COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:	)	
	)	
NOTICE OF ADJUSTMENT OF THE RATES OF	)	**CASE NO. 2007-00143**
KENTUCKY-AMERICAN WATER COMPANY	)	
EFFECTIVE ON AND AFTER MAY 30, 2007	)	

DIRECT TESTIMONY OF MICHAEL A. MILLER

April 30, 2007

KENTUCKY AMERICAN WATER COMPANY
CASE NO. 2007-00143
DIRECT TESTIMONY
MICHAEL A. MILLER

1. Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Michael A. Miller, 1600 Pennsylvania Avenue, Charleston, West Virginia.

2. Q. WHAT POSITION DO YOU HOLD WITH KENTUCKY AMERICAN WATER?

A. I am the Treasurer/Comptroller of Kentucky American Water Company ("KAWC" or "Company").

3. Q. PLEASE DESCRIBE YOUR PROFESSIONAL EDUCATION AND EXPERIENCE.

A. My resume is attached to this testimony in Appendix A.

4. Q. WHAT ARE YOUR RESPONSIBILITIES AS TREASURER AND COMPTROLLER?

A. I am responsible for the rates and revenue, financial statements, accounting, finance, budgets, and cash management functions for KAWC and I perform the same duties for West Virginia American and Tennessee American.

5. Q. HAVE YOU TESTIFIED BEFORE IN REGULATORY PROCEEDINGS?

A. **Yes. I have testified previously on numerous occasions before the utility regulatory agencies in West Virginia, Tennessee, Virginia and the Kentucky Public Service Commission.**

6. Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. **I will address (i) drivers of the need to increase rates of KAWC, (ii) single tariff pricing, (iii) capital structure and the overall cost of capital that includes the return on equity (ROE), which will be addressed by Dr. Vander Weide, (iv) revenues for the base and forecast periods, that include the increase in the number of customers for the periods and also reflects Dr. Edward Spitznagel's weather normalization for residential and commercial customers, (v) management fees and call center service levels, (vi) pension expense, (vii) other post employment benefit ("OPEB") costs, (viii) income taxes, (ix) cost allocations, (x) and other tariff changes.**

GENERAL

7. Q. WHAT FACTORS ARE DRIVING THE NEED TO INCREASE RATES AT THIS TIME?

A. **The Company's ability to attract capital at reasonable rates is a critical factor in meeting its public service obligation. The Company must replace and construct facilities necessary to meet water quality regulations and maintain its service capabilities (an increase in rate base of $55.310 million is**

being requested over the level on which rates are currently based), maintain its facilities in order to maximize their useful life, and provide the employees necessary to carry out those public service obligations. Rates should be set to provide revenue to the utility to cover all prudently incurred operating and capital costs, including the opportunity to achieve a fair and reasonable return on the investment by the stockholders. It is essential that the Company's rates be set at levels to cover its <u>cost of service</u> if it is to continue to maintain service levels, meet its public service obligations and attract capital at reasonable rates. The Company will not have increased rates in nearly three years from those approved in case number 2004-00103. As can be seen on Exhibit MAM-1 attached to this testimony, the Company's achieved ROE has been significantly under the level authorized by the Commission for 2005 and 2006. Without rate relief, the achieved ROE for 2007 is currently forecasted to be 5.81%, and 2008, the forecasted test-year in this case, is expected to be 6.03%. The result for 2008 is somewhat misleading in that there is over $1.8 million of non-cash AFUDC recorded, primarily related to the Source of Supply Project. The ROE without the non-cash AFUDC drops to approximately 3.8%. The Company does not believe that a 6.03% ROE is sufficient and the only reasonable alternative is to seek an increase in rates.

8. Q. WHAT ARE THE COMPONENTS OF THE COST OF SERVICE DRIVING THE INCREASE IN RATES?

A. I have provided Exhibit MAM-2 which addresses the rate increase amount by the major categories of the cost of service that have increased over the levels currently authorized by the Commission: i) Rate Base, ii) Operating Expenses, iii) Cost of Capital, and iv) Offsetting Revenue Growth. As indicated on Exhibit MAM-2, (in both text and graphically), rate base has increased by $55.31 million since the Company's last rate case. In fact, the Company has made nearly $96.0 million in capital improvements since its last case. Increased rate base accounts for 45% of the rate increase requested in this case.

Operations and Maintenance expense has increased by $6.850 million from the level currently authorized by the Commission. O&M expense represents 42% of the increased rates requested in this case, and is primarily driven by: i) labor and benefit costs at both the Company and the Service Company, ii) increased production costs, iii) increased uncollectible expense, and iv) increases in several categories of Miscellaneous Expense. The O&M expense levels will be fully addressed in the testimony of several Company witnesses. In addition, the historical test-year and forecasted test-year expenses have been adjusted to eliminate several one-time non-recurring expenses, expenses related to the Condemnation Proceeding, and any costs related to the Divestiture and SOX implementation.

Changes in the cost of capital and capital structure represent 13% of the

increase requested in this case. These issues will be covered by Dr. Vander Weide and later in this testimony.

Exhibit MAM-2 also reflects that revenues at present rates in this case have increased by $3.285 million resulting from customer growth, acquisitions, and changes in usage patterns. In his testimony, Dr. Spitznagel will address the weather normalization factors used by the Company in arriving at present rate revenues for this filing.

The Exhibit also reflects the cost of service components for rate base, O&M expenses and revenues included in this case related to the acquisition of the Owenton water system.

SINGLE TARIFF PRICING

9. Q. DID THE COMPANY DIRECT MR. HERBERT TO DESIGN THE PROPOSED RATES IN THIS CASE BASED ON SINGLE TARIFF PRICING?

A. Yes. The Company in the last case 2004-00103 made it known to the Commission that a decision had been made to file its next general rate case (this case) requesting a uniform, single tariff ("STP") that would be applicable to all customers of the Company.

10. Q. MR. MILLER, WOULD YOU BRIEFLY DESCRIBE THE CONCEPT OF SINGLE TARIFF PRICING AND SOME OF THE BENEFITS?

A. The STP concept is defined as establishing a single rate structure applicable to all customers of a utility that serves two or more separate service areas. The Company believes that every customer of the Company receives uniform service and the uniform tariff will establish a uniform price for that service. STP is a rate design or cost of service allocation issue, not a revenue requirement issue. There are many benefits in moving to a STP tariff for the customers of the Company. Some of the benefits are: (i) STP permits the spreading of costs over a larger customer base than is present for individual districts and this can minimize rate shock issues particularly in the smaller districts, (ii) STP when looked at over a longer time frame will smooth out the impact of capital investment and operating costs that due to priorities in one service area can drive large rate increases, (iii) efficiencies will be derived from not maintaining books and records and filing rate cases for each service area that requires corporate expenses and capital structure to be allocated to each operation, (iv) efficiencies will be derived from not having the requirement to maintain tariffs for each operation, (v) customer service representative contacts with customers will be simplified regarding billing issues and credit adjustments associated with not having to maintain those records for multiple tariffs, (vi) STP can benefit growth and acquisitions in that the revenue for new service areas is known under STP which simplifies the determination of the purchase price and the potential impact to existing

customers from that growth, and this has proven very supportive in addressing troubled water systems in other jurisdictions.

11. Q. WHAT IS THE IMPACT ON THE CUSTOMERS IF STP IS APPROVED IN THIS CASE AT THE FULL INCREASE IN RATES REQUESTED BY THE COMPANY?

A. There is a shift in this case if STP is approved that will lower the rates for the Northern Division customers with a very minor impact on the Central Division customers. At present rates the adoption of STP will decrease the average monthly residential bill for an Elk Lake customer by $6.96 or 33.22%, decrease the average monthly residential bill for a Tri-Village customer by $9.88 or 30.00%, and lower the average monthly residential bill for an Owenton customer by $4.89 or 19.21%. The adoption of STP will lower the current rates of the Northern Division customers by $466,129 which is 0.96% of the total Central Division revenue at present rates.

As stated earlier, over time, due to timing of major capital projects, there will be benefits for all customers if STP is adopted. For instance, as the Company undertakes major construction projects, such as addressing the source of supply deficit, the current Northern Division customers will share in that cost which would provide lower rates to the current Central Division customers than if the revenue requirement for that project were not shared by all Company customers.

<u>CAPITAL STRUCTURE & OVERALL COST OF CAPITAL</u>

12. Q. WHAT CAPITAL STRUCTURE DID THE COMPANY USE IN CALCULATING THE COST OF SERVICE (REVENUE REQUIREMENT) IN THIS CASE?

A. The Company used the capital structure for the thirteen month average of the forecasted test-year ending November 30, 2008. The capital structure proposed by the Company is attached to this testimony as Exhibit MAM-3 and is also included in the filing documents on schedules J-1 thru J-4. Exhibit MAM-3 indicates the thirteen month average capital structure on which the Company based its cost of service and revenue requirement in this case. The proposed capital structure is comprised of 3.889% Short-term debt, 50.031% Long-term Debt (53.920% Total Debt), 2.877% preferred stock, and 43.203% Common Equity.

13. Q. IS THE CAPITAL STRUCTURE PROPOSED BY THE COMPANY IN LINE WITH THE CAPITAL STRUCTURES HISTORICALLY APPROVED BY THE COMMISSION FOR SETTING THE COMPANY'S RATES?

A. Yes. The Company has historically maintained its debt capital in the 53-57% range and its common equity ratio between 40-45%. The Company believes this mix of debt and equity in the capital structure is in line with rating agency expectations for an "A" rated water utility, and in line with capital structures previously approved by the Commission. The Company believes a

capital structure of 56.797% debt and preferred stock, and 43.203% common equity provides a capital structure that enables the Company to attract capital at reasonable costs and balances both the stockholder requirements and the rates paid by the customers as determined in the ratemaking process.

14. Q. IN WHAT MANNER DOES THE COMPANY CURRENTLY OBTAIN ITS LONG-TERM AND SHORT-TERM DEBT?

A. The Company utilizes the services of American Water Capital Corp. ("AWCC") to place its long-term "(LT)" and short-term "(ST)" debt requirements. AWCC is an American Water Company affiliate and was created to consolidate the financing activities of the operating subsidiaries, to effect economies of scale on debt issuance and legal costs, to attract lower debt interest rates through larger debt issues in the public/private market, and to use more cost effective means of obtaining ST debt (to bridge the gap between permanent debt financings) than the historical bank lines of credit previously used. The Company believes the use of AWCC has permitted the Company to attract capital at lower interest rates and resulted in lower issuance and transaction costs by utilizing the combined size and resources of the entire American Water System.

15. Q. HAS THE COMMISSION APPROVED THE COMPANY OBTAINING ITS DEBT THROUGH AWCC?

A. Yes. By Order entered July 21, 2000 in Case No. 2000-189, this Commission

authorized the Company to enter into a Financial Services Agreement with AWCC to periodically issue debt securities in the form of notes or debentures for the purpose of placing debt issues to replace ST debt or refinance maturities of existing debt. The Company is seeking in case 2006-00418 Commission approval to continue to utilize AWCC for the placement of the Company debt. The Company is confident the benefits of utilizing AWCC are just as strong going forward as those demonstrated in several past filings with the Commission and discussed in the following questions and answers.

