079	\$ 48,057,114	\$ 48,572,318
Sales (Thousand gallons)						
Residential Sales	6,445,512	6,731,275	6,890,819	7,050,395	7,210,005	7,369,647
Commercial Sales	4,397,771	4,383,456	4,448,709	4,513,962	4,579,215	4,644,468
Industrial Sales	900,509	890,116	890,116	890,116	890,116	890,116
Other Sales	1,904,370	2,060,171	2,060,171	2,060,171	2,060,171	2,060,171
Total Sales	13,648,161	14,065,018	14,289,815	14,514,644	14,739,507	14,964,402
Year - end Water Customers						
Residential Customers	98,578	102,418	104,801	107,185	109,569	111,954
Commercial Customers	8,246	8,285	8,406	8,527	8,648	8,769
Industrial Customers	16	16	16	16	16	16
Fire - Service Customers	1,524	1,560	1,584	1,608	1,632	1,656
Other Customers	480	481	481	481	481	481
Total Customers	108,844	112,760	115,288	117,817	120,346	122,876
Average Revenue per 1000 gal	\$ 3.53	\$ 3.77	\$ 4.00	\$ 3.98	\$ 3.95	\$ 3.91
Residential Average Revenue	\$ 2.47	\$ 2.60	\$ 2.81	\$ 2.80	\$ 2.79	\$ 2.78
Commercial Average Revenue	\$ 1.68	\$ 1.81	\$ 1.99	\$ 1.99	\$ 1.89	\$ 1.99
Industrial Average Revenue	\$ 2.32	\$ 2.25	\$ 2.42	\$ 2.46	\$ 2.46	\$ 2.46
Other Average Revenue	\$ 65	\$ 66	\$ 66	\$ 66	\$ 68	\$ 66
Average Revenue per Customer (TC)	\$ 533	\$ 529	\$ 529	\$ 529	\$ 530	\$ 530
Residential	\$ 56,282	\$ 55,632	\$ 55,632	\$ 55,632	\$ 55,632	\$ 55,632
Commercial	\$ 3,967	\$ 4,283	\$ 4,283	\$ 4,283	\$ 4,283	\$ 4,283
Industrial	\$ 349,289	\$ 351,774	\$ 351,774	\$ 351,774	\$ 351,774	\$ 351,774
Other	\$ 1,861,309	\$ 2,152,611	\$ 2,176,259	\$ 2,176,395	\$ 2,219,156	\$ 2,230,477
Production Cost	\$ 1,255,289	\$ 1,389,576	\$ 1,432,353	\$ 1,494,475	\$ 1,546,217	\$ 1,753,149
Purchased - Water	\$ 146,409	\$ 177,985	\$ 241,732	\$ 253,832	\$ 198,832	\$ 201,883
Fuel & Power	\$ 3,612,296	\$ 4,071,946	\$ 4,202,118	\$ 4,276,476	\$ 4,315,979	\$ 4,537,283
Chemical	\$ 15,421	\$ 16,392	\$ 16,557	\$ 16,719	\$ 16,880	\$ 17,039
Waste - Disposal	\$ 88.50	\$ 85.80	\$ 86.31	\$ 86.81	\$ 87.32	\$ 87.82
Total Production Cost	\$ 234	\$ 248	\$ 254	\$ 256	\$ 256	\$ 266
System Delivery (Millions of Gal)						
% Sales to Delivery						
Production Cost per MG	\$ 6,068,695	\$ 6,250,216	\$ 6,433,888	\$ 6,433,888	\$ 6,645,056	\$ 6,862,773
Labor and Labor Related	\$ 1,597,898	\$ 1,680,717	\$ 1,773,813	\$ 1,773,813	\$ 1,888,246	\$ 2,018,604
Labor Expense	\$ 1,063,164	\$ 962,592	\$ 962,592	\$ 843,324	\$ 745,020	\$ 704,628
Group - Insurance	\$ 63,997	\$ 68,003	\$ 71,004	\$ 71,004	\$ 74,003	\$ 75,997
Pension	\$ 96,000	\$ 97,920	\$ 99,876	\$ 99,876	\$ 101,880	\$ 103,908
Workmen's Comp	\$ 68,004	\$ 69,360	\$ 70,752	\$ 70,752	\$ 72,168	\$ 73,608
401k	\$ 8,957,758	\$ 8,957,758	\$ 9,128,808	\$ 9,292,457	\$ 9,526,373	\$ 9,839,518
ESOP	\$ 83.38	\$ 79.44	\$ 79.18	\$ 78.87	\$ 79.16	\$ 80.08
Total Labor & Labor Related	\$ 9,075,318	\$ 9,128,808	\$ 9,292,457	\$ 9,526,373	\$ 9,839,518	\$ 10,188,008
Labor Related Cost per Customer	\$ 83.38	\$ 79.44	\$ 79.18	\$ 78.87	\$ 79.16	\$ 80.08

