

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

**IN THE MATTER OF:**

**NOTICE OF ADJUSTMENT OF THE RATES OF  
KENTUCKY-AMERICAN WATER COMPANY  
EFFECTIVE ON AND AFTER MAY 30, 2007**

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**CASE NO. 2007-00143**

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**DIRECT TESTIMONY OF PATRICK L.BARYENBRUCH**

**April 30, 2007**

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1       **1. Q. Please state your name and business address.**

2           A.     Patrick L. Baryenbruch, 302 East Park Drive, Raleigh, North Carolina 27605.

3       **2. Q. Please describe your educational and professional background.**

4           A. I received a Bachelors degree in accounting from the University of Wisconsin-  
5           Oshkosh in 1974 and a Masters in Business Administration degree from the  
6           University of Michigan in 1979.

7           I am a financial consultant and am a member of the American Institute of Certified  
8           Public Accountants and the North Carolina Association of Certified Public  
9           Accountants.

10          I began my career as a staff accountant with Arthur Andersen & Company where I  
11          performed financial audits of utilities, banks and finance companies. After three  
12          years I left to pursue an M.B.A. degree. Upon graduation from business school, I  
13          worked with the consulting firms of Theodore Barry & Associates and Scott,  
14          Madden & Associates.

15          During my consulting career, I have performed consulting assignments for  
16          approximately 50 utilities and 10 public service commissions. I have participated  
17          as project manager, lead or staff consultant for 24 commission-ordered  
18          management and prudence audits of public utilities. Of these, I have been  
19          responsible for evaluating the area of affiliate charges and allocation of corporate  
20          expenses in the Commission-ordered audits of Connecticut Light and Power,  
21          Connecticut Natural Gas, General Water Corporation (Pennsylvania Operations),  
22          Philadelphia Suburban Water Company (now Aqua America) and Pacific Gas &  
23          Electric Company.

24          My firm has performed the commission-ordered audit of Southern California  
25          Edison's 2002, 2003, 2004 and 2005 transactions with its non-regulated affiliate  
26          companies.

27       **3. Q. What are your duties and responsibilities in your current position?**

1 A. I am the President of my own consulting practice, Baryenbruch & Company, LLC,  
2 which was established in 1985. In that capacity, I provide consulting services to  
3 utilities and their regulators.

4 **4. Q. Please describe the reason for your testimony in this case.**

5 A. I am presenting the results of my study which evaluated the services provided by  
6 American Water Service Company ("Service Company") during 2006 to Kentucky  
7 American Water (KAWC). This study was undertaken in conjunction with KAWC's  
8 rate case and is true to the best of my knowledge and belief. The study is attached  
9 as Exhibit PLB-1.

10 **5. Q. What were the objectives of your study?**

11 A. This study was undertaken to answer three questions. First, was KAWC charged  
12 the lower of cost or market for managerial and professional services provided by  
13 the Service Company during 2006? Second, were the 2006 costs of the Service  
14 Company's customer accounts services, including those of the National Call  
15 Centers, reasonable? Third, are the services KAWC receives from Service  
16 Company necessary?

17 **6. Q. What conclusions were you able to draw concerning question number 1,**  
18 **whether KAWC was charged the lower of cost or market services provided**  
19 **by the Service Company?**

20 A. I was able to draw the following conclusions:

21 (1) KAWC was charged the lower of cost or market for managerial and  
22 professional services during the 12 months ended December 31, 2006.

23 (2) On average, the hourly rates for outside service providers are 44% higher  
24 than the Service Company's hourly rates.

25 (3) The managerial and professional services provided by the Service  
26 Company are vital and could not be procured externally by KAWC without

1 careful supervision on the part of KAWC. If these services were  
2 contracted entirely to outside providers, KAWC would have to add at least  
3 one position to manage activities of outside firms. This position would be  
4 necessary to ensure the quality and timeliness of services provided.

5 (4) If all the managerial and professional services now provided by the Service  
6 Company had been out-sourced during the 12-months ended December  
7 31, 2006, KAWC and its ratepayers would have incurred an **additional**  
8 **\$2.7 million** in expenses. This amount includes the higher cost of outside  
9 providers and the cost of a KAWC position needed to direct the outsourced  
10 work.

11 (5) This study's hourly rate comparison actually understates the cost  
12 advantages that accrue to KAWC from its use of the Service Company.  
13 Outside service providers generally bill for every hour worked. Service  
14 Company personnel, on the other hand, charge a maximum 8 hours per  
15 day even when they work more. If the overtime hours of Service Company  
16 personnel had been factored into the hourly rate calculation, the Service  
17 Company would have had an even greater annual dollar advantage than  
18 the \$2.7 million cited above.