16. Q. HAS THE COMPANY BEEN PLEASED WITH THE RESULTS THUS FAR?

A. Yes. The Company and its customers have benefited from the interest savings resulting from pooling the capital requirements of the American Water subsidiaries. On March 31, 2007 the Company filed with the Commission a "Statement of Best Practices" initiated since the 2003 Change of Control as required by the Commission Order in that case. Described in the filing and table 1.3 are the benefits derived from the affiliations with AWCC for the two LT Debt issues placed since 2002. I am attaching table 1.3 included in the March 31, 2007 filing as Exhibit MAM- 4 to this testimony. The interest savings and issuance costs are shown for the $24.0 million issued on June 6, 2002 and the $14.0 million issued on March 1, 2004 and those savings aggregate to $121,900 for 2006. The customers have realized cumulative savings of $449,100 through 2006 related to these two

debt issues. In addition, the pooling and bidding of the ST debt requirements for all American Water subsidiaries through AWCC has lowered the cost for ST debt.

17. Q. WHAT FACTORS REQUIRE THE COMPANY TO SEEK ADDITIONAL CAPITAL?

A. The Company has documented in past rate cases and in this filing that capital improvements to meet the new and changing regulations in the water industry, replace aged treatment and distribution facilities, and provide quality, reliable water service to its customers have driven and will continue to drive the need for new capital. The additional capital required by the Company over the next several years is significant due to the project currently before the Commission to address the source of supply deficit. In addition, the Company will be required to replace maturing debt series over the coming years including the $24.0 million, 5.65% series that matures in June 12, 2007. The Company has included two additional LT debt financings for 2008 to replace short-term debt. It is important that the Company maintain a strong financial position in order to continue to attract this capital at the lowest possible price and to provide service improvements at the least possible cost to its customers.

18. Q. WHY IS THE LEVEL OF SHORT-TERM DEBT INCLUDED IN THE COMPANY'S FILING APPROPRIATE FOR SETTING RATES IN THIS

CASE?

A. The Company uses a significant amount of its ST debt to finance capital improvements. This type of financing is used to bridge the gap between permanent financings. This permits the Company to time permanent financings in a cost-effective manner and to take advantage of the optimum permanent debt market conditions as they occur. The Company believes the capital structure used to set rates should reflect the capital components that will be in place to finance the rate base on which rates will be set in this case. The Company has based the level of ST debt used in its proposed capital structure in this case on the thirteen month average capital structure for the forecasted test-year ending November 2008. That level of ST debt is reflective of the level that will be utilized to fund construction and other cash peaking requirements during the forecasted test-year.

19. Q. WHAT PERMANENT DEBT FINANCINGS ARE INCLUDED IN THIS FILING AND DESCRIBE THOSE PROPOSED FINANCINGS AND THE INTEREST RATES EXPECTED?

A. The Company's proposed capital structure includes $50.0 million of new LT debt to be placed in October 2007 at an interest rate of 5.81%. In addition there are two LT debt financings scheduled for 2008; $10.0 million to be placed on March 1, 2008 and $17.0 million to be placed on October 1, 2008. The Company has included in the calculation of the 13-month average capital structure and weighted cost of debt a replacement of these issues with

10-year issues with a forecasted interest rate of 5.81%.

20. Q. PLEASE EXPLAIN WHY YOU USED A 10-YEAR TERM AND HOW DID YOU ARRIVE AT THE INTEREST RATE OF 5.81%?

A. The Company has been monitoring the market spreads for 10-year and 30-year Utility and Corporate Bonds rates in comparison with the Treasury Bonds on which permanent debt rates are bid. The spreads on 10-year "A" rated Bonds have remained constant over the last quarter while the 30-year A-rated Utility Bond spread to Treasury Bonds has been increasing over the last quarter. At this time it appears the better route for the Company would be to issue 10-year Notes. Attached to this testimony as Exhibit MAM-5 is a schedule that provides a range of interest rate calculations based on the most recent two and four quarter spreads between "A" rated Utility bonds and 30-year Treasury Bonds and 10-year A-rated Corporate Bonds to 10-year Treasury Bonds. Those spreads are then applied to the most recent Value Line Forecast for both 30-year and 10-year Treasury Bonds in 2007. I believe the estimate of an interest rate on those issues of 5.81% for 10-year Bonds is reasonable based on the most recent data available.

21. Q. HOW WAS THE COST RATE FOR SHORT-TERM DEBT DETERMINED?

A. The Company reviewed market forecasts to determine a cost rate for ST debt that will likely be in place during the forecasted rate year. Exhibit MAM-5

indicates that the average over the latest quarter for 13-week T-bills is 5.094%. The Company is proposing a ST interest rate calculated using a 25 basis point spread over the current 13-week T-bill rate or 5.25% for the ST interest rate in its filing.

22. Q. WHAT ADJUSTMENTS TO THE COMPANY'S $14.0 MILLION, 4.75% LT DEBT ISSUE WERE REFLECTED IN THIS CASE?

A. The Company did not make any adjustments for this LT debt issue. As part the Change of Control proceedings around the country, RWE committed to make the AWW operating companies' whole for any increase in interest rates that would occur related to Notes called prior to maturity as a result of call provisions in those Notes related to a change in ownership of AWW. Based on this commitment from RWE, the Company left the $14.0 million in this filing at 4.75% so that there will be no impact on the customers of KAWC resulting from the call of that Note.

23. Q. HOW WAS THE WEIGHTED COST OF LONG-TERM DEBT AND PREFERRED STOCK DETERMINED?

A. The face value of each issue was reduced by the unamortized issuance cost and the result was divided by the interest or dividends to arrive at the effective interest rate that will include recovery of the amortization of the issuance costs. This result was then multiplied by the percentage of each issue to the total capital to arrive at the weighted cost for each series. The

weighted cost for each series of LT Debt and Preferred Stock was totaled to arrive at the overall weighted cost of LT Debt and Preferred Stock.

24. Q. HAS THE COMMISSION PREVIOUSLY ADDRESSED THE METHOD BY WHICH THE WEIGHTED COST OF LONG-TERM DEBT AND PREFERRED STOCK IS DETERMINED?

A. Yes. The method used to determine the weighted cost of LT Debt and Preferred Stock was an issue in the Company's case number 2000-00120. The Commission Order indicates the methodology described in the previous answer (and used historically by the Commission) for setting rates of the Company was appropriate and was approved.

25. Q. WHAT IS THE OVERALL COST OF CAPITAL REQUESTED IN THIS CASE AND HOW DOES IT COMPARE TO THAT CURRENTLY APPROVED IN RATES?

A. The overall weighted cost of capital being requested is 8.64%, compared to the overall cost of capital of 7.75% that was approved in case 2004-00103 and on which current rates are based. The Company is requesting the ROE be increased to 11.4%, which the Company believes is the cost of equity capital as supported by Mr. Vander Weide.

26. Q. HAVE YOU REVIEWED THE TESTIMONY OF COMPANY WITNESS

VANDER WEIDE IN THIS CASE REGARDING COST OF EQUITY?

A. Yes. Mr. Vander Weide recommends a range of returns based on various accepted methods of determining the cost of equity. The Company has filed the case using an 11.4% ROE recommended by Mr. Vander Weide.

<u>REVENUES</u>

27. Q. WHAT IS THE BASE PERIOD USED FOR THIS CASE?

A. The base period used in this case is the twelve months ended July 31, 2007. The base period information was derived utilizing actual billing determinants or bill analysis for the six months ended January 31, 2007 and the Company's budgeted billing determinants for the six months ended July 31, 2007.

28. Q. WHAT IS THE FORECASTED PERIOD FOR THIS FILING?

A. The forecast period for this filing is the twelve months ended November 30, 2008. This period reflects the first year that the approved rates in this case will be in effect.

29. Q. HOW DID THE COMPANY ARRIVE AT THE LEVEL OF REVENUES REFLECTED AT PRESENT RATES IN THE FORECASTED PERIOD?

A. Exhibit 37, Schedule M of the Company's filing contains the bill analysis utilized to determine the level of revenues for the base year and the bill

analysis containing the adjustments for customer growth, to reflect a 365 day billing period, and to normalize the forecasted test year for the impacts of weather and usage trends. These adjustments to the forecasted test-year develop the billing determinants used to determine the billed revenue for the forecasted test-year period.

<u>Residential</u>

As stated previously, a bill analysis based upon the twelve months ended July 31, 2007 was utilized as a basis to project forward. The base period was adjusted to reflect 2,816 customers for normal growth through the end of the forecast period. The consumption in the residential class has been adjusted to reflect the recommendations included in the study that was prepared by Dr. Edward Spitznagel. Dr. Spitznagel is recommending a weather normalized level of residential usage per customer of 162.80 gallons per customer per day for the forecast period. This level of usage per customer per day was applied to the level of customer bills that were reflected in the forecasted period to arrive at gross sales. Current tariffs were then applied to the billing determinants to arrive at revenues at present rates.

<u>Commercial</u>

The base period was increased by 124 customers for normal growth through the end of the forecast period. The consumption in the commercial class has been adjusted to reflect the recommendations included in the study that was prepared by Dr. Edward Spitznagel. Dr. Spitznagel is recommending a weather normalized level of commercial usage per customer of 1,408.90 gallons per customer per day for the forecast period. This level of usage per customer per day was applied to the level of customer bills that were reflected in the forecasted period to arrive at gross sales. Current tariffs were then applied to the associated billing determinants to arrive at revenue at present rates.

<u>Industrial</u>

The Company used a bill analysis based upon the twelve months ending July 31, 2007. Using the most current billing information available, the Company believes that there would be no significant changes in the consumption for these customers during the forecast period. Current tariffs were then applied to the billing determinants to arrive at revenues at present rates.

<u>Other Public Authority</u>

The Company used a bill analysis based upon the twelve months ended July 31, 2007. The Company reviewed the base period data and does not believe there will be any significant changes in the consumption for these customers

during the forecast period. Current tariffs were then applied to the billing determinants to arrive at revenues at present rates.

<u>Sale For Resale</u>

The Company used a bill analysis based upon the twelve months ended July 31, 2007. The Company reviewed the base period data and does not believe there will be any significant changes in the consumption for these customers during the forecast period. Current tariffs were then applied to the billing determinants to arrive at revenues at present rates.

<u>Fire Service</u>

Fire service billing determinants at January 31, 2007 were utilized for the base period and were also used for the forecast period.

<u>MANAGEMENT FEES</u>

30. Q. DESCRIBE THE MANAGEMENT FEE EXPENSE INCLUDED IN THE COMPANY'S FILING?

A. The Company has included its forecasted test-year management fees as determined from the Business Plan. The Company eliminated $32,035 of costs related to Business Change which are non-recurring and should not be included in the rate request. In addition, the Company eliminated the labor and overhead costs included in the management fee budget for David

Whitehouse and Susan Lancho. Because nearly all the time for these two employees is charged to the Company they are being moved to the Company's payroll and labor expenses requested in this case. The Company is requesting management fees expense of $6.247 million in its filing. The management fees in this case represent an increase of $2.564 million over the current level included in rates. I will address the increase in management fees, and offsets that have occurred between fully loaded Company labor and management fees later in this testimony.

31. Q. HAS AWW UNDERGONE REORGANIZATIONS OVER THE LAST SEVERAL YEARS THAT IMPACT THE COMPANY?

A. American Water Works ("AWW") has undertaken reorganizations in several areas since 2002, including the move to the National Call Center and the Shared Services Center. These two change processes were discussed at length by the Company in Case No. 2004-00103. Also described in the Company's 2004 rate case, AWW consolidated the seven regional offices into four regional offices located in Chula Vista, CA; St. Louis, MO; Hershey, PA; and Haddon Heights, NJ. The Company has been part of the SE Region of AWW since early 2004, and changes continued to occur into 2005 and early 2006 in order to align the operations at the Company and the SE Region Office in the manner that provides the best possible service in the most cost effective manner.