Note: "Per Customer" performance metrics may be distorted by exclusion of Wastewater customers in customer count \*

\*

Operating Income Detail  
(The "Kelleher" Schedule)

*Handwritten:* H. James W. W. → should be 140  
power - 1

	Year 2003	Year 2004	Year 2005	Year 2008	Year 2007	Year 2008
# Associates	134	142	142	142	141	141
Labor Related Cost per Associate	\$ 67,726	\$ 63,085	\$ 64,287	\$ 65,440	\$ 67,563	\$ 69,784
Customers/Associate	812	794	812	830	854	871
<b>AWWS</b>						
Management Fee - Corp	\$ 3,232,938	\$ -	\$ -	\$ -	\$ -	\$ -
Shared Services	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Call Center	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
MIS - Billing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Regional Office	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Lab Fees	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total AWWS	\$ 3,232,938	\$ 3,236,268	\$ 3,535,080	\$ 3,535,080	\$ 3,535,080	\$ 3,535,080
AWWS Cost per Customer	\$ 29.70	\$ 28.70	\$ 30.66	\$ 30.00	\$ 29.37	\$ 28.77
<b>Administrative Expenses</b>						
Uncollectible Expense	\$ -	\$ 11,892	\$ 12,168	\$ 13,596	\$ 13,884	\$ 14,172
Transportation	\$ -	\$ 311,556	\$ 311,888	\$ 312,242	\$ 312,596	\$ 312,976
Other Expenses	\$ -	\$ 2,875,076	\$ 3,081,864	\$ 3,068,305	\$ 2,910,630	\$ 3,269,823
Total Administrative Expenses	\$ 4,149,487	\$ 3,198,524	\$ 3,405,920	\$ 3,394,143	\$ 3,237,110	\$ 3,596,771
Admin Cost per Customer	\$ 38.12	\$ 28.37	\$ 29.54	\$ 28.81	\$ 26.90	\$ 29.27
<b>Maintenance Expenses</b>						
Maintenance Exp	\$ 753,178	\$ 1,199,532	\$ 1,297,187	\$ 1,378,006	\$ 1,379,773	\$ 1,418,007
Maintenance Cost per Customer	\$ 6.92	\$ 10.64	\$ 11.25	\$ 11.70	\$ 11.47	\$ 11.54
<b>Recap of O&amp;M Costs</b>						
Production Costs Recap	\$ 3,612,296	\$ 4,071,946	\$ 4,202,118	\$ 4,276,476	\$ 4,315,979	\$ 4,537,283
Labor and Labor Related Recap	\$ 9,075,318	\$ 8,957,758	\$ 9,128,808	\$ 9,292,457	\$ 9,526,373	\$ 9,839,518
AWWS Recap	\$ 3,232,938	\$ 3,236,268	\$ 3,535,080	\$ 3,535,080	\$ 3,535,080	\$ 3,535,080
Other Expenses Recap	\$ 4,149,487	\$ 3,198,524	\$ 3,405,920	\$ 3,394,143	\$ 3,237,110	\$ 3,596,771
Maintenance Expenses Recap	\$ 753,178	\$ 1,199,532	\$ 1,297,187	\$ 1,378,006	\$ 1,379,773	\$ 1,418,007
Total O&M Costs Recap	\$ 20,823,217	\$ 20,664,028	\$ 21,569,113	\$ 21,876,162	\$ 21,994,315	\$ 22,926,659
O&M Cost per Customer	\$ 191.31	\$ 183.26	\$ 187.09	\$ 185.68	\$ 182.76	\$ 186.58
<b>Depreciation Costs</b>						
Depreciation Expense	\$ 5,314,255	\$ 6,256,693	\$ 6,920,763	\$ 7,218,397	\$ 7,452,968	\$ 7,820,491
Utility Plant, net of CIAC's	\$ 259,917,000	\$ 276,830,660	\$ 289,077,694	\$ 290,406,327	\$ 304,837,827	\$ 316,890,530
Composite Depreciation Rate (%exp/UP)	2.04	2.26	2.39	2.49	2.44	2.47
Amortization Expense	\$ 1,193,108	\$ 673,596	\$ 673,596	\$ 447,300	\$ 432,192	\$ 432,192
General Taxes Expense	\$ 2,301,926	\$ 2,371,030	\$ 2,391,160	\$ 2,562,477	\$ 2,683,169	\$ 2,764,892
Total Operating Income	\$ 14,566,361	\$ 17,731,867	\$ 20,252,084	\$ 20,482,970	\$ 20,634,568	\$ 19,824,024
<b>Margins and Other Ratios</b>						
Operating - Margin	32.96	37.54	39.45	39.33	39.20	37.27
Total Income - Margin	23.41	26.09	28.49	28.71	28.93	28.14
Net to Common - Margin	12.88	14.49	16.13	16.18	17.31	16.84
Netpat - Margin	20.32	27.06	28.11	27.80	27.58	25.96
Income Tax Rates	39.91	27.91	28.75	29.33	28.65	30.34