19 (6) It would be difficult for KAWC to find local service providers with the same  
20 specialized water industry expertise as that possessed by the Service  
21 Company staff. Service Company personnel spend substantially all their  
22 time serving operating water companies. This specialization brings with it  
23 a unique knowledge of water utility operations and regulation that is most  
24 likely unavailable from local service providers.

25 (7) Service Company fees do not include any profit markup. Only its actual  
26 cost of service is being recovered from KAWC ratepayers.

1       **7. Q. What is your conclusion regarding the reasonableness of the costs of the**  
2       **National Call Center that provides service to KAWC?**

3       A. I was able to determine that the cost of the Service Company's customer accounts  
4       services, including those provided by the National Call Center, **is near the average**  
5       **of the comparison group of neighboring electric utilities.** As will be explained  
6       further herein, this group of companies provides a reasonable proxy group for  
7       comparison to a regulated utility of the size and scope of KAWC. During the 12-  
8       months ended December 31, 2006, the customer accounts cost for KAWC  
9       customers was \$26.98 compared to the 2005 average of \$26.07 for neighboring  
10      electric utilities. The highest comparison group per customer cost was \$35.82 and  
11      the lowest \$12.43.

12      **9. Q. What conclusions were you able to draw concerning the necessity of the**  
13      **services KAWC receives from the Service Company?**

14      A. I was able to draw the following conclusions:

15              (1) The services that the Service Company provides are necessary and would  
16              be required even if KAWC were a stand-alone water utility.

17              (2) There is no redundancy or overlap in the services provided by the Service  
18              Company to KAWC.

19      **10. Q. Does this complete your testimony?**

20      A. Yes.

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**Market Cost Comparison of Service Company Charges to  
Kentucky American Water Company  
12-Months Ended December 31, 2006**

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**Kentucky American Water Company  
Market Cost Comparison of Service Company Charges  
12-Months Ended December 31, 2006**

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## I - Introduction

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### Purpose Of This Study

This study was undertaken to answer three questions concerning the services provided by American Water Works Service Company, Inc. (Service Company) to Kentucky American Water Company (KAWC):

1. Was KAWC charged the lower of cost or market for managerial and professional services provided by the Service Company during the 12-months ended December 31, 2006?
2. Were the 12-months ended December 31, 2006 costs of the Service Company's customer accounts services, including those of the National Call Centers, reasonable?
3. Are the services KAWC receives from Service Company necessary?

### Study Results

Concerning question 1, the following conclusions can be drawn from this study:

- KAWC was charged the lower of cost or market for managerial and professional services during the 12-months ended December 31, 2006.
- On average, the hourly rates for outside service providers are **44% higher** than the Service Company's hourly rates.
- The managerial and professional services provided by the Service Company are vital and could not be procured externally by KAWC without careful supervision on the part of KAWC. If these services were contracted entirely to outside providers, KAWC would have to add at least one position to manage activities of outside firms. This position would be necessary to ensure the quality and timeliness of services provided.
- If all the managerial and professional services now provided by the Service Company had been out-sourced during the 12-months ended December 31, 2006, KAWC and its ratepayers would have incurred an **additional \$2.7 million** in expenses. This amount includes the higher cost of outside providers and the cost of a KAWC position needed to direct the outsourced work.
- This study's hourly rate comparison actually understates the cost advantages that accrue to KAWC from its use of the Service Company. Outside service providers generally bill for every hour worked. Service Company personnel, on the other hand, charge a maximum 8 per day even when they work more. If the overtime hours of Service Company personnel had been factored into the hourly rate calculation, the Service Company would have had an even greater annual dollar advantage than the \$2.7 million cited above.
- It would be difficult for KAWC to find local service providers with the same specialized water industry expertise as that possessed by the Service Company staff. Service Company personnel spend substantially all their time serving operating water companies. This specialization brings with it a unique knowledge of water utility operations and regulation that is most likely unavailable from local service providers.
- Service Company fees do not include any profit markup. Only its actual cost of service is being recovered from KAWC ratepayers.



Concerning question 2, it was determined that the cost of the Service Company's customer accounts services, including those provided by the National Call Center, **is near the average of the comparison group of neighboring electric utilities.** As will be explained further herein, this group of companies provides a reasonable proxy group for comparison to a regulated utility of the size and scope of KAWC. During the 12-months ended December 31, 2006, the customer accounts cost for KAWC customers was \$26.98 compared to the 2005 average of \$26.07 for neighboring electric utilities. The highest comparison group per customer cost was \$35.82 and the lowest \$12.43.