32. Q. WHAT BENFITS TO THE CUSTOMERS OF THE COMPANY HAVE BEEN ACHIEVED FROM THE REALIGNMENT OF THE REGIONAL OFFICES?

A. These initiatives were undertaken to operate as efficiently and cost effectively as possible, while at the same time providing enhanced service to our customers. This realignment is no different than several that took place during the 1990's, and we believe the realignment has improved service through standardization of processes, increased efficiencies, and improvements to the service provided to the customers of the Company. Later is this testimony I will discuss the overall financial benefits that have resulted from the various reorganizations and flow to the benefit of the customers of the Company in this case.

33. Q. THE COMPANY'S CUSTOMER SERVICE AND BILLING FUNCTIONS WERE MOVED TO ALTON, ILLINOIS AS PART OF AWW'S CONSOLIDATED CUSTOMER CALL CENTER IN OCTOBER 2003. PLEASE DESCRIBE THIS MOVE AND ITS BENEFITS?

A. The Company and the other AWW operating companies strive to provide customer service that is more responsive, provides increased customer service options, improves customer satisfaction, and at the same time generates cost savings wherever possible.

AWW and the Company have as one of its primary goals to provide

customer service unsurpassed in the water industry. At the same time, we hope to provide that service at the lowest reasonable cost. The Customer Call Center has helped us meet both of these important goals.

The Customer Call Center and the Company's local customer service operations are operated using the ORCOM customer service and billing software. The ORCOM software has been continually monitored and modified since its introduction at AWW and KAWC, to provide enhanced features such as Service First. Service First was a software modification that provides on-line computers in each service vehicle used to provide service to the customers of the Company. Service First has benefited the customers by permitting real time update for field work which enhances the ability to update customers on service issues, and to be more responsive to the customers. The entire ORCOM software program is uniform for all subsidiaries and this has made required software modifications easier to accomplish and less costly.

The Customer Call Center provides full customer service on a twenty-four hour, seven days a week basis. There are also enhancements for automated call answering, automated payment options, communications with field operations, and bill editing processes through significant improvements in the various technologies employed. The individual operating companies could not provide this enhanced service on a cost-effective basis. The

Customer Call Center has increased the availability of full service to the customers on an around-the-clock basis, and provides the additional services that our customers demand in today's environment.

34. Q. DOES THIS MEAN THAT THE COMPANY HAS NO LOCAL PRESENCE FOR CUSTOMER SERVICE?

A. No. The Company continues to maintain its Corporate Office in Lexington. There remains a clerical staff to coordinate billing and collections for the entities for which we perform those functions. We continue to provide customer contact as required, resolve customer issues relayed from Alton, and respond to Commission inquiries. In addition, the field personnel continue to be available to address the needs of our customers. The local payment locations remain unchanged.

35. Q. CAN YOU SHOW THE LEVEL OF SERVICE PROVIDED BY THE NATIONAL CALL CENTER HAS IMPROVED AND THAT IT IS CURRENTLY OPERATING AT A VERY HIGH LEVEL OF SERVICE?

A. Yes. I have prepared graphs that indicate for several key service metrics the National Call Center has made significant improvements since 2005 and is currently operating at very high levels of performance. The graph is attached to this testimony and identified as Exhibit MAM-6. Exhibit MAM-6 shows graphically the Call Center performance for the percentage of KAWC customer calls answered within 30 seconds, the percentage of calls

abandoned after 30 seconds, and the percentage of first call effectiveness. There has been significant improvement in the time to answer the customer calls since 2006, and this metric indicates that since 2006 the metric has been met at or above 90% of the time. The abandonment rate, other than one spike during the conversion to the updated IVR, has been at or below 2%. The first call effectiveness is a measure of resolution of the customers issue on the first call to the Center and this metric indicates success at or near 95% of the time since 2006.

36. Q. THE COMPANY MOVED ITS TRANSACTIONAL ACCOUNTING FUNCTIONS TO THE NATIONAL SHARED SERVICES CENTER LOCATED IN MARLTON, NEW JERSEY EFFECTIVE JANUARY, 2002. PLEASE DESCRIBE THIS MOVE AND ITS BENEFITS?

A. As described in the 2004 rate case, AWW and the Company determined it could improve its transactional accounting functions, take advantage of economies of scale where possible, and improve the uniformity of its software applications at the various operating subsidiaries though the use of a Shared Services Center to perform these functions. The Company had previously installed JD Edwards accounting software, but like the customer accounting and billing software, local and regional programming had in essence created several different versions of the software. This created difficulties with consolidated accounting and multi-jurisdictional acquisition integrations. AWW determined there were economies of scale savings and operational

efficiencies to be derived from providing transactional accounting functions on a national level and decided to move these functions to a Shared Services Center. Prior to this transition, the accounting, budgets, and finance functions were being performed by Kentucky American Water employees and the Regional Service Company located in Charleston, WV.

37. Q. DID THE COMPANY DEMONSTRATE THE FINANCIAL SAVINGS FROM THE REORGANIZATION INITIATIVES MENTIONED ABOVE IN THE 2004 RATE CASE?

A. Yes. The financial savings were demonstrated in the 2004 rate case as shown on Exhibit MAM-5 attached to my Direct Testimony in that case. The savings from the move to the SE Region office in Hershey, PA, the move to the National Customer Call Center and the Shared Service Center resulted in savings of $232, 268 which were passed to the customers of the Company in the 2004 rate case.

38. Q. YOU INDICATED EARLIER YOU WOULD DISCUSS THE INCREASE IN MANAGEMENT FEES EXPENSE REQUESTED IN THIS CASE. WOULD YOU PLEASE ADDRESS THAT?

A. As discussed above, there have been a number of reorganization initiatives by the Company since 2002 and there have also been the acquisitions of Elk Lake, Tri-Village and Owenton. Because of the significant changes brought on by these activities it is easy to lose focus on what has driven the costs. In

order to determine the overall savings that have occurred I believe we must start with a base period prior to the reorganizations and acquisitions. We should then bring those costs forward to the forecasted test year in this case and compare those costs to the expense levels in this case to determine the savings resulting from the reorganization activities. I have performed this analysis as shown on the schedules attached to this testimony and identified as Exhibit MAM-7.

39. Q. PLEASE DESCRIBE THE INFORMATION ON EXHIBIT MAM-7.

A. Exhibit MAM-7 consists of two pages and the purpose of the Exhibit is to capture the effect of the reorganizations of AWW and the impact on KAWC operations and costs. I believe the schedules clearly demonstrate there has been a shift between fully loaded KAWC labor and management fees.

In order to properly determine the benefits of the shift in Full Time Equivalents ("FTES") between KAWC and management fees the analysis must compare fully loaded costs at KAWC to management fees because as prescribed in the "1989 Service Company Agreement" between KAWC and AWWSC, management fees include labor and all overheads. I started my analysis with the level of fully loaded labor costs included in KAWC case 2000-00120, because that period reflects the costs KAWC experienced prior to the reorganizations mentioned earlier in this testimony. The costs for KAWC's fully loaded labor costs plus management fees from case number

2000-00120 are shown on page one of Exhibit MAM-7, <u>under the column identified as (1)</u>. Column 2 shows adjustments for the labor and benefits at 2001 costs per employee for the 14 employees hired by KAWC in the three acquisitions. Column 3 establishes the 2001 base period costs prior to any reorganizations. To determine a reasonable expectation of what the total of fully loaded KAWC labor costs plus management fees would be in 2008 if no reorganizations had occurred (the forecasted test-year in this case), I determined actual cost increase ratios for KAWC in each of the categories of expense. The inflation factors for KAWC labor are shown next to the Labor line on page 1 and reflect the average wage increases granted to salary positions and increases for union employees per the union contracts from 2001 to 2008. The inflation factor for management fees was determined by the average of salary increases as well as for benefit costs which are embedded in the management fee expense. The calculations of the cost adjustment factors for KAWC group insurance, pensions, payroll taxes and 401(k) are shown on page 2 of the Exhibit.

The next step in my analysis was to inflate (or deflate as the case may be) the costs shown on page 1, column (3) for the cost increase ratios applicable to each category of fully loaded KAWC labor costs and management fees. The result of this analysis produces $14,200,060 for the combination of KAWC fully loaded labor costs plus management fees as shown in column (8) on page 1 of the Exhibit.

In column (9) I show the various categories of expenses that KAWC included in the forecasted test-year of its filing. Those expenses total $13,361,268. The 2008 KAWC fully loaded labor costs as determined using the costs included in KAWC case 2000-00120 (the period prior to reorganization) is $2,708,909 less than the fully loaded costs included for those expense categories included in the forecasted test- year of KAWC's filing in this case and more than offset the increase in management fees of $2,343,697.

40. Q. WHAT CONCLUSION DO YOU REACH FROM THE INFORMATION PROVIDED ON EXHIBIT MAM-7?

A. I believe that the information demonstrates that there has been a savings of $365,012 from the reorganizations of AWW and KAWC. It is important to note that not only is the Company providing service at a cost lower than it was providing when those services were provided locally, but the level of service has been improved significantly as well. KAWC through American Water Works Service Company ("AWWSC") has access to highly qualified professionals in many areas critical to providing quality water service, including expertise in areas such as: (i) water quality professionals through a nationally recognized central laboratory facility, (ii) engineering design and construction, (ii) accounting and finance, (iv) income taxes, (v) legal, (vi) employee benefits administration, (vii) procurement through national contracts, (viii) uniform ITS hardware, software and programming support,

(ix) operation expertise, (x) access to low cost capital, (xi) regulatory expertise, and many other important functions.

KAWC obtains access to this expertise though the "1989 Service Company Agreement" which provides that KAWC receives those services by direct charges on an as needed basis, or through allocations of costs from the customer based formulas applicable to each type of functions provided on a AWW system-wide basis. I do not believe KAWC could obtain the same level of expertise available through AWWSC cost effectively at the local level. Such services as regulatory and rate cases, highly specialized water quality testing, procurement, financings, taxes, engineering, and employee benefits administration require specific expertise. KAWC currently has access to that expertise on an allocated basis. To duplicate those services and expertise locally, KAWC would likely have to obtain employees that had expertise in more than one of those functions to equal the FTES obtained through AWWSC. That is not practical because employees with expertise and training in multiple disciplines are not common and likely not available at all.

Also as explained in the testimony and study provided by Mr. Pat Baryenbruch, KAWC could not obtain these services provided by AWWSC from third party providers at a lower cost.

In case 2004-00103, the Commission requested the Company to provide an explanation of why it was appropriate to pre-pay for AWWSC charges at the middle of each month based on one-half of the prior month expense. The Company believes the prepayment of AWWSC bills provides benefits and leads to lower costs. The AWWSC is primarily comprised of labor and labor related expenses. To improve the efficiencies of the payroll process AWW and all of its subsidiary companies moved to a uniform bi-weekly payroll process several years ago. AWWSC's only source of cash is the reimbursement of services <u>at cost</u> provided to the operating companies. To improve cash flow and avoid interest costs at AWWSC that would be passed on to the operating companies, AWWSC requested that a pre-payment of one-half of the current month's bill would improve cash flow and avoid the need for a line of credit for AWWSC. This procedure has proven to be beneficial and properly matches the cost recovery associated with the major bi-weekly labor expense of AWWSC.