Kentucky - American IAS

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2004-00103**  
**ATTORNEY GENERAL'S SECOND REQUEST FOR INFORMATION**  
**ITEMS 1-30**

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Witness Responsible:

James Salser

29. It is the understanding of the Attorney General that certain lead/lag days are being supported in this case based on a lead/lag study conducted for a sister company. In that regard, please provide the workpapers and calculations used to develop the lead/lag days shown in Exhibit 37B, page 82 for Service Company Charges, Group Insurance, OPEB's, Pensions, Insurance Other than Group, Postage Expense, Stock Expense, and Waste Disposal Expense.

Response:

Attached are the Kentucky American lead lag workpapers for the year ending 2003 representing Service Company Charges, Group Insurance, OPEB's, Pensions, Insurance Other than Group, Waste Disposal, Property Taxes, Short-Term Debt, Long-Term Debt, Preferred Stock Dividends, State Income Tax, and Federal Income Tax. Also attached are the workpapers related to postage expense and stock expense based on sister companies information in the original filing.

For the electronic version please refer to KAW\_R\_AGKYDR2#29\_attachment\_080604.pdf

KENTUCKY AMERICAN WATER  
2003 LEAD/LAG STUDY

SERVICE COMPANY CHARGES								
Date	Amount	Description	Date Paid	Service Period		Avg Service Period	Lag (Lead)	Dollar Days
				From	To			
12/31/2002	261,549.50	Current Month's actual and est for next month		12/31/2002	1/24/2003	12.00	(2.00)	(523,099.00)
	(269,054.50)	Last Mo's est of this month's billing						
	(7,505.00)	Net Amt Payable (Receivable)						
AWWCC 1/10/03	254,044.50	Paid in following month	1/10/2003	11/30/2002	12/31/2002	15.50	25.50	(191,377.50)
1/24/2003	262,766.78	Current Month's actual and est for next month		1/24/2003	2/21/2003	14.00	(7.00)	(1,839,367.46)
	(261,549.50)	Last Mo's est of this month's billing						
	1,217.28	Net Amt Payable (Receivable)						
AWWCC 12/31/03	263,984.06	Paid in following month	1/31/2003	12/31/2002	1/24/2003	12.00	19.00	23,128.32
3/28/2003	204,176.52	Current Month's actual and est for next month		2/21/2003	3/28/2003	17.50	(10.50)	(2,143,853.46)
	(262,766.78)	Last Mo's est of this month's billing						
	(58,590.26)	Net Amt Payable (Receivable)		1/24/2003	2/21/2003	14.00	21.00	(1,230,395.46)
AWWCC 2/28/2003	145,586.26	Paid in following month	2/28/2003					
4/25/2003	295,782.13	Current Month's actual and est for next month		3/28/2003	4/25/2003	14.00	(3.00)	(887,346.39)
	(204,176.52)	Last Mo's est of this month's billing						
	91,605.61	Net Amt Payable (Receivable)		2/21/2003	3/28/2003	17.50	28.50	2,810,759.89
AWWCC 4/8/2003	387,387.74	Paid in following month	4/8/2003					
5/23/2003	299,784.67	Current Month's actual and est for next month		4/25/2003	5/23/2003	14.00	-	-
	(295,782.13)	Last Mo's est of this month's billing						
	4,002.54	Net Amt Payable (Receivable)		3/28/2003	4/25/2003	14.00	28.00	112,071.12
AWWCC 5/9/2003	303,787.21	Paid in following month	5/9/2003					
6/27/2003	249,460.51	Current Month's actual and est for next month		5/23/2003	6/27/2003	17.50	(3.50)	(873,111.79)
	(299,784.67)	Last Mo's est of this month's billing						
	(50,324.16)	Net Amt Payable (Receivable)		4/25/2003	5/23/2003	14.00	28.00	(1,409,076.48)
AWWCC 6/6/2003	199,136.35	Paid in following month	6/6/2003					