Concerning question 3, the following conclusions can be drawn:

- The services that the Service Company provides are necessary and would be required even if KAWC were a stand-alone water utility.
- There is no redundancy or overlap in the services provided by the Service Company to KAWC. For all of the services listed in Schedule 11, there was only one entity that was primarily responsible for the service.

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## II - Background

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### Overview Of American Water Service Company

The Service Company maintains several types of offices from which it provides services to American Water operating companies. They include:

- Corporate Office – Includes American Water’s executive management and personnel from the various corporate support services. American Water’s corporate office is located in Voorhees, New Jersey.
- National Call Centers – Perform customer service functions, including: customer call processing, service order processing, correspondence processing, credit and collections. American Water maintains two call centers. One in Alton, Illinois that went into operation in the second quarter of 2001 and a second in Pensacola, Florida that went into operation in April 2005. Prior to the establishment of these national call centers, customer service functions were performed by employees of KAWC, which incurred the expense on its books. KAWC transitioned to the Alton Call Center in October 2003 and to the Pensacola Call Center in June 2005.
- National Shared Services Center – The Shared Services Center, located in Cherry Hill, New Jersey, provides various financial, accounting and treasury functions that had been performed by individual operating companies. This arrangement has improved and streamlined the Company’s financial processes and allowed operating companies to focus on providing utility service.
- Regional Offices – Regional offices provide operating companies with certain support services that can be performed more effectively on a regional basis because individual operating company/center workloads are not sufficient to warrant a full-time staff for these activities. At the same time, these services require closer proximity to operating companies served so they have not been consolidated into the National Shared Services Center. Examples of regional office services include rates and revenues, engineering and operations. There are four regional offices—Northeast, Southeast, Central and West.
- Belleville Lab – The national trace substance laboratory is located in Belleville, Illinois and performs testing for all American Water operating companies.
- Information Technology Service Centers – American Water’s principal data center, located Hershey, Pennsylvania, supports the IT infrastructure required to run corporate and operating company business applications and the email system. IT personnel rotate, as needed, throughout the regional offices and operating companies.

### Service Company Expense Categories

The Service Company renders a monthly bill to operating companies. Charges are broken down into the following expense categories:

- Labor – base pay (salaries) of managerial and professional employees
- Labor-Related Overheads – employee benefit costs (payroll taxes, medical coverage, pensions, disability insurance) and other general expenses
- Support – wages and salaries of office support personnel, including secretaries, clerical personnel, telephone operators and mail clerks

- Office Expenses – office rent, equipment leases, telephone, electric, office supplies, property taxes, office maintenance
- Vouchers/Journal Entries – (1) travel expenses incurred by Service Company personnel, (2) other items submitted for reimbursement by employees, including professional association dues, (3) outside service contracts for such things as actuarial services, and (4) various other expenditures, including data center expenses for software licenses and hardware maintenance.

Service Company expenses are either assigned directly or allocated to operating companies, as shown in the table below.

Expense Category	Direct		Comments
	Charged	Allocated	
Labor	X	X	Professional personnel working for one or several operating companies
Labor-Related Overheads	X	X	These are primarily employee benefit costs that relate directly to labor
Support		X	Administrative personnel support the professional staff, thus support costs are allocated on the basis of professional labor
Office Expense		X	Are all allocated on the basis of professional labor
Vouchers/Journals	X	X	May be either directly in support of one operating company (e.g., an engineer traveling from the Corporate Office to the operating company) or allocated to several operating companies

A direct charge occurs when Service Company work or expenses are incurred in support of only one operating company. Direct charge examples include work in support of an operating company's rate case, engineering design work on an operating company's project and the preparation of an operating company's financial statements.

Service Company expenses are allocated when more than one operating company benefits from the underlying work. Examples include assessments of new Federal water quality regulations, development of the company-wide materials procurement contracts and creation of company-wide engineering design standards.

### **Charging and Assignment Of Service Company Time and Expenses**

Service Company transactions are assigned with the following information so there is a proper accounting and eventual charging to an operating company:

- Operating company number, if transaction is a direct charge
- Formula number if transaction is allocated
- Employee hours worked
- Account number for non-labor charges.

Charges can originate from the following systems:

- Payroll System
- RVI System (outside vendor payments)
- PCard System (credit card payments)
- Internal Purchase Order System
- Journal entries.

The Service Company's time reporting process enables labor and support charges to be assigned to the proper operating company. Labor charges are based on the time reported by managerial and professional Service Company employees. Every week, Service Company professional employees complete an electronic time sheet (see example in Schedule 1) that shows:

- Operating company (for direct charge)
- Formula number (for allocation)
- Work order (where applicable)
- Authorization number (where applicable).