KAWC could not cost effectively duplicate the level of service provided by the Call Center. As demonstrated in case number 2004-00103, KAWC obtained the services from the Call Center for a cost less than KAWC was able to provide those services locally. In addition, the Call Center is available to customers on a 24/7, 365 days per year basis. When major service problems or natural disasters occur there is a much larger base of employees available at the Call Center to deal with those emergencies.

KAWC was not equipped to handle those types of issues and call volumes with the staffing locally prior to moving to the Call Center. When KAWC provided customer service and billing locally, the office was open from 8:00 AM to 4:30 PM Monday through Friday only and calls were accepted from 8:00 AM to 8:30 PM Monday through Friday only.

PENSIONS

41. Q. WOULD YOU DESCRIBE THE COMPANY'S PENSIONS EXPENSE INCLUDED IN THE RATE FILING?

A. Yes. The Kentucky Commission has historically regulated the Company's pension expense under the accrual or FAS 87 basis. The Company has included the forecasted pension expense for the forecasted test-year using the FAS 87 expense. The Company included FAS 87 pension expense for the forecasted test-year of $503,772. The pre-capitalized FAS 87 pension expense was obtained from forecasts prepared by AWW's actuary, Towers Perrin, for the years 2007 and 2008. The Company adjusted the Towers Perrin forecasted number to reflect the percentage charged to O&M expense of 81.76%.

The defined pension benefit plan just described applies to all non-union employees hired prior to January 1, 2006 and union employees hired prior to January 1, 2001. For those employees not eligible for the defined benefit

plan, AWW has established a defined contribution plan. The defined contribution pension plan costs are shown in account 508101.16. Those costs are determined at 5.25% of qualifying employee's salaries and wages.

OTHER POST EMPLOYMENT BENFITS

42. Q. WOULD YOU DESCRIBE THE COMPANY'S OTHER POST EMPLOYMENT BENEFITS EXPENSE INCLUDED IN THE RATE FILING?

A. Yes. The Kentucky Commission has historically regulated the Company's OPEB expense under the accrual or FAS 106 basis. The Company has included the OPEB expense for the forecasted test year using the FAS 106 expense. The Company included FAS 106 OPEB expense for the forecasted test-year of $457,858. The pre-capitalized FAS 106 OPEB expense was obtained from forecasts prepared by AWW's actuary, Towers Perrin, for the years 2007 and 2008. The Company adjusted the Towers Perrin forecasted numbers to reflect the percentage charged to O&M expense of 81.76%.

The defined OPEB benefit plan just described applies to all employees hired prior to January 1, 2006. For those employees not eligible for the defined benefit plan, AWW and KAWC have established a defined contribution plan. The defined contribution OPEB plan costs are shown in account

508102.16. Those costs are determined at $500 per eligible employee per year.

INCOME TAXES

43. Q. PLEASE EXPLAIN THE COMPANY'S FORECASTED LEVEL OF INCOME TAXES?

A. The Company's filing is based on a calculation of current federal and state income taxes at the statutory income tax rates of 35% and 6%, respectively. The 6% SIT rate was effective January 1, 2007, but it is our understanding the SIT rate is currently under review by the Kentucky Tax Department. If there is a change from the 6% rate, the new rate should be used to determine the Company's state income taxes in this case. The Company has forecasted a level of Income Taxes for the forecasted test year in the amount of $7,521,559 at present rates. The current provision for federal and state income taxes of $5,517,574 and $1,006,245 is shown on pages 1 of 2 of Schedules E-1.3 and E-1.4. Deferred federal and state income taxes of $822,686 and $175,054 are shown on page 2 of 2 of schedules E-1.3 and E-1.4.

To arrive at the total current provision, forecasted expenses were deducted from operating revenues to arrive at income before income taxes. This was done for both the federal and state tax calculations. From this number statutory add backs and deductions were made to arrive at the taxable

income. These statutory adjustments are shown on pages 1 of 2 of Schedule E-1.3 and E-1.4 and are labeled as reconciling items.

44. Q. IS THE CALCULATION OF DEFERRED INCOME TAXES THE SAME METHOD USED IN THE COMPANY'S LAST RATE CASE?

A. Yes. The company has continued to use SFAS 109 in recording deferred income taxes and that method has been recognized for rate recovery in prior Company rate cases.

45. Q. HOW DID THE COMPANY CALCULATE THE DEFERRED TAX LIABILITY THAT IS SHOWN ON SCHEDULE B-6, PAGE 2 OF 2 THAT IS A RATE BASE DEDUCTION?

A. The deferred tax liabilities for Deferred Debits, and Deferred Maintenance are calculated by applying the statutory federal and state income tax rates to the 13-month average balance included in rate base. This represents the proper method of calculating the deferred tax liability using SFAS 109.

The amount shown on Schedule B-6, page 2 of 2 for Deferred Taxes related to UPIS entails analyzing and determining the net change in a number of balance sheet accounts both for book and tax basis. This analysis includes UPIS, accumulated depreciation reserve, regulatory assets and regulatory liabilities, and Customer Advances and CIAC's.

SFAS 109 is a balance sheet approach to deferred income taxes that requires the deferred income tax provision be shown in total, but also recognizes the regulatory assets and liabilities that will be recovered in rates in future years.

46. Q. HOW DID THE COMPANY ADJUST THE PER BOOKS DEFERRED TAX EXPENSE TO DETERMINE THE FORECASTED TEST-YEAR EXPENSE?

A. Beginning with the deferred tax expense at January 2007, adjustments were made to reflect calculations of deferred taxes associated with UPIS through the end of the forecasted test period. This was done for both book and tax basis accounts and incorporated all temporary timing differences through the forecasted test-year. The statutory tax rates were applied to these changes between book and tax basis property to calculate each individual month's deferred tax expense or benefit.

COST ALLOCATIONS

47. Q. THE COMPANY IS REQUESTING STP IN THIS CASE. WOULD YOU PLEASE EXPLAIN THE REASONING FOR DISTRIBUTING COSTS AMONG KAWC'S REGULATED AND NON-REGULATED BUSINESSES?

A. This has been done for the purpose of making comparisons of rate structures among the Company's regulated units to determine what changes would result if we had not filed this case based on STP and to allocate the

appropriate share of common costs to the Company's one non-regulated business. This process will not be required in future rate cases if STP is approved, except to allocate costs applicable to sewer operations and non-regulated activities. The Company includes the following regulated and non-regulated businesses. There are no affiliates. The Company segregates its costs by the use of business units.

- **Central Division (Bourbon, Clark, Harrison, Fayette, Jessamine, Scott and Woodford Counties) – under a separate tariff which is included in the Company's general tariffs.**
- **Rockwell Village Sewer – regulated and operating in Clark County under a separate tariff which is included in the Company's general tariffs.**
- **Northern Division – Tri-Village – regulated and currently operating in Owen, Gallatin and Grant Counties under a separate tariff, which is included in the Company's general tariffs.**
- **Northern Division - Elk Lake – regulated and operating in Owen County under a separate tariff, which is included in the Company's general tariffs.**
- **Northern Division – City of Owenton – regulated and operating in Owen County under a separate tariff, which is included in the Company's general tariffs.**

- **Bluegrass Station Division Operation and Maintenance Contract – non-regulated.**

KAWC's corporate business units, for which expenses are allocated, include Administration & General (includes Customer Accounting), Information Systems, Legal, Human Resources, Loss Control, Communications and Government Relations. Other corporate services including finance, audit, regulatory, lab, customer relations and various administrative services are provided by AWWSC and, as such, are included in the management fees forecast included in this filing. Costs assigned to the above KAWC business units and management fees allocated by AWWSC are some of the common costs of KAWC. In most cases, these costs are either not specifically identifiable with a particular business unit or are of joint benefit to two or more business units.

48. Q. HOW WERE THESE COSTS ALLOCATED?

A. Where applicable, costs for the forecasted test year were distributed among the various business units within KAWC on the basis of the average number of customers within each business unit to the total average number of customers of all business units during the forecasted test year. This method of allocation is easily understandable and reasonable. A similar methodology is used by AWWSC to allocate its costs to the individual operating units that it serves,

including KAWC. However, certain costs were not allocated to all business units.

Each cost or cost group to be allocated was analyzed and assigned to prevent, to the extent practicable, redundancy or overlap. As mentioned earlier, KAWC accounts for expenses using a series of business units. These business units are incorporated in the G/L number. Most expenses are directly charged to these business units and generally need no further allocation. It is largely the KAWC Corporate business unit costs that are allocated.

The first step taken in preparing the allocation schedule was to conduct a review of Company employees and select for allocation those employees whose efforts benefit more than just the customers of the Central Division of KAWC.

Those employees selected for allocation include:

- **Nick Rowe – President**
- **Peggy Slone – Executive Assistant to the President**
- **Susan Lancho – Communications and Corporate Social Responsibility Manager**
- **Valeria Swope – Specialist Communications**
- **Patricia Ballard – Executive Secretary**
- **David Whitehouse – Manager of Governmental & Regulatory Affairs**
- **Bryan Siler – Financial Analyst – Intermediate**

- **Rachel Cole – Financial Analyst – Intermediate**
- **David Shehee – Supervisor Water Quality**
- **Shana Carr – Lab Analyst**
- **Dillard Griffin – Superintendent Production**
- **Kenny Roney – Specialist Water Quality/Cross Connections**
- **Mary Ellen Pugh – Senior Secretary (Production)**
- **Pamela Buehler – Specialist Human Resources**
- **Administrative Assistant/Cross Connections**

Along with the labor forecasted to be charged to operations and maintenance by each of these employees, the cost of office space, employee benefit payroll overheads were allocated.

Next, other operations and maintenance expenses were analyzed and those that benefit more than the Central Division were selected for allocation. These expenses include: customer accounting expenses, including postage, forms, collection expenses, management fees allocated by American Water Service Company Region, and other operations and maintenance expenses including regulatory expense, company dues and memberships, employee travel, telephone expense, software licensing, training, insurance other than group, customer education expense, customer confidence reports and other miscellaneous and general expenses. A detailed list of the expenses allocated can be found on attached Exhibit MAM-8.

49. Q. PLEASE EXPLAIN THE DESIGN OF THE SPREADSHEET THAT IS EXHIBIT MAM-8?

A. This schedule is designed to allocate a series of forecasted test year common expense totals among the individual businesses within KAWC that derive a benefit from those expenses. These expense totals are contained in the column headed "Test Year Amount." These expenses are allocated among the appropriate business units. For example, Bluegrass Station Division does not derive a benefit from the Customer Service Center. We provide only operations and maintenance services for the water, wastewater and storm water systems at Bluegrass Station Division. Bluegrass Station Division personnel handle all customer relationships within the development. Accordingly, these expenses are allocated to the Central Division, Tri-Village, Elk Lake and Owenton, all of which derive a direct benefit from the Customer Service Center. An example of an expense that is allocated to all businesses within KAWC is the payroll expense and related cost of Financial Analyst Rachel Cole who is involved in accounting and finance activities for all business units.

50. Q. AS A RESULT OF YOUR ANALYSIS REDARDING COST ALLOCATONS, HOW MUCH OF THE TOTAL COMMON COSTS WERE ALLOCATED TO EACH BUSINESS UNIT WITHIN KENTUCKY AMERICAN WATER?