7/25/2003	299,644.85	Current Month's actual and est for next month		6/27/2003	7/25/2003	14.00	4.00	1,198,579.40
	(249,460.51)	Last Mo's est of this month's billing						
	50,184.34	Net Amt Payable (Receivable)		5/23/2003	6/27/2003	17.50	35.50	1,781,544.07
AWWCC 7/15/2003	349,829.19	Paid in following month	7/15/2003					
8/22/2003	251,351.46	Current Month's actual and est for next month		7/25/2003	8/22/2003	14.00	3.00	754,054.38
	(299,644.85)	Last Mo's est of this month's billing						
	(48,293.39)	Net Amt Payable (Receivable)		6/27/2003	7/25/2003	14.00	31.00	(1,497,095.09)
AWWCC 8/11/2003	203,058.07	Paid in following month	8/11/2003					
9/26/2003	275,704.44	Current Month's actual and est for next month		8/22/2003	9/26/2003	17.50	6.50	1,792,078.86
	(251,351.46)	Last Mo's est of this month's billing						
	24,352.98	Net Amt Payable (Receivable)		7/25/2003	8/22/2003	14.00	38.00	925,413.24
AWWCC 9/15/2003	300,057.42	Paid in following month	9/15/2003					
10/24/2003	211,992.67	Current Month's actual and est for next month		9/26/2003	10/24/2003	14.00	(4.00)	(847,970.68)
	(275,704.44)	Last Mo's est of this month's billing						
	(63,711.77)	Net Amt Payable (Receivable)		8/22/2003	9/26/2003	17.50	27.50	(1,752,073.68)
AWWCC 10/6/2003	148,280.90	Paid in following month	10/6/2003					
11/21/2003	238,617.70	Current Month's actual and est for next month		10/24/2003	11/21/2003	14.00	5.00	1,193,088.50
	(211,992.67)	Last Mo's est of this month's billing						
	26,625.03	Net Amt Payable (Receivable)		9/26/2003	10/24/2003	14.00	33.00	878,625.99
AWWCC 11/12/2003	265,242.73	Paid in following month	11/12/2003					
12/12/2003	316,972.31	Current Month's actual and est for next month		11/21/2003	12/12/2003	10.50	1.50	475,458.47
	(238,617.70)	Last Mo's est of this month's billing						
	78,354.61	Net Amt Payable (Receivable)		10/24/2003	11/21/2003	14.00	26.00	2,037,219.86
AWWCC 12/3/2003	395,326.92	Paid in following month	12/3/2003					

3,215,721.351,301,731.61

Average Lag for Service Company Charges

0.40



KENTUCKY AMERICAN WATER COMPANY  
2003 LEAD/LAG STUDY

Group Ins Oper AG

Obj Acct	Document Number	Check Date	Amount	Service Period		Avg Service Period	Lag (Lead)	Dollar Days	
				From	To				
504100	40360597	1/22/2003	95,252.24	12/31/2002	1/31/2003	15.50	6.50	619,139.56	1,157,935.04
504100	40370748	2/6/2003	95,641.07	1/31/2003	2/28/2003	14.00	(8.00)	(765,128.56)	1,062,682.80
504100	40393850	3/6/2003	95,973.23	2/28/2003	3/31/2003	15.50	(9.50)	(911,745.69)	967,041.73
504100	40418688	4/7/2003	97,095.66	3/31/2003	4/30/2003	15.00	(8.00)	(776,765.28)	871,068.50
504100	40447229	5/9/2003	97,005.12	4/30/2003	5/31/2003	15.50	(6.50)	(630,533.28)	773,972.84
504100	40469867	6/6/2003	97,286.97	5/31/2003	6/30/2003	15.00	(9.00)	(875,582.73)	676,967.72
504100	40496736	7/9/2003	96,219.70	6/30/2003	7/31/2003	15.50	(6.50)	(625,428.05)	579,680.75
504100	40519752	8/6/2003	96,209.65	7/31/2003	8/31/2003	15.50	(9.50)	(913,991.68)	483,461.05
504100	40545645	9/8/2003	96,247.16	8/31/2003	9/30/2003	15.00	(7.00)	(673,730.12)	387,251.40
504100	40572659	10/8/2003	96,397.34	9/30/2003	10/31/2003	15.50	(7.50)	(722,980.05)	291,004.24
504100	40597320	11/6/2003	97,735.57	10/31/2003	11/30/2003	15.00	(9.00)	(879,620.13)	194,606.90
504100	40624519	12/8/2003	96,871.33	11/30/2003	12/31/2003	15.50	(7.50)	(726,534.98)	96,871.33
									<u>1,157,935.04</u>
									<u>(7,882,901)</u>
									<u>(6.81)</u>