At month-end, time report information is processed and direct and allocated professional labor hours tabulated for each operating company. Dollar charges are then calculated using the hourly rate of each Service Company professional employee based upon their base salary (i.e., an employee's hours times their hourly rate of pay).

Support (administrative) personnel charge their time to the activity "General Admin." As described in the table on page 4, their labor charges are allocated to operating companies based upon how their office's professional personnel labor charges are assigned. For instance, if 2% of the Voorhees Data Center's professional labor is assigned to KAWC during a month, then 2% of that office's monthly administrative labor charges also is assigned to the operating company.

The overhead cost category is next assigned based on professional and administrative labor costs. Thus, if 2% of the Corporate Office's accumulated professional and support labor is charged to KAWC during the month, then 2% of that month's overhead expenses will be assigned to KAWC.

Each Service Company location's office expenses are allocated to operating companies based on how professional labor charges for that office have been assigned. For instance, if 2% of professional labor from one Service Company office is assigned to KAWC, then 2% of that office's office expenses would be assigned to KAWC. Thus, office expenses are allocated in the very same way as administrative labor.

Vouchers/journal entries may be charged directly or allocated, depending on who benefits from the expenditure. For instance, the cost of a continuing professional education course taken by a professional in a regional office is allocated to the operating companies served by that office. Travel expenses by that same professional to a state rate case proceeding are charged directly to the operating company whose case is being heard.

**Kentucky American Water Company**  
**Sample Electronic Time Sheet**

Session A - [24 x 80]

File Edit View Communication Actions Window Help

American Water Works Company (581020) - 1/26/06

File Edit Help

Time Entry 17:00:09

Week Ending: 1/23/05 Rndes, Kathleen Emp#: 18507871

Dept: 036518 NE-Human Resources View Mode

Totals:	Mo	Tu	We	Th	Fr	Sa	Su	Total	Meal	
8.00	8.00	8.00	8.00	8.00	8.00			40.00		
Formula	Typ	1/17	1/18	1/19	1/20	1/21	1/22	1/23	Hours	Money
100082	001	1.00	1.00	1.00	1.00	1.00			5.00	
Account:		036518.501200.16								
100229	001	6.00	6.00	6.00	6.00	6.00			30.00	
Account:		036518.501200.16								
100231	001	1.00	1.00	1.00	1.00	1.00			5.00	
Account:		036518.501200.16								
100229	250								.00	
Account:		036518.501200.16								
100229	300								.00	
Account:		036518.501200.16								
100229	400								.00	
Account:		036518.501200.16								

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### III – Service Company Cost Comparison Approach

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During the 12-months ended December 31, 2006, the Service Company billed KAWC \$6,612,414 in O&M-related charges. Included in this amount is \$733,724 associated with several non-recurring items, for which KAWC is not seeking recovery. This market study excludes the non-recurring items so as to align with the rate case's recoverable costs.

For purposes of comparing Service Company charges to outside benchmarks, Service Company services were placed into two categories:

- Managerial and Professional Services – Includes such services as management, accounting, legal, human resources, information technology, and engineering.
- Customer Accounts Services – Includes customer-related services, such as call center, credit, billing, collection and payment processing.

Total test period Service Company charges break down between management/professional services and customer account services as follows:

	2006	
	Amount	Hours
Management and Professional Services	\$ 4,406,473	48,595
Customer Account Services	\$ 1,472,217	49,904
Total Charges	\$ 5,878,690	98,499

This study's first question—whether the Service Company charges the lower of cost or market—was evaluated by comparing the cost per hour for managerial and professional services provided by Service Company personnel to hourly billing rates that would be charged by outside providers of equivalent services. Service Company costs per hour were based on actual charges to KAWC during 2006. Outside providers' billing rates came from surveys or other information from professionals that could perform the services now provided by the Service Company.

The second question—reasonableness of the National Call Center costs—was addressed by comparing KAWC's customer accounts services expenses to those of neighboring electric utilities. This approach was selected because the costs of outside providers of call center services are not publicly available. However, electric utility customer account services expenses can be obtained from the FERC Form 1. The availability and transparency of FERC data adds to the validity of its use in this comparison.

The third question—the necessity of Service Company services—was first investigated by determining the services provided to KAWC. A determination was then made as to whether these services would be required if KAWC were a stand-alone utility.