A. The results are included on Exhibit MAM-8. Total costs allocated were $11,630,040. These costs have been allocated to the various business units within KAWC as follows:

- **Central Division (Bourbon, Clark, Harrison, Fayette, Jessamine, Scott and Woodford Counties) - $11,283,148 or 97.0%**
- **Tri-Village - $209,658 or 1.8%**
- **Elk Lake - $27,585 or .2%**
- **Bluegrass Station Division - $1,023**
- **Owenton - $108,626 or .9%**

<u>OTHER TARIFF ISSUES</u>

51. Q. OTHER THAN A CHANGE TO METERED TARIFFS, WHAT NEW TARIFFS OR ADJUSTMENT TO TARIFFS IS THE COMPANY PROPOSING?

A. The Company is proposing revisions to its tap fee tariff which is addressed by Ms. Bridwell. The Company is also proposing revisions to its tariffs for reconnection and activation fees.

52. Q. WHAT CHANGES TO RECONNECT AND ACTIVATION FEES ARE BEING PROPOSED?

A. The Company is proposing an increase in the activation fee from $24 to $26 and an increase in the reconnection fee from $24 to $26 in the Central

Division. The Company is proposing a decrease in the reconnection fee from $29 to $26 in Tri-Village and from $40 to $26 in Elk Lake.

53. Q. HOW WERE THESE FEES CALCULATED?

A. The basis for the fees is KAWC's projected average cost for each service order to be worked during the forecasted test year in the Central Division. While the quality of the service provided is the same among the divisions, Central Division data can be more readily analyzed for this purpose. The resulting fees were then applied to expected service levels for the entire company. EXHIBIT MAM-9 is filed along with my direct testimony and shows in greater detail the development of these fees.

54. Q. HOW DID THE COMPANY PROJECT THE ESTIMATED REVENUES ASSOCIATED WITH THE ACCOUNT ACTIVATION FEE AND THE RECONNECTION FEE?

A. Based on Company experience, the number of account activations is estimated to be 28,135 for the forecasted test year resulting in total annual revenues from the Account Activation Fee of $731,510 for the Company. The number of reconnections is estimated to be 8,979 for the forecasted test year resulting in total annual revenues from Reconnection fees of $233,454.

55. Q. WHAT IS THE COMPANY'S GENERAL POSITION ON TARIFFS OTHER THAN METERED TARIFFS?

A. The Company believes costs generated by, and easily identifiable for, specific customers should be recovered from those customers generating the activity and cost. The Company in case 2000-00120 established a tap fee that recovers the cost of new taps and meters directly from the new customers. The Company has historically had a reconnect fee to cover the cost of re-establishing service for the customers who are terminated for non-payment. There are also fees to recover the cost of bad checks, inspection of service lines, and after hours turn-ons. We believe these fees make sense and hold down the cost of the metered tariff to those customers who do not generate these costs.

56. Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Appendix A

Resume of Michael A. Miller

I received my B.S. degree in Accounting from West Virginia Tech in May of 1976, and my West Virginia Certified Public Accounting Certificate on February 2, 1987.

I joined the American Water Works Service Company - Southern Division ("Service Company") in July of 1976, and have held various positions in the American Water System ("AWS") for over 30 years. I served as a Junior Accountant in the rate department until August 1977, at which time I was transferred to the Huntington Water Corporation as Accounting Superintendent. I held this position until July 1978, when I was transferred to the Southern Division Service Company as the Director - Budget Procedures, the position I held until April 1981. At that time, I became Customer Service Superintendent at West Virginia-American Water Company. In December 1981, I became Assistant Director of Accounting for the Southern Region Service Company. I held this position until August 1991, when I became the Business Manager at West-Virginia American Water Company. On January 1, 1994, I was promoted to Vice President and Treasurer at West-Virginia American Water Company. On April 1, 2000, I became an employee of the Service Company as Vice-President and Treasurer for the Southeast Region Companies located in West Virginia, Kentucky, Tennessee, Virginia, and Maryland. In January 2002 I was also named the Comptroller for each of the five Southeast Region Companies. In January 2004 my title was changed to Manager of Rates and Regulation for the Southeast Region of American Water Works Service Company and in that position I remain an officer for West Virginia-American, Tennessee-American, Virginia-American, Maryland-American and Treasurer/Comptroller of Kentucky-American.

Kentucky American Water
Analysis of Earnings History

Exhibit MAM-1

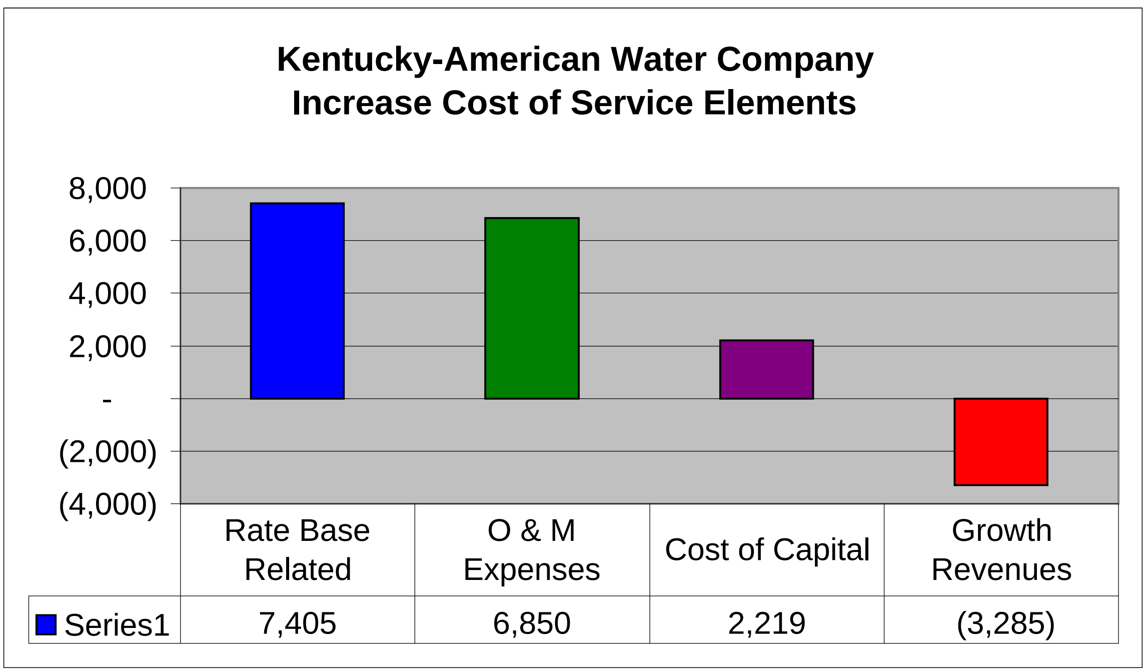
(In Thousands)	2000	2001	2002	2003	2004	2005	2006	No Rate Increase Projected 2007	Projected 2008
Net Income Available for Common Stock	5,119	6,473	5,488	4,528	(893)	5,133	3,271	4,258	4,876
Common Equity	59,320	60,997	61,768	62,904	60,271	63,706	72,972	73,336	80,851
ROE Achieved	8.63%	10.61%	8.88%	7.20%	-1.48%	8.06%	4.48%	5.81%	6.03%
Authorized ROE by KY PSC	11.00%	11.00%	11.00%	11.00%	10.00%	10.00%	10.00%	10.00%	10.00%
% of Auth. ROE Achieved	78.45%	96.47%	80.77%	65.44%	-14.82%	80.57%	44.83%	58.06%	60.31%

Note: 2008 result is impacted by nearly $3.0 million of non-cash AFUDC, which is primarily driven by AFUDC on the Source of Supply Project.

Kentucky-American Water Company
Increase Cost of Service Elements

Exhibit MAM-2

				Impact of Owenton Acquisition
Rate Base and Related Items (in million dollars):				
Increase in rate base of $51.310 million	$	5.710		
Depreciation expense on add'l rate base	$	0.746		
Add'l Property Taxes	$	0.949		
Total increase attibutable to rate base and related items	$	7.405	56% of total increase	$ 0.363
O & M Expense	$	6.850	52% of total increase	$ 0.475
Increase in cost of capital	$	2.219	17% of total increase	
Items Offsetting Increased Cost of Service:				
Increased going level revenue	$	(3.285)	(25) of total increase	$ (0.528)
		(3.285)		
TOTAL INCREASE		13.189		



Increase %	45%	42%	13%	100%

KENTUCKY-AMERICAN WATER COMPANY
CASE NO: 2007-XXX
COST OF CAPITAL SUMMARY AT CURRENT AND PROPOSED RATES
13 MONTH AVERAGE

DATA: ___ BASE PERIOD _X_ FORECASTED PERIOD
DATE OF CAPITAL STRUCTURE: AVERAGE FOR FORECASTED PERIOD
TYPE OF FILING: _X_ ORIGINAL ___ UPDATED ___ REVISED
WORKPAPER REFERENCE NO(S).: W/P-7

SCHEDULE J-1.1/J-1.2

Witness Responsible: M.A. Miller

Line No.	Class of Capital		13 Month Average Amount	% of Total	Add (1)	Adjusted Capital	Cost Rate	Average Weighted Cost
1								
2	Short-Term Debt		$8,036,966	3.869%	$ 42,153	$8,079,119	5.250%	0.20%
3								
4	Long-Term Debt		103,387,163	50.031%	542,282	103,929,445	6.500%	3.29%
5								
6	Preferred Stock		5,944,726	2.877%	31,184	5,975,910	7.750%	0.22%
7								
8	Common Equity		89,276,928	43.203%	468,274	89,745,202	11.400%	4.93%
9								
10	Total Capital		$206,645,783	100.000%	$ 1,083,893	$207,729,676		8.64%
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Exhibit MAM-3

TABLE 1.3 OF 2006 REPORT
KENTUCKY-AMERICAN WATER COMPANY
RWE MERGER CONSTS/SAVINGS INFORMATION
SAVINGS ON THE COST OF LONG-TERM DEBT

Debt Security	Date Issued	Amount Issued	Term of the Loan	Basis Point Savings	Annual Interest Savings	Avoided Issuance Costs	Avoided Annual Issuance Costs	Net Annual Savings
2002	06/12/2002	$24,000,000	5 Years	20	$48,000	$177,000	$35,400	$83,400
Total Savings - 2002					$48,000		$35,400	$83,400
2003								
Total Savings - 2003					$48,000		$35,400	$83,400
2004	3/1/2004	14000000	10 Years	20	$28,000	$105,000	$10,500	$38,500
Total Savings - 2004					$76,000		$45,900	$121,900
2005								
Total Savings - 2005					$76,000		$45,900	$121,900
2006								
Total Savings - 2006					$76,000		$45,900	$121,900