Average Lag Group Insurance



KENTUCKY AMERICAN WATER  
 2003 LEAD/LAG STUDY

**PENSIONS**

Payment Date	Amount	Service Period		Avg Service Period	Lag (Lead)	Dollar Days
		From	To			
3/24/03	\$ 98,427.00	12/31/2002	3/31/2003	45	38	3,740,226
5/15/03	\$ 98,427.00	3/31/2003	6/30/2003	45.5	-0.5	(49,214)
8/15/03	\$ 106,429.00	6/30/2003	9/30/2003	46	0	-
12/2/03	\$ 106,429.00	9/30/2003	12/31/2003	46	17	1,809,293
<b>Totals</b>	<u>409,712.00</u>					<u>5,500,305</u>
<b>Average Lag for Pensions</b>						<u>13.42</u>

**Insurance Other than Group**

Check Date	Amount	Service Period		Avg Service Period	Lag (Lead)	Dollar Days
		From	To			
1/2/2003	12,678.22	12/31/2002	3/31/2003	45.00	(43.00)	(545,163.46)
4/1/2003	12,678.22	3/31/2003	6/30/2003	45.50	(44.50)	(564,180.79)
7/1/2003	12,678.22	6/30/2003	9/30/2003	46.00	(45.00)	(570,519.90)
10/1/2003	12,678.22	9/30/2003	12/31/2003	46.00	(45.00)	(570,519.90)
1/2/2003	15,383.36	12/31/2002	3/31/2003	45.00	(43.00)	(661,484.48)
4/1/2003	15,383.36	3/31/2003	6/30/2003	45.50	(44.50)	(684,559.52)
7/1/2003	15,383.36	6/30/2003	9/30/2003	46.00	(45.00)	(692,251.20)
10/1/2003	15,383.36	9/30/2003	12/31/2003	46.00	(45.00)	(692,251.20)
1/2/2003	53,430.75	12/31/2002	3/31/2003	45.00	(43.00)	(2,297,522.25)
4/1/2003	53,430.75	3/31/2003	6/30/2003	45.50	(44.50)	(2,377,668.38)
7/1/2003	53,430.75	6/30/2003	9/30/2003	46.00	(45.00)	(2,404,383.75)
10/1/2003	53,430.75	9/30/2003	12/31/2003	46.00	(45.00)	(2,404,383.75)
1/2/2003	15,133.16	12/31/2002	3/31/2003	45.00	(43.00)	(650,725.88)
4/1/2003	15,133.16	3/31/2003	6/30/2003	45.50	(44.50)	(673,425.62)
7/1/2003	15,133.16	6/30/2003	9/30/2003	46.00	(45.00)	(680,992.20)
10/1/2003	15,133.16	9/30/2003	12/31/2003	46.00	(45.00)	(680,992.20)
1/2/2003	749.79	12/31/2002	4/30/2003	60.00	(58.00)	(43,487.82)
5/1/2003	749.79	4/30/2003	8/31/2003	61.50	(60.50)	(45,362.30)
9/1/2003	749.79	8/31/2003	12/31/2003	61.00	(60.00)	(44,987.40)
9/1/2003	676.95	9/1/2003	8/31/2004	182.50	(182.50)	(123,543.38)
1/2/2003	1,791.16	12/31/2002	4/30/2003	60.00	(58.00)	(103,887.28)
5/1/2003	1,791.16	4/30/2003	8/31/2003	61.50	(60.50)	(108,365.18)
9/1/2003	1,791.16	8/31/2003	12/31/2003	61.00	(60.00)	(107,469.60)

394,801.76

(17,728,127)