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## IV – Managerial And Professional Services Hourly Rate Comparison

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### Methodology

The lower-of-cost-or-market comparison is accomplished by comparing the cost per hour for Service Company managerial and professional services to those of outside service providers to whom these duties could be assigned. Based on the nature of the Service Company services it was determined that the following outside providers could perform the categories of services indicated below:

- Management Consultants – executive and administrative management, risk management services, human resources and communications services
- Attorneys – legal services
- Certified Public Accountants – accounting, financial, information technology and rates and revenues services
- Professional Engineers – engineering, operations and water quality services.

The services provided by the Belleville lab are assumed to be transferable to professional engineers for purposes of this cost comparison. This was done for two reasons. First, there is no readily available survey of hourly billing rates for testing services such as those performed by Belleville. Second, Belleville personnel have similar educational backgrounds as Service Company engineering personnel. In fact, many Belleville employees have engineering degrees. Thus, it is valid to compare the hourly rates of Belleville services to those of outside engineering firms.

Service Company's hourly rate were calculated for each of the four outside service provider categories, based on the dollars and hours charged to KAWC during 2006. Hourly billing rates for outside service providers were developed using third party surveys or directly from information furnished by outside providers themselves.

It should be noted that by using the Service Company's hours charged KAWC during 2006, its hourly rates are actually overstated because Service Company personnel charge a maximum 8 per day even when they work more. Outside service providers generally bill for every hour worked. If the overtime hours of Service Company personnel had been factored into the hourly rate calculation, Service Company hourly rates would have been lower.

The last step in the market cost comparison was to compare the Service Company's average cost per hour to the average cost per hour for outside providers.

### Service Company Hourly Rates

Schedule 2 (page 10) details the assignment of 2006 management and professional Service Company charges to outsider provider categories. Schedule 3 (page 11) shows the same assignment for Service Company management and professional hours charged to KAWC during 2006.

Certain adjustments to these dollar amounts were necessary to calculate Service Company hourly rates that are directly comparable to those of outside providers. Adjustments were made to the following 2006 test year non-labor Service Company charges:

- **Contract Services** – 2006 Service Company charges to KAWC include over \$413,000 in charges associated with existing arrangements with outside professional firms who perform certain corporate-wide services (e.g., legal, financial audit, actuarial services). These professional fees are excluded from the Service Company hourly rate calculation because the related services have effectively been out-sourced already.
- **Travel Expenses** – In general, client-related travel expenses are not recovered by outside service providers through their hourly billing rate. Rather, actual out-of-pocket travel expenses are billed to clients in addition to fees for professional services. Thus, it is appropriate to remove these Service Company charges from the hourly rate calculation.
- **Computer Hardware and Software Expenses** – Included in 2006 Service Company charges to KAWC are charges for outside expenses related to leases and maintenance fees related to mainframe, server and network infrastructure, corporate business applications and the email system. An outside provider that would take over operation of a data center would recover these expenses over and above the labor necessary to operate the data center.

Schedule 4 (page 12) shows how contract services, travel expenses and computer hardware/software-related Service Company charges are assigned among the four outside provider categories.

Based on the assignment of expenses and hours shown in Schedules 2 and 3 and the excludable items shown in Schedule 4, the Service Company's equivalent costs per hour for 2006 are calculated below.

	Attorney	Management Consultant	Certified Public Accountant	Professional Engineer	Total
Total management, professional & technical services charges	\$ 280,454	\$ 1,227,408	\$ 2,068,084	\$ 830,527	\$ 4,406,473
Less:					
Contract services	8,060	97,609	295,680	11,978	413,326
Travel expenses	5,596	7,307	8,592	8,548	30,043
Computer hardware/software	4	12,483	49,854	304	62,644
Net Service Charges (A)	\$ 266,794	\$ 1,110,009	\$ 1,713,959	\$ 809,699	\$ 3,900,460
Total Hours (B)	2,041	11,786	25,258	9,510	48,595
<b>Average Hourly Rate (A / B)</b>	<b>\$ 131</b>	<b>\$ 94</b>	<b>\$ 68</b>	<b>\$ 85</b>	