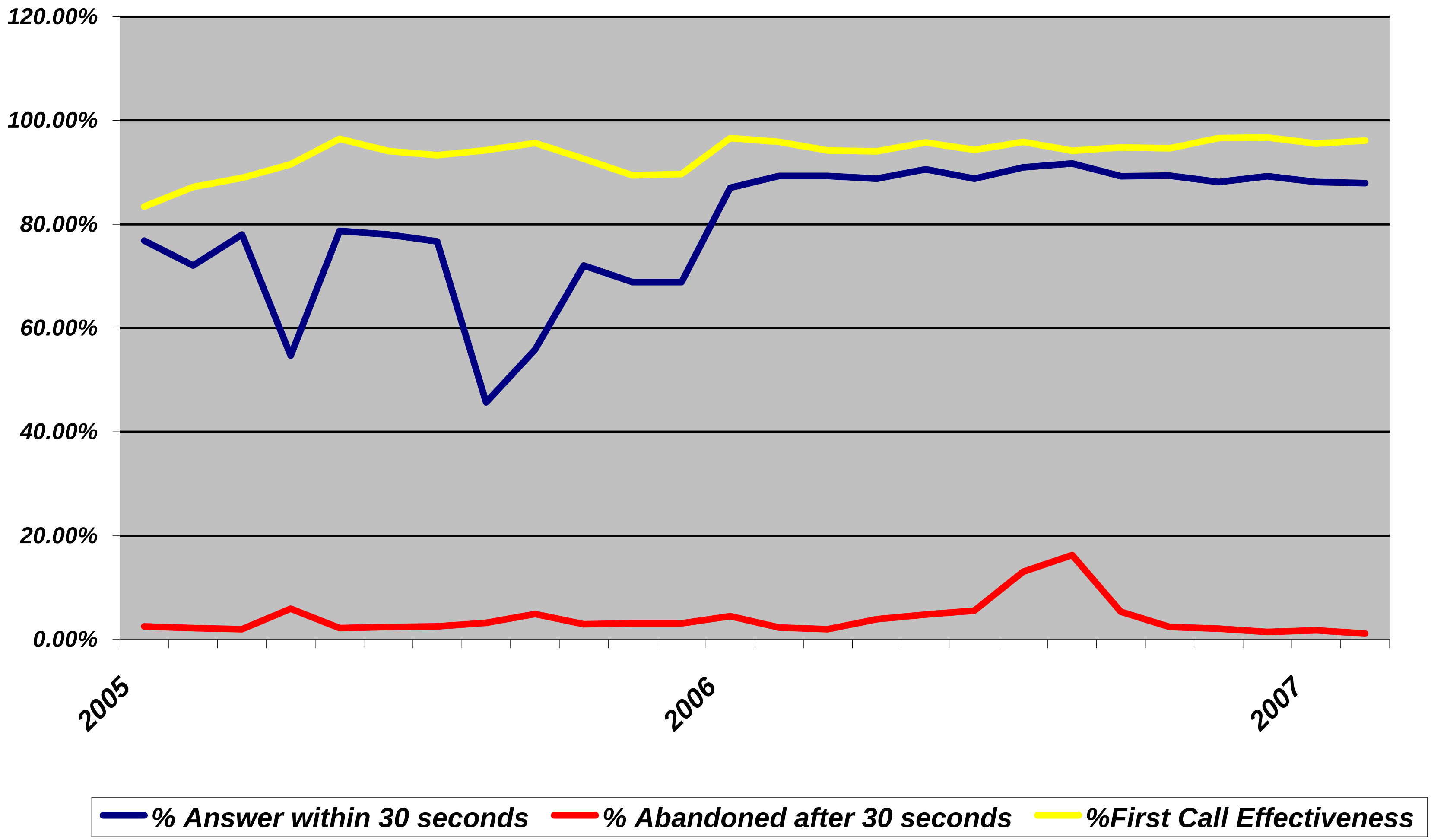
Note: No New Permanent Financings in 2006

Kentucky American Water
Analysis of Interest Rates of Past Year

Value Line Publication Date	As of Market Date	"A" Rated Utility Bonds	30-year Treasury Bonds	Spread	10-year Corporate Bonds	10-year Treasury Bonds	Spread	13-Week Treasury Bills	Federal Reserve Rate
10/13/2006	10/5/2006	5.810%	4.760%	1.050%	5.540%	4.600%	0.940%	4.930%	5.250%
10/20/2006	10/11/2006	5.950%	4.910%	1.040%	5.670%	4.780%	0.890%	5.010%	5.250%
10/27/2006	10/18/2006	5.960%	4.880%	1.080%	5.680%	4.750%	0.930%	5.080%	5.250%
11/3/2006	10/25/2006	5.940%	4.880%	1.060%	5.700%	4.760%	0.940%	5.110%	5.250%
11/10/2006	11/1/2006	5.700%	4.680%	1.020%	5.500%	4.560%	0.940%	5.050%	5.250%
11/17/2006	11/8/2006	5.750%	4.670%	1.080%	5.520%	4.640%	0.880%	5.090%	5.250%
11/24/2006	11/15/2006	5.720%	4.700%	1.020%	5.540%	4.620%	0.920%	5.080%	5.250%
12/1/2006	11/21/2006	5.670%	4.660%	1.010%	5.480%	4.570%	0.910%	5.030%	5.250%
12/8/2006	11/29/2006	5.630%	4.610%	1.020%	5.450%	4.520%	0.930%	5.030%	5.250%
12/15/2006	12/6/2006	5.620%	4.600%	1.020%	5.350%	4.490%	0.860%	4.980%	5.250%
12/22/2006	12/13/2006	5.730%	4.700%	1.030%	5.440%	4.580%	0.860%	4.930%	5.250%
12/29/2006	12/20/2006	5.750%	4.730%	1.020%	5.450%	4.600%	0.850%	4.960%	5.250%
1/5/2007	12/27/2006	5.790%	4.780%	1.010%	5.500%	4.650%	0.850%	4.970%	5.250%
Quarterly Average		**5.771%**	**4.735%**	1.035%	**5.525%**	**4.625%**	0.900%	**5.019%**	**5.250%**
1/12/2007	1/3/2007	5.790%	4.760%	1.030%	5.500%	4.650%	0.850%	5.040%	5.250%
1/19/2007	1/10/2007	5.760%	4.780%	0.980%	5.530%	4.680%	0.850%	5.080%	5.250%
1/26/2007	1/17/2007	5.860%	4.870%	0.990%	5.620%	4.780%	0.840%	5.100%	5.250%
2/2/2007	1/24/2007	5.870%	4.910%	0.960%	5.620%	4.810%	0.810%	5.120%	5.250%
2/9/2007	1/31/2007	5.880%	4.910%	0.970%	5.630%	4.810%	0.820%	5.100%	5.250%
2/16/2007	2/7/2007	5.810%	4.850%	0.960%	5.560%	4.740%	0.820%	5.150%	5.250%
2/23/2007	2/14/2007	5.770%	4.830%	0.940%	5.520%	4.740%	0.780%	5.150%	5.250%
3/2/2007	2/21/2007	5.740%	4.790%	0.950%	5.510%	4.690%	0.820%	5.170%	5.250%
3/9/2007	2/28/2007	5.650%	4.680%	0.970%	5.380%	4.570%	0.810%	5.120%	5.250%
3/16/2007	3/7/2007	5.590%	4.630%	0.960%	5.310%	4.490%	0.820%	5.080%	5.250%
3/23/2007	3/14/2007	5.850%	4.700%	1.150%	5.400%	4.530%	0.870%	5.040%	5.250%
3/30/2007	3/21/2007	5.860%	4.720%	1.140%	5.400%	4.540%	0.860%	5.030%	5.250%
4/6/2007	3/28/2007	5.990%	4.830%	1.160%	5.510%	4.620%	0.890%	5.040%	5.250%
Quarterly Average		**5.802%**	**4.789%**	**1.012%**	**5.499%**	**4.665%**	**0.834%**	**5.094%**	**5.250%**
4/14/2006	4/6/2006	6.060%	4.970%	1.090%	5.820%	4.900%	0.920%	4.670%	4.750%
4/21/2006	4/12/2006	6.160%	5.060%	1.100%	5.900%	4.980%	0.920%	4.700%	4.750%
4/28/2006	4/20/2006	6.240%	5.140%	1.100%	5.960%	5.040%	0.920%	4.720%	4.750%
5/5/2006	4/27/2006	6.250%	5.170%	1.080%	6.000%	5.070%	0.930%	4.770%	4.750%
5/12/2006	5/4/2006	6.340%	5.240%	1.100%	6.090%	5.150%	0.940%	4.790%	4.750%
5/19/2006	5/11/2006	6.330%	5.230%	1.100%	6.080%	5.150%	0.930%	4.810%	5.000%
5/28/2006	5/18/2006	6.280%	5.170%	1.110%	6.010%	5.060%	0.950%	4.820%	5.000%
6/2/2006	5/25/2006	6.260%	5.170%	1.090%	6.020%	5.070%	0.950%	4.810%	5.000%
6/9/2006	6/1/2006	6.250%	5.190%	1.060%	6.040%	5.100%	0.940%	4.820%	5.000%
6/16/2006	6/8/2006	6.150%	5.060%	1.090%	5.960%	4.990%	0.970%	4.850%	5.000%
6/23/2006	6/15/2006	6.200%	5.140%	1.060%	6.060%	5.090%	0.970%	4.820%	5.000%
6/30/2006	6/22/2006	6.330%	5.240%	1.090%	6.180%	5.210%	0.970%	4.900%	5.000%
7/7/2006	6/29/2006	6.330%	5.250%	1.080%	6.180%	5.190%	0.990%	4.990%	5.250%
Quarterly Average		6.245%	5.156%	1.088%	6.023%	5.077%	0.946%	4.805%	4.923%
7/14/2006	7/6/2006	6.260%	5.220%	1.040%	6.140%	5.180%	0.960%	4.990%	5.250%
7/21/2006	7/13/2006	6.190%	5.110%	1.080%	6.020%	5.060%	0.960%	5.040%	5.250%
7/28/2006	7/20/2006	6.120%	5.080%	1.040%	6.010%	5.030%	0.980%	5.080%	5.250%
8/4/2006	7/27/2006	6.180%	5.100%	1.080%	6.030%	5.030%	1.000%	5.090%	5.250%
8/11/2006	8/3/2006	6.090%	5.040%	1.050%	5.950%	4.960%	0.990%	5.100%	5.250%
8/18/2006	8/10/2006	6.140%	5.070%	1.070%	5.890%	4.930%	0.960%	5.040%	5.250%
8/25/2006	8/17/2006	6.070%	5.000%	1.070%	5.820%	4.860%	0.960%	5.080%	5.250%
9/1/2006	8/25/2006	5.980%	4.940%	1.040%	5.760%	4.800%	0.960%	5.080%	5.250%
9/8/2006	8/31/2006	5.920%	4.880%	1.040%	5.680%	4.730%	0.950%	5.030%	5.250%
9/15/2006	9/7/2006	5.980%	4.930%	1.050%	5.730%	4.790%	0.940%	4.960%	5.250%
9/22/2006	9/14/2006	5.980%	4.920%	1.060%	5.720%	4.790%	0.930%	4.930%	5.250%
9/29/2006	9/21/2006	5.790%	4.770%	1.020%	5.540%	4.640%	0.900%	4.910%	5.250%
10/6/2006	9/28/2006	5.740%	4.760%	0.980%	5.540%	4.610%	0.930%	4.860%	5.250%
Quarterly Average		6.034%	4.986%	1.048%	5.833%	4.878%	0.955%	5.015%	5.250%

	2007 Projected 30-Yr. "A" Rated Util. Bond Rate	2007 Value Line Forecast	Average Spread	2007 Projected 10-Yr. "A" Rated Util. Bond Rate	2007 Value Line Forecast	Average Spread
2007 Value Line Projection (2-23-07): "A" Rated Utility Bonds 30-Yr. & 10-Yr. Corp. Bonds based on:						
Latest 2 Qtr. Avg. Spread	6.02%	5.00%	1.024%	5.77%	4.90%	0.867%
Latest 4 Qtr. Avg. Spread	6.05%	5.00%	1.046%	5.81%	4.90%	0.909%

KENTUCKY AMERICAN WATER COMPANY
CALL CENTER STATISTICS
Exhibit MAM-6



Kentucky American Water
Labor & Management Fee Analysis That Demonstrates the Shift From
Fully Loaded Company Labor to Management Fees