**Average Lag Insurance Other than Group**

**(44.90)**

KENTUCKY AMERICAN WATER  
2003 LEAD/LAG STUDY

Waste Disposal

Obj Acct	Document Number	Check Date	Amount	Service Period		Avg Service Period	Lag (Lead)	Dollar Days
				From	To			
511100	40386870	2/26/2003	16.00					41,780.07
511100	40415634	4/1/2003	343.09					41,764.07
511100	40393334	3/5/2003	350.87					41,420.98
511100	40541601	9/2/2003	355.60					41,070.11
511100	40426130	4/15/2003	400.00					40,714.51
511100	40453924	5/19/2003	400.00					40,314.51
511100	40468101	6/4/2003	400.00					39,914.51
511100	40530604	8/19/2003	400.00					39,514.51
511100	40580382	10/16/2003	400.00					39,114.51
511100	40382262	2/20/2003	408.98					38,714.51
511100	40437804	4/29/2003	412.05					38,305.53
511100	40490284	7/1/2003	413.85	5/20/2003	6/19/2003	15.00	27.00	11,174 37,893.48
511100	40623452	12/5/2003	416.59	10/17/2003	11/17/2003	15.50	33.50	13,956 37,479.63
511100	40564033	9/29/2003	418.31	8/19/2003	9/18/2003	15.00	26.00	10,876 37,063.04
511100	40355376	1/16/2003	460.57	11/26/2002	12/30/2002	17.00	34.00	15,659 36,644.73
511100	40519013	8/5/2003	466.44	6/19/2003	7/21/2003	16.00	31.00	14,460 36,184.16
511100	40471186	6/9/2003	472.96	4/21/2003	5/20/2003	14.50	34.50	16,317 35,717.72
511100	40595426	11/4/2003	553.86	9/18/2003	10/17/2003	14.50	32.50	18,000 35,244.76
511100	40537655	8/26/2003	569.73	7/21/2003	8/19/2003	14.50	21.50	12,249 34,690.90
511100	40591249	10/29/2003	708.19	9/18/2003	10/17/2003	14.50	26.50	18,767 34,121.17
511100	40564021	9/29/2003	721.74	8/19/2003	9/18/2003	15.00	26.00	18,765 33,412.98
511100	40488804	6/30/2003	730.50	5/20/2003	6/19/2003	15.00	26.00	18,993 32,691.24
511100	40463307	5/29/2003	754.21	4/21/2003	5/20/2003	14.50	23.50	17,724 31,960.74
511100	40512559	7/29/2003	780.23	6/19/2003	7/21/2003	16.00	24.00	18,726 31,206.53
511100	40616882	11/26/2003	868.77	10/17/2003	11/17/2003	15.50	24.50	21,285 30,426.30
511100	40437814	4/29/2003	998.86	3/20/2003	4/21/2003	16.00	24.00	23,973 29,557.53
511100	40415630	4/1/2003	1,089.89	2/19/2003	3/20/2003	14.50	26.50	28,882 28,558.67
511100	40391700	3/4/2003	1,495.26	1/30/2003	2/19/2003	10.00	23.00	34,391 27,468.78
511100	40347899	1/8/2003	1,577.15	11/26/2002	12/30/2002	17.00	26.00	41,006 25,973.52
511100	40543776	9/4/2003	1,630.13	7/25/2003	8/25/2003	15.50	25.50	41,568 24,396.37
511100	40371374	2/6/2003	1,641.53	12/23/2002	1/24/2003	16.00	29.00	47,604 22,766.24
511100	40418286	4/4/2003	1,655.86	2/25/2003	3/26/2003	14.50	23.50	38,913 21,124.71
511100	40380399	2/19/2003	1,668.89	12/30/2002	1/30/2003	15.50	35.50	59,246 19,468.85
511100	40346548	1/7/2003	1,744.24	11/21/2002	12/23/2002	16.00	31.00	54,071 17,799.96
511100	40492040	7/2/2003	1,825.00	5/27/2003	6/25/2003	14.50	21.50	39,238 16,055.72
511100	40595416	11/4/2003	1,829.78	9/24/2003	10/23/2003	14.50	26.50	48,489 14,230.72
511100	40444462	5/7/2003	1,832.10	3/26/2003	4/25/2003	15.00	27.00	49,467 12,400.94
511100	40468995	6/5/2003	1,844.72	4/25/2003	5/27/2003	16.00	25.00	46,118 10,568.84
511100	40620769	12/3/2003	1,884.30	10/23/2003	11/21/2003	14.50	26.50	49,934 8,724.12
511100	40400651	3/14/2003	1,965.71	1/24/2003	2/25/2003	16.00	33.00	64,868 6,839.82
511100	40569112	10/3/2003	2,347.06	8/25/2003	9/24/2003	15.00	24.00	56,329 4,874.11
511100	40519706	8/6/2003	2,527.05	6/25/2003	7/25/2003	15.00	27.00	68,230 2,527.05
511100								
511100								
			<u>41,780.07</u>					
			<u>37,893.48</u>					<u>1,019,278.00</u>
								<u>26.9</u>