**Kentucky American Water Company**  
**Analysis of 2006 Service Company Charges By Location And Function**

Location	Function	2006 Service Company Charges				
		Attorney	Management Consultant	Certified Public Accountant	Professional Engineer	Total
Belleville Lab	Water Quality				\$ 173,054	\$ 173,054
Call Center	Human Resources		\$ 35,974			\$ 35,974
Corporate	Accounting			\$ 106,490		\$ 106,490
	Administration	\$ 29,624	\$ 248,625	\$ 169,740	\$ 105,722	\$ 553,711
	Audit			\$ 37,212		\$ 37,212
	Communications		\$ 65,748			\$ 65,748
	Finance			\$ 163,765		\$ 163,765
	Human Resources		\$ 153,205			\$ 153,205
	Legal	\$ 74,313				\$ 74,313
	Operations				\$ 110,649	\$ 110,649
	Rates & Revenue			\$ 106,287		\$ 106,287
	Risk Management		\$ 44,700			\$ 44,700
	Water Quality				\$ 36,217	\$ 36,217
Regional Offices	Accounting			\$ 20,894		\$ 20,894
	Administration		\$ 254,063			\$ 254,063
	Communications		\$ 201,580			\$ 201,580
	Customer Service					\$ -
	Engineering				\$ 52,541	\$ 52,541
	Finance			\$ 190,055		\$ 190,055
	Human Resources		\$ 121,933			\$ 121,933
	Legal	\$ 176,516				\$ 176,516
	Operations				\$ 288,493	\$ 288,493
	Risk Management		\$ 69,962			\$ 69,962
	Water Quality				\$ 63,850	\$ 63,850
Information Technology	Audit			\$ 14,115		\$ 14,115
	Information Technology			\$ 794,195		\$ 794,195
Shared Services	Accounting			\$ 408,940		\$ 408,940
	Administration		\$ 31,619			\$ 31,619
	Finance			\$ 38,801		\$ 38,801
	Rates & Revenue			\$ 17,588		\$ 17,588
<b>Total Dollars Charged</b>		<b>\$ 280,454</b>	<b>\$ 1,227,408</b>	<b>\$ 2,068,084</b>	<b>\$ 830,527</b>	<b>\$ 4,406,473</b>

**Kentucky American Water Company  
Analysis of 2006 Service Company Hours By Location And Function**

Location	Function	2006 Service Company Hours				
		Attorney	Management Consultant	Certified Public Accountant	Professional Engineer	Total
Belleville Lab	Water Quality				2,618	2,618
Call Center	Human Resources		472			472
Corporate	Accounting			1,550		1,550
	Administration		128			128
	Audit			575		575
	Communications		227			227
	Finance			1,463		1,463
	Human Resources		1,595			1,595
	Legal	299				299
	Operations				507	507
	Rates & Revenue			327		327
	Risk Management		351			351
	Water Quality				572	572
Regional Offices	Accounting			349		349
	Administration		909			909
	Communications		4,242			4,242
	Customer Service					-
	Engineering				341	341
	Finance			2,604		2,604
	Human Resources		1,940			1,940
	Legal	1,742				1,742
	Operations				4,482	4,482
	Risk Management		1,647			1,647
	Water Quality				991	991
Information Technology	Audit			336		336
	Information Technology			8,415		8,415
Shared Services	Accounting			7,979		7,979
	Administration		275			275
	Finance			1,383		1,383
	Rates & Revenue			277		277
<b>Total Hours Charged</b>		<b>2,041</b>	<b>11,786</b>	<b>25,258</b>	<b>9,510</b>	<b>48,595</b>

**Kentucky American Water Company**  
**2006 Service Company Charges Excludable From The Hourly Rate Calculation**

Charges By Function	Exclusions From Hourly Rate Calculation			
	Contract Services	Travel Expenses	Computer HW/SW	Total
Accounting	\$ 163,083	\$ 1,158	\$ 994	\$ 165,235
Administration	\$ 31,918	\$ 1,127	\$ 231	\$ 33,276
Audit	\$ (102)	\$ 423		\$ 321
Communications	\$ 21,194	\$ 720	\$ 227	\$ 22,141
Engineering		\$ 332		\$ 332
Finance	\$ 38,687	\$ 2,969	\$ 604	\$ 42,260
Human Resources	\$ 40,461	\$ 3,988	\$ 1,134	\$ 45,584
Information Technology	\$ 80,414	\$ 1,533	\$ 48,255	\$ 130,202
Legal	\$ 8,060	\$ 5,596	\$ 4	\$ 13,660
Operations	\$ 3,921	\$ 6,602	\$ 139	\$ 10,662
Rates & Revenue	\$ 13,599	\$ 2,508		\$ 16,106
Risk Management	\$ 4,036	\$ 1,472	\$ 10,890	\$ 16,397
Water Quality	\$ 8,057	\$ 1,614	\$ 165	\$ 9,835
<b>Total</b>	<b>\$ 413,326</b>	<b>\$ 30,043</b>	<b>\$ 62,644</b>	<b>\$ 506,013</b>

Outside Service Provider Category
Certified Public Accountant
Management Consultant
Certified Public Accountant
Management Consultant
Professional Engineer
Certified Public Accountant
Management Consultant
Certified Public Accountant
Attorney
Professional Engineer
Certified Public Accountant
Management Consultant
Professional Engineer