	Labor Cost As Approved in KAWC Case No. 2000-00120 Attrition Yr. 11/30/2001 plus actual 2001 overhead costs & Man. Fees	Add emp. cost for 14 employees from EL, TV & Owenton	(1) 2001 Base Cost	(2) 2002 Labor Cost Inflated	(3) 2003 Labor Cost Inflated	(4) 2004 Labor Cost Inflated	(5) 2005 Labor Cost Inflated	(6) 2006 Labor Cost Inflated	(7) 2007 Labor Cost Inflated	(8) 2008 Labor Cost Inflated	(9) Current Case Attrition Year Request by Company	(10) Net Savings Variance Column 8 to Column 9
				Note 2								
Labor (Adj.3.5% Avg. Pay Incr. 02-03 & 4% for 04-08	6,004,634	583,784	6,588,418	6,860,103	7,100,207	7,384,215	7,679,584	8,194,017	8,649,590	8,995,574	6,318,580	(2,331,010)
Group Insurance	1,303,786	126,757	1,430,543	1,641,754	1,956,087	2,106,111	2,184,811	2,177,269	2,030,316	2,122,314	1,887,912	(142,404)
Pensions	356,713	34,680	391,393	475,174	990,832	963,920	1,062,739	990,809	680,273	612,823	503,733	(176,540)
Payroll Taxes	443,276	43,096	486,372	493,194	531,382	522,066	515,780	534,688	645,577	671,402	487,918	(157,659)
401(K)	85,232	8,286	93,518	103,964	101,973	97,432	106,053	114,001	116,069	118,549	98,704	(17,365)
Fully Loaded Labor Cost	8,193,641	796,604	8,990,245	9,470,225	10,578,508	10,976,312	11,442,914	11,896,783	12,005,756	12,402,113	9,296,847	(2,708,909)
Management Fees (Adjusted for 4.5% inflation)	1,321,183	0	1,321,183	1,380,636	1,442,765	1,507,689	1,575,535	1,646,434	1,720,524	1,797,948	4,064,421	2,343,897
Total Labor & Management Fees	9,514,824	796,604	10,311,428	10,850,861	12,021,273	12,484,002	13,018,450	13,543,217	13,726,280	14,200,060	13,361,268	(365,012)

Footnotes:
Note 1: The calculation of inflation factors used to determining the pro-forma 2008 costs shown in column 8 above are included on page 2 of this Exhibit.
Note 2: Added one meter reader in 2002 to handle increases in customers due to growth
Note 3: Added 4 utility field employees to handle additional hydrant and valve maintenance work related to customer growth and one Administrative employee to handle sewer billing in 2006
Note 4: Added 1 utility person and one Admin to handle additional requirements for cross connections and 1 production tech for additional water treatment processes

	2001	2002	2003	2004	2005	2006	Budget 2007	Budget 2008
KAWC Actual Loaded Labor Costs								
AVG. # Employees	145	143.25	129.42	118.58	117.92	124.75	137.00	137.00
Group Insurance	1,303,786	1468185	1,580,403	1,559,089	1,608,346	1,644,303	1,653,852	1,728,792
Pensions	356,713	424938	800,534	713,561	782,335	748,274	554,137	499,193
Payroll Taxes	443,276	441053	429,325	386,469	379,691	403,803	525,874	546,911
401(K)	85,232	92,973	82,388	72,126	78,071	109,606	94,990	99,928
Fully Loaded Cost	2,103,920	1,893,123	2,380,937	2,272,650	2,390,681	2,392,577	2,207,989	2,227,985
Cost per Employee								
Group Insurance	8,987	10,249	12,211	13,148	13,639	13,181	12,072	12,619
Pensions	2,459	2,966	6,186	6,018	6,634	5,998	4,045	3,644
Payroll Taxes	3,055	3,079	3,317	3,259	3,220	3,237	3,838	3,992
401(K)	587	649	637	608	662	879	693	729
Fully Loaded Cost per employee	14,501	16,294	21,714	22,425	23,494	22,416	19,955	20,255
		% Increase	**% Increase**	**% Increase**	**% Increase**	**% Increase**	**% Increase**	**% Increase**
Group Insurance		1.140	1.191	1.077	1.037	0.966	0.916	1.045
Pensions		1.206	2.085	0.973	1.103	0.904	0.674	0.901
Payroll Taxes		1.008	1.077	0.982	0.988	1.005	1.186	1.040
401(K)		1.105	0.981	0.955	1.088	1.327	0.789	1.052
Fully Loaded Cost per customer		1.124	1.333	1.033	1.048	0.954	0.890	1.015

Exhibit MAM-7
Page 2 of 2

Kentucky American Water
Allocation of Corporate Costs

Number of Customers (average)					
Central	Tri-Village	Elk Lake	BGS	Owenton	Total
116,152	2,164	300	75	1,109	119,800

OPERATIONS AND MAINTENANCE LABOR:

Name/account	Title	Office Cost	O&M Labor	Pension Grp Insurance & Payroll taxes 47.75%	Incentive	Test Year Amount	AMOUNT ALLOCATED Central	Tri-Village	Elk Lake	BGS	Owenton	Total
Nick Rowe - 120105.501200	President	9,164	166,433	79,472	41,952	297,021	287,976	5,365	744	186	2,750	297,021
Peggy Slone - 120105.501200	Executive Assistant to the President	3,908	50,486	24,107	2,546	81,047	78,579	1,464	203	51	750	81,047
Susan Lancho - 120121.501200	Communications & CSR Manager	3,303	80,087	38,242	12,068	133,700	129,710	2,417	335	-	1,238	133,700
Valeria Swope - 120121.501200	Specialist Communications	2,442	46,330	22,123	2,335	73,230	71,045	1,324	183	-	678	73,230
Patricia Ballard - 120121.501200	Executive Secretary	2,442	48,857	23,329	2,463	77,091	74,790	1,393	193	-	714	77,091
David Whitehouse - 120122.501200	Manager of Governmental & Regulatory Affairs	2,931	99,980	47,740	15,066	165,717	160,771	2,995	415	-	1,535	165,717
Bryan Siler - 120105.501200	Financial Analyst - Intermediate	2,931	51,350	24,520	5,179	83,980	81,474	1,518	210	-	778	83,980
Rachel Cole - 120105.501200	Financial Analyst - Intermediate	3,512	58,337	27,856	5,882	95,587	92,676	1,727	239	60	885	95,587
David Shehee - 120217.501200	Supervisor Water Quality	2,931	65,097	31,084	6,566	105,678	102,460	1,909	265	66	978	105,678
Shana Carr - 120217.501200	Lab Analyst	2,931	51,360	24,524	2,590	81,405	78,926	1,470	204	51	754	81,405
Dillard Griffin - 120201.501200	Superintendent Production	3,675	94,013	44,891	14,216	156,795	152,020	2,832	393	98	1,451	156,795
Kenny Roney - 120201.501200	Specialist Water Quality/Cross Connections	2,931	50,639	24,180	2,544	80,294	77,898	1,451	201	-	744	80,294
Mary Ellen Pugh - 120201.501200	Senior Secretary	2,442	36,340	17,352	1,831	57,965	56,200	1,047	145	36	537	57,965
Pamela Buehler - 120118.501200	Specialist Human Resources	2,442	37,596	17,952	1,896	59,886	58,062	1,082	150	37	554	59,886
Vacant - 120201.501200	Administrative Assistant/Cross Connections	2,931	72,762	34,744	3,655	114,092	110,687	2,062	286	-	1,057	114,092
Total to be distributed		$ 50,916	$1,009,667	$ 482,116	$120,789	$ 1,663,488	1,613,276	30,057	4,167	586	15,403	1,663,488

OPERATIONS AND MAINTENANCE EXPENSE:

120105 CORP - Admin & Gen

	Account/Description		Test Year Amount	Central	Tri-Village	Elk Lake	BGS	Owenton	Total
Customer Accounting:	120205/570100.15 Uncollectib	allocated based on revenues	503,725	491,321	8,621	719	-	3,064	503,725
	575100.15 Bank Servic		192,348	186,608	3,477	482	-	1,782	192,348
	575200.15 Collection		22,601	21,927	409	57	-	209	22,601
	575420.15 Forms CA		148,400	143,971	2,682	372	-	1,375	148,400
	575660.15 Postage CA		480,000	465,675	8,676	1,203	-	4,446	480,000
	Total		1,347,074	1,309,502	23,864	2,832	-	10,876	1,347,074
120105 CORP - Admin & Gen									
Management Fees:	Contract Svc-Mgmt Fe								
DETAIL	534600.16 Belleville Lab		191,177	185,356	3,453	479	120	1,770	191,177
	534600.16 Call Center		1,557,125	1,510,655	28,145	3,902	-	14,423	1,557,125
	534600.16 Corporate		1,635,375	1,586,570	29,559	4,098	-	15,148	1,635,375
	534600.16 ITS		942,482	914,355	17,035	2,362	-	8,730	942,482
	534600.16 Shared Services		493,404	478,379	8,913	1,236	309	4,567	493,404
	534700.16 Southeast Region		1,427,582	1,384,978	25,803	3,577	-	13,224	1,427,582
	Total		6,247,145	6,060,293	112,908	15,653	429	57,863	6,247,145
Regulatory Expense:	566100.16 Regulatory Comm Exp		292,200	283,480	5,281	732	-	2,707	292,200
General Office:	575280.16 Dues/Member		2,124	2,059	38	5	1	20	2,124
	575340.16 Employee Ex		5,300	5,139	96	13	3	49	5,300
	575342.16 Empl Exp Co		1,900	1,842	34	5	1	18	1,900
	575350.16 Meals & Tra		3,600	3,490	65	9	2	33	3,600
	575351.16 Meals & Tra		3,600	3,490	65	9	2	33	3,600
	Total		16,524	16,021	298	41	10	153	16,524
Miscellaneous:									
	575242.16 Co Dues Ded		17,500	16,978	316	44	-	162	17,500
	575244.16 Co Dues Ded		22,700	22,023	410	57	-	210	22,700
	575270.16 Directors Fees		18,000	17,463	325	45	-	167	18,000
	Total		58,200	56,463	1,052	146	-	539	58,200