Average Lag for Waste Disposal

KENTUCKY AMERICAN WATER COMPANY  
2003 LEAD/LAG STUDY

**Property Taxes**

Obj Acct	Document Number	Check Date	Amount	Service Period		Avg Service Period	Lag (Lead)	Dollar Days
				From	To			
	40474436	6/11/2003	79531.93	7/1/2003	6/30/2004	182.50	(202.50)	(16,105,216)
	40542028	9/2/2003	535,419.64	7/1/2003	12/31/2003	91.50	(28.50)	(15,259,460)
	40568738	10/3/2003	44,934.86	1/1/2003	12/31/2003	182.00	93.00	4,178,942
	40580794	10/16/2003	7,697.24	1/1/2003	12/31/2003	182.00	106.00	815,907
	40580793	10/16/2003	25,164.86	1/1/2003	12/31/2003	182.00	106.00	2,667,475
	40580792	10/16/2003	1,156,134.85	1/1/2003	12/31/2003	182.00	106.00	122,550,294
	40580791	10/16/2003	154,847.44	1/1/2003	12/31/2003	182.00	106.00	16,413,829
	40629962	12/11/2003	32,002.43	1/1/2003	12/31/2003	182.00	162.00	5,184,394
	40612156	11/20/2003	4,808.26	1/1/2003	12/31/2003	182.00	141.00	677,965
	40674886	2/10/2004	12,465.62	1/1/2003	12/31/2003	182.00	223.00	2,779,833
						-	-	-
						-	-	-
						-	-	-
			<u>1,973,475.20</u>					<u>140,009,179</u>
								<u>70.95</u>

**Average Lag for Property Taxes**

KENTUCKY AMERICAN WATER  
2003 LEAD/LAG STUDY

**Short-Term Debt Interest**

Payment Date	Amount	Service Period		Avg Service Period	Lag (Lead)	Dollar Days
		From	To			
1/21/2003	13,900.33	12/31/2002	1/21/2003	10.50	10.50	145,953
2/18/2003	16,640.62	1/21/2003	2/18/2003	14.00	14.00	232,969
3/25/2003	19,858.04	2/18/2003	3/25/2003	17.50	17.50	347,516
4/22/2003	15,487.88	3/25/2003	4/22/2003	14.00	14.00	216,830
5/20/2003	15,411.75	4/22/2003	5/20/2003	14.00	14.00	215,765
6/24/2003	19,075.40	5/20/2003	6/24/2003	17.50	17.50	333,820
7/22/2003	14,351.94	6/24/2003	7/22/2003	14.00	14.00	200,927
8/19/2003	13,010.08	7/22/2003	8/19/2003	14.00	14.00	182,141
9/23/03	16,301.54	8/19/2003	9/23/2003	17.50	17.50	285,277
10/21/03	13,516.82	9/23/2003	10/21/2003	14.00	14.00	189,235
11/18/03	13,504.03	10/21/2003	11/18/2003	14.00	14.00	189,056
12/9/03	10,191.51	11/18/2003	12/9/2003	10.50	10.50	107,011
<b>Totals</b>	<b>181,249.94</b>					<b>2,646,500</b>
<b>Average Lag for Short-Term Interest</b>						<b>14.60</b>

KENTUCKY AMERICAN WATER  
2003 LEAD/LAG STUDY

**Long-Term Debt Interest**

Rate	Payment		Service Period		Avg Service Period	Lag (Lead)	Dollar Days
	Date	Amount	From	Thru			
7.150%	2/3/03	268,125.00	8/1/02	2/1/03	92.00	94.00	25,203,750
6.790%	3/3/03	186,725.00	9/1/02	3/1/03	90.50	92.50	17,272,063
6.870%	3/31/03	532,425.00	9/29/02	3/29/03	90.50	92.50	49,249,313
6.960%	6/2/03	243,600.00	12/1/02	6/1/03	91.00	92.00	22,411,200
6.990%	6/2/03	314,550.00	12/1/02	6/1/03	91.00	92.00	28,938,600
5.650%	6/12/03	1,356,000.00	6/12/02	6/12/03	182.50	182.50	247,470,000
7.150%	8/1/03	268,125.00	2/1/03	8/1/03	90.50	90.50	24,265,313
6.790%	9/1/03	186,725.00	3/1/03	9/1/03	92.00	92.00	17,178,700
6.870%	9/29/03	532,425.00	3/29/03	9/29/03	92.00	92.00	48,983,100
6.990%	12/1/03	314,550.00	6/1/03	12/1/03	91.50	91.50	28,781,325
6.960%	12/1/03	243,600.00	6/1/03	12/1/03	91.50	91.50	22,289,400