Recap By Outside Provider	Exclusions From Hourly Rate Calculation			
	Contract Services	Travel Expenses	Computer HW/SW	Total
Attorney	\$ 8,060	\$ 5,596	\$ 4	\$ 13,660
Management Consultant	\$ 97,609	\$ 7,307	\$ 12,483	\$ 117,399
Certified Public Accountant	\$ 295,680	\$ 8,592	\$ 49,854	\$ 354,125
Professional Engineer	\$ 11,978	\$ 8,548	\$ 304	\$ 20,829
<b>Total</b>	<b>\$ 413,326</b>	<b>\$ 30,043</b>	<b>\$ 62,644</b>	<b>\$ 506,013</b>

## **Outside Service Provider Hourly Rates**

The next step in the cost comparison was to obtain the average billing rates for each outside service provider. The source of this information and the determination of the average rates are described in the paragraphs that follow.

### **Attorneys**

The Kentucky Bar Association does not survey its members as to their hourly billing rates. In addition, publicly available billing rate information could not be found for Kentucky attorneys. Therefore, a Kentucky estimate was developed from a survey of Michigan lawyers conducted annually by the Michigan Lawyers Weekly. As presented in Schedule 5, the average rate for each Michigan firm respondent was adjusted for the cost of living differential between their location and Lexington, Kentucky. The survey includes rates that were in effect at December 31, 2005. Thus, the 2005 average rate was escalated to June 30, 2006—the midpoint of 2006.

### **Management Consultants**

The cost per hour for management consultants was developed from the 2006 annual survey performed by the Association of Management Consulting Firms—an industry trade organization. The first step in the calculation, presented in Schedule 6, was to determine an average rate by consultant position level. From these rates, a single weighted average hourly rate was calculated based upon the percent of time that is typically applied to a consulting assignment by each consultant position level. This survey includes rates that were in effect during 2005 for firms in the United States. Consultants typically do not limit their practice to any one region and must travel to a client's location. Thus, the U.S. national average is appropriate for comparison. The survey includes rates that were in effect at December 31, 2005. Thus, the 2005 average rate was escalated to June 30, 2006—the midpoint of 2006.

### **Certified Public Accountants**

The average hourly rate for Kentucky certified public accountants was developed from a 2006 survey conducted by the American Institute of Certified Public Accountants (AICPA) every two years. Hourly rates in the AICPA survey are the average of firms in the Kentucky region. The average hourly rate was calculated for a set of typical accountant positions, as shown in Schedule 7. Based on a typical staff assignment by each accountant position, a weighted average hourly rate was calculated. This survey covered hourly rates in effect during 2005. Thus, the 2005 average rate was escalated to June 30, 2006—the midpoint of 2006.

### **Professional Engineers**

The Service Company provided hourly rate information for outside engineering firms that could have been used by KAWC in 2006. As presented in Schedule 8, an average rate was developed for each engineering position level. Then, using a typical percentage mix of project time by engineering position, a weighted average cost per hour was calculated.