120113 CORP-Info System										
Customer Accounting:	575740.15	Telephone C		108,000	104,777	1,952	271	-	1,000	108,000
Miscellaneous:	535000.16	Contr Svc-O		3,600	3,493	65	9	-	33	3,600
	575715.16	Software Li		27,600	26,776	499	69	-	256	27,600
				31,200	30,269	564	78	-	289	31,200
Maintenance Expense:	620000.26	Mat and Sup		39,996	38,802	723	100	-	370	39,996
120115 CORP - Legal										
General Office:	575002.16	Misc Genera		520	504	9	1	-	5	520
	575342.16	Empl Exp Co		3,300	3,202	60	8	-	31	3,300
	575350.16	Meals & Tra		3,100	3,007	56	8	-	29	3,100
	575620.16	Office & Ad		3,670	3,560	66	9	-	34	3,670
				10,590	10,274	191	27		98	10,590
Miscellaneous:	533000.16	Contr Svc-L		75,000	72,762	1,356	188	-	695	75,000
	575240.16	Co Dues/Mem		3,045	2,954	55	8	-	28	3,045
	Total			78,045	75,716	1,411	196		723	78,045
120118 CORP-Human Resou										
General Office:	575280.16	Dues/Member		340	330	6	1	-	3	340
	575340.16	Employee Ex		6,750	6,549	122	17	-	63	6,750
	575.42.16	Empl Exp Co		3,900	3,784	70	10	-	36	3,900
	575350.16	Meals & Tra		2,500	2,425	45	6	-	23	2,500
	575351.16	Meals & Tra		2,500	2,425	45	6	-	23	2,500
	Total			15,990	15,513	289	40	-	148	15,990
Miscellaneous:	504500.16	Other Welfare		20,500	19,888	371	51	-	190	20,500
	504610.16	Employee Aw		15,900	15,425	287	40	-	147	15,900
	504620.16	Employee Physicals		4,500	4,366	81	11	-	42	4,500
	504660.16	Tuition Aid		36,000	34,926	651	90	-	333	36,000
	504670.16	Training AG		9,800	9,508	177	25	-	91	9,800
	535000.16	Contr Svc-O		1,000	970	18	3	-	9	1,000
	575000.16	Misc Oper A		12,100	11,739	219	30	-	112	12,100
	575030.16	Advertising		8,400	8,149	152	21	-	78	8,400
	Total			108,200	104,971	1,956	271	-	1,002	108,200
120119 CORP-Loss Control										
Ins Other Than Group:	557000.16	Ins Gen Lia	allocated based on rate base	379,221	367,086	6,826	379		4,930	379,221
	558000	Workers Ccmp		158,761	153,681	2,858	159		2,064	158,762
	559000.16	Ins Other O		133,349	129,082	2,400	133		1,734	133,349
	Total			671,331	649,849	12,084	671	-	8,728	671,332
General Office:	575280.16	Dues/Member		600	582	11	2	-	6	600
	575340.16	Employee Ex		1,830	1,775	33	5	-	17	1,830
	575342.16	Empl Exp Co		2,500	2,425	45	6	-	23	2,500
	575350.16	Meals & Tra		4,800	4,657	87	12	-	44	4,800
	575351.16	Meals & Tra		4,200	4,075	76	11	-	39	4,200
	Total			13,930	13,514	252	35	-	129	13,930
Miscellaneous:	504620.16	Employee Ph		8,000	7,761	145	20	-	74	8,000
	504640.16	Safety Ince		8,700	8,440	157	22	-	81	8,700
	575490.16	Injuries an		18,000	17,463	325	45	-	167	18,000
	Total			34,700	33,664	627	87	-	321	34,700

120121 CORP-Communciati									
General Office:	575280.16	Dues/Member	18,086	17,546	327	45	-	168	18,086
	575340.16	Employee Ex	5,120	4,967	93	13	-	47	5,120
	575342.16	Empl Exp Co	1,236	1,199	22	3	-	11	1,236
	575350.16	Meals & Tra	1,195	1,159	22	3	-	11	1,195
	575351.16	Meals & Tra	592	574	11	1	-	5	592
	Total		26,229	25,446	474	66	-	243	26,229
Miscellaneous:	568010.16	Water Res C	161,885	157,054	2,926	406	-	1,500	161,885
	575000.16	Misc Oper A	12,087	11,726	218	30	-	112	12,087
	575030.16	Advertising	16,114	15,633	291	40	-	149	16,114
	575130.16	Brochures a	52,955	51,375	957	133	-	491	52,955
	575220.16	Community R	46,409	45,024	839	116	-	430	46,409
	Total		289,450	280,812	5,232	725	-	2,681	289,450
120122 CORP-Gov't Relat									
General Office:	575280.16	Dues/Member	300	291	5	1	-	3	300
	575340.16	Employee Ex	1,950	1,892	35	5	-	18	1,950
	575342.16	Empl Exp Co	3,200	3,105	58	8	-	30	3,200
	575350.16	Meals & Tra	1,800	1,746	33	5	-	17	1,800
	575351.16	Meals & Tra	1,800	1,746	33	5	-	17	1,800
	575741.16	Cell Phone	1,200	1,164	22	3	-	11	1,200
	Total		10,250	9,944	185	26	-	95	10,250
Total Company	550000	Transportation	567,498	550,562	10,257	1,422	-	5,257	567,498
		Total	$ 11,630,040	$11,283,148	$209,658	$27,585	$1,025	$108,626	$11,630,040
				97.0%	1.8%	0.2%	0.0%	0.9%	100.0%

		KAW - Case 2007-00143							**EXHIBIT MAM-9**
		Cost of a Service Order for Central Division							
		(Expenses are based on forecasted test year unless otherwise noted)							
	1.	**Labor and miscellaneous expenses:**			Field Service	Jarold Jackson	Field Service Records Clerks	Stacy Owens	**Case 2004-00103**
		Total Field Service O & M Labor (Central) in test year	$ 668,294	(2)	619,834	48,460			488,200
		Total Inside Customer Service O & M Labor (Central) in test year	188,674	(2)			144,876	43,798	217,535
		Subtotal direct service order O & M labor (Central)	$ 856,968	formula					$ 705,735
		Grand total O & M labor Network department labor (Central)	$ 2,872,214	(2)					2,944,309
		Direct service order O & M labor as a % of grand total Network labor	29.84%	formula					23.97%
		Total Network Superintendent O & M Labor	$ 2,653	(2)					
		Network Superintendent O & M Labor Allocated to Service Order Work	$ 792	formula					$ 21,695
		Incentive pay applied	$ 9,345	formula					$ 10,804
		General Office:							
575340	16	Employee Expense	$ 5,650	Dec 2007 - Nov 2008 ABP - Bus Unit 120206 - (LEX-Field Service)				(3)	-
575350	16	Meals & Travel	6,275	"				(3)	-
575351	16	Meals & Travel	6,275	"				(3)	-
575741	16	Cell Phone	1,255	"				(3)	-
		Subtotal general office expenses	$ 19,455	formula					
		General office expense allocated to direct service order labor	$ 5,805	formula					$ -
		Miscellaneous expenses:							
535000	14	Contract Services - Other	$ 74,550	Dec 2007 - Nov 2008 ABP - Bus Unit 120206 - (LEX-Field Service)				(3)	101,870
520100	14	M & S Oper TD	66,850	"				(3)	119,328
575000	14	Misc Oper TD	75,300	"				(3)	77,575
575620	14	Office & Admin Supplies TD	12,550	"				(3)	26,433
575480	14	Heat - Office TD	31,875	"				(3)	31,618
575500	14	Janitorial TD	10,040	"				(3)	7,098
575780	14	Trash Removal TD	6,275	"				(3)	8,182
575820	14	Uniforms	18,825	"				(3)	8,911
575741	14	Cell Phone TD	18,825	"				(3)	17,621
		Subtotal miscellaneous expense	$ 315,090	formula					4,090
									5,521
		Miscellaneous expense allocated to direct service order labor	$ 94,023	formula					$ 75,481
		Direct Customer Service Expenses							
535000	15	Contract Services - Other	$ 62,750	Dec 2007 - Nov 2008 ABP - Bus Unit 120206 - (LEX-Field Service)					
53500	14	Contract Services - Temporary	56,475	Dec 2007 - Nov 2008 ABP - Bus Unit 120206 - (LEX-Field Service)					
575741	16	Cell Phone	9,600	Dec 2007 - Nov 2008 ABP - Bus Unit 120203 (LEX-Customer Servic				(3)	742
		Subtotal customer service expense	$ 128,825	formula					$ 174,369

	KAW - Case 2007-00143					EXHIBIT MAM-9
	Cost of a Service Order for Central Division					
	(Expenses are based on forecasted test year unless otherwise noted)					
2.	**Payroll overhead:**					
	Direct service order labor plus allocated Network Superintendent	$	857,760	formula		
	Payroll overhead factor for forecasted test year		0.4775	Allocation Schedule		
	Total payroll overhead allocated to direct service order labor	$	409,580	formula	$	396,086
3.	**Transportation expense:**					
	Total miles driven by field service persons in 2006 (Central)		223,764	(4) formula - see Footnotes tab		
	Total service orders worked by field service persons in 2006 (Central)		93,727	(1) formula - see Footnotes tab		
	Miles driven per service order in 2006		2.39	formula		
	Total service orders worked by field service persons in 2006 (Central)		93,727	formula		
	Average customers 2006 (Central)		110,712	formula		
	Service orders worked per average customer in 2006		0.8466	formula		
	Average customers in forecasted test year (Central)		116,152	formula - see Customers tab		
	Service orders worked per average customer in 2006 (Central)		0.8466	formula		
	Estimated service orders worked in forecasted test year		98,334	formula		
	Estimated service orders worked in forecasted test year		98,334	formula		
	Miles driven per service order in 2006		2.39	formula		
	Estimated miles driven by field service persons in test year		235,018	formula		
	IRS rate per mile	$	0.445			
	Estimated transportation cost by field service persons in test year	$	104,583	formula	$	91,120
4.	**Allocation of Customer Service Center Costs**					
	Call center costs in KY management fees in test year	$	1,557,125	(5)		
	Ratio of Central Division customers to total customers for test year		0.9702	formula		
	Call center costs in KY management fees in test year (Central)	$	1,510,723	formula		
	Total service orders worked by field service persons in 2006 adjusted for multiple call orders (Central)		111,425	(1)		
	Average customers 2006 (Central)		110,712	formula		
	Estimated calls per customer		1.77	formula		
	Estimated # of calls received by the KAW Call Center (Central)		195,960	formula		
	Ratio of service order generating calls to total calls received		57.0%	formula		
	Allocate CSC costs to service orders based on ratio of service orders to calls received	$	861,112	formula	$	368,912
5.	**Southeast Region Customer Relations Expense**					
	Total SE Region costs for 2006	$	1,901,330	(6)		
	SE Region Customer Relations costs for 2006		159,792	(6)		
	ratio		0.0840	formula		
	SE Region Costs for forecast period		1,467,047	(5)		

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EXHIBIT MAM-9

Cost of a Service Order for Central Division

	(Expenses are based on forecasted test year unless otherwise noted)			
	Forecast period SE Region Customer Relations costs	123,232	formula	
	Ratio of Central Division customers to total customers for test year	0.9702	formula	
	Forecast period SE Region Customer Relations costs applicable to service orders (Central)	$ 119,560	formula	
6.	**Totals**			
	Direct service order labor	$ 856,968	formula	$ 705,735
	Operations Superintendent allocation	792	formula	21,695
	Incentive pay	9,345	formula	10,804
	General office expense	5,805	formula	-
	Miscellaneous expense	94,023	formula	75,481
	Customer Service expenses (service order closing)	128,825	formula	174,369
	Payroll overhead	409,580	formula	396,086
	Transportation expense	104,583	formula	91,120
	Customer Service Center costs	861,112	formula	368,912
	Southeast Region Customer Relations costs	119,560	formula	-
	Subtotal	$ **2,590,593**	formula	$ **1,844,202**
	Estimated service orders worked during test year	98,334	formula	77,409
	Cost per service order	$ **26.34**	formula	$ **23.82**
	Round service order cost to:	$ **26.00**		
7	**Revenues from activation fee**			
	# activation fees collected in 2006	26,882		
	# average customers in 2006	114,161	formula	
	#activation fees per customer	0.235	formula	
	# average customers in forecast	119,725	formula	
	estimated number of activation fees during forecast period	28,135	formula	
	Total Activation Fee Revenues for forecast period (Central and Northern)	$ **731,510**	formula	
8	**Revenues from reconnection charge**			
	# reconnection fees collected in 2006	8,568		
	# average customers in 2006	114,161	formula	
	# reconnection fees per customer	0.075	formula	
	# average customers in forecast	119,725	formula	
	estimated number of reconnection fees during forecast period	8,979	formula	
	Total Normal hours reconnection Fee Revenues for forecast period (Central and Northern)	$ **233,454**	formula	