4,446,850.00

532,042,764

**Average Lag for Long-Term Interest Expense**

**119.64**



KENTUCKY AMERICAN WATER  
2003 LEAD/LAG STUDY

**Preferred Stock Dividends**

	Payment Date	Amount	Service Period		Avg Service Period	Lag (Lead)	Dollar Days
			From	To			
7.900%	1/2/2003	16,590.00	10/1/2002	1/1/2003	46.00	47.00	779,730
5.500%	1/2/2003	6,875.12	10/1/2002	1/1/2003	46.00	47.00	323,131
8.470%	3/3/2003	95,287.50	12/1/2002	3/1/2003	45.00	47.00	4,478,513
5.750%	4/1/2003	6,756.36	1/1/2003	4/1/2003	45.00	45.00	304,036
5.500%	4/1/2003	6,875.12	1/1/2003	4/1/2003	45.00	45.00	309,380
5.000%	4/1/2003	7,500.36	1/1/2003	4/1/2003	45.00	45.00	337,516
7.900%	4/1/2003	16,590.00	1/1/2003	4/1/2003	45.00	45.00	746,550
8.470%	6/2/2003	95,287.50	3/1/2003	6/1/2003	46.00	47.00	4,478,513
5.750%	7/1/2003	6,756.25	4/1/2003	7/1/2003	45.50	45.50	307,409
5.500%	7/1/2003	6,875.00	4/1/2003	7/1/2003	45.50	45.50	312,813
5.000%	7/1/2003	7,500.00	4/1/2003	7/1/2003	45.50	45.50	341,250
7.900%	7/1/2003	16,590.00	4/1/2003	7/1/2003	45.50	45.50	754,845
8.470%	9/2/2003	95,287.50	6/1/2003	9/1/2003	46.00	47.00	4,478,513
5.750%	10/1/2003	6,672.88	7/1/2003	10/1/2003	46.00	46.00	306,952
5.500%	10/1/2003	6,815.88	7/1/2003	10/1/2003	46.00	46.00	313,530
5.000%	10/1/2003	7,423.75	7/1/2003	10/1/2003	46.00	46.00	341,493
7.900%	10/1/2003	15,800.00	7/1/2003	10/1/2003	46.00	46.00	726,800
8.470%	12/1/2003	95,287.50	9/1/2003	12/1/2003	45.50	45.50	4,335,581
<b>Totals</b>							<b>23,976,555</b>
<b>Average Lag for Preferred Stock Dividends</b>							<b>46.40</b>

KENTUCKY AMERICAN WATER  
 2003 LEAD/LAG STUDY

**STATE INCOME TAXES**

<u>Payment Date</u>	<u>From</u>	<u>Thru</u>	<u>Avg Service Period</u>	<u>Lag (Lead)</u>	<u>Annual Payment</u>	
6/15/2003	1/1/2003	6/30/2003	90.00	75	50%	37.50
9/15/2003	6/30/2003	9/30/2003	46.00	31	25%	7.75
12/15/2003	9/30/2003	12/31/2003	46.00	30	25%	7.50
<b>Total</b>				<b>136</b>		

**Average Lag for State Income Tax**

**52.75**

KENTUCKY AMERICAN WATER  
 2003 LEAD/LAG STUDY

**FEDERAL INCOME TAXES**

<u>Payment Date</u>	<u>From</u>	<u>Thru</u>	<u>Avg Service Period</u>	<u>Lag (Lead)</u>	<u>Annual Payment</u>	
3/15/2003	12/31/2002	3/31/2003	45.00	29	25%	7.25
6/15/2003	3/31/2003	6/30/2003	45.50	30.5	25%	7.63
9/15/2003	6/30/2003	9/30/2003	46.00	31	25%	7.75
12/15/2003	9/30/2003	12/31/2003	46.00	30	25%	7.50
<b>Total</b>				<b>120.5</b>		
<b>Average Lag for Federal Income Tax</b>						<b>30.13</b>