**Kentucky American Water Company**  
**Estimated Billing Rates Of Kentucky Attorneys**

Billing rates as of December 31, 2005 (Note A)							Cost of Living Adjust (C)	Adjusted Rate
Firm	Michigan Location	Number Of Mich Lawyers	Billing Rate Range			Average		
			Associate	Partner				
Dykema	Detroit	228	\$ 250	\$ 408	\$ 329	93%	\$ 352	
Dickinson Wright PLLC	Detroit	218	\$ 208	\$ 385	\$ 296	93%	\$ 317	
Butzel Long	Detroit	212	\$ 283	\$ 385	\$ 334	93%	\$ 357	
Bodman LLP	Detroit	130	\$ 168	\$ 323	\$ 245	93%	\$ 262	
Jaffe Raitt Heuer & Weiss, PC	Southfield	95	\$ 160	\$ 358	\$ 259	108%	\$ 239	
Sommers Schwartz	Southfield	76	\$ 138	\$ 193	\$ 165	108%	\$ 153	
Trott & Trott, PC	Bingham Farms	57	\$ 188	\$ 250	\$ 219	108%	\$ 129	
Brooks Kushman PC	Southfield	52	\$ 218	\$ 375	\$ 296	108%	\$ 274	
Foley & Lardner LLP	Detroit	42	\$ 298	\$ 453	\$ 375	93%	\$ 401	
Kemp, Klein, Umphrey, Edelman & May PC	Troy	38	\$ 155	\$ 263	\$ 209	130%	\$ 161	
Pepper Hamilton LLP	Detroit	31	\$ 255	\$ 448	\$ 351	93%	\$ 376	
Hertz, Schram & Saretsky, PC	Bloomfield Hills	30	\$ 218	\$ 338	\$ 278	143%	\$ 194	
O'Reilly Rancilio PC	Sterling Heights	27	\$ 180	\$ 238	\$ 209	110%	\$ 189	
Thrun Law Firm	East Lansing	27	\$ 190	\$ 220	\$ 205	102%	\$ 200	
Strobl & Sharp, PC	Bloomfield Hills	26	\$ 145	\$ 275	\$ 210	143%	\$ 147	
Kupelian Ormond & Magy, PC	Southfield	24	\$ 173	\$ 263	\$ 218	108%	\$ 201	
Parmenter O'Toole	Muskegon	23	\$ 145	\$ 238	\$ 191	90%	\$ 213	
Rader, Fishman & Grauer, PLLC	Bloomfield Hills	23	\$ 208	\$ 373	\$ 290	143%	\$ 203	
Tanoury, Corbet, Shaw, Nauts & Essad PLLC	Detroit	22	\$ 120	\$ 180	\$ 150	93%	\$ 161	
Williams, Williams, Rattner & Plunkett, PC	Birmingham	22	\$ 200	\$ 313	\$ 256	129%	\$ 199	
Overall Average at December 31, 2005								\$ 236
<u>Escalation to Mid-Point of Year - June 30, 2006 (Note B)</u>								
CPI at December 31, 2005								196.8
CPI at June 30, 2006								202.9
Inflation/Escalation								3.1%
Average Billing Rate At June 30, 2006								<b>\$ 244</b>

Note A: Source is Michigan Lawyers Weekly, April 2006

Note B: Source is US Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpi.txt>)

Note C: Source is Sperling's Best Places (<http://www.bestplaces.net/col/col.aspx>). This number represents the cost of living difference between the Michigan city and Lexington, Ky. A number over 100% indicates the Michigan city's cost of living is higher than Lexington. A number less than 100% indicates Lexington's cost of living is higher.

**Kentucky American Water Company**  
**Billing Rates of U.S. Management Consultants**

A. Calculation of Average Hourly Billing Rate by Consultant Position						
Survey billing rates were those in effect in 2005 (Note A)						
	<b>Average Hourly Rates (Note A)</b>					
	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner	
Average	\$ 141	\$ 186	\$ 234	\$ 320	\$ 350	
B. Calculation of Overall Average Hourly Billing Rate Based on a Typical Distribution of Time on an Engagement						
	Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner	
Average Hourly Billing Rate (from above)	\$ 141	\$186	\$234	\$320	\$350	
Typical Percent of Time Spent on a Consulting Project	30%	30%	20%	10%	10%	Weighted Average
	\$ 42	\$ 56	\$ 47	\$ 32	\$ 35	<b>\$ 212</b>
<u>Escalation to Test Year Mid-Point June 30, 2006 (Note B)</u>						
						CPI at December 31, 2005
						196.8
						CPI at June 30, 2006
						202.9
						Inflation/Escalation
						3.1%
						<b>Estimated Average Hourly Billing Rate For Consultants At June 30, 2006</b>
						<b>\$ 218</b>

Note A: source: "Operating Ratios For Management Consulting Firms, 2006 Edition" Association of Management Consulting Firms

Note B: source is US Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpiai.txt>)

**Kentucky American Water Company**  
**Estimated Billing Rates Of Kentucky Certified Public Accountants**

A. Calculation of Average Hourly Billing Rate by Public Accounting Position Survey billing rates were those in effect in 2005 (Note A)				
	Average Hourly Billing Rate (Note A)			
Type of Firm	Staff Accountant	Senior Accountant	Manager	Partner
Average Hourly Rate	\$ 65	\$ 77	\$ 112	\$ 150
B. Calculation of Overall Average Accountant Billing Rate Based Upon Typical Distribution of Time on an Engagement				
	Staff Accountant	Senior Accountant	Manager	Partner
Average Hourly Billing Rate (From Above)	\$ 65	\$ 77	\$ 112	\$ 150
Typical Percent of Time Spent on an Accounting Assignment	30%	30%	20%	20%
	\$ 20	\$ 23	\$ 22	\$ 30
				Weighted Average
				<b>\$ 95</b>
			CPI at December 31, 2005	196.8
			CPI at June 30, 2006	202.9
			Inflation/Escalation	3.1%
Estimated Average Hourly Billing Rate For Kentucky CPAs At June 30, 2006				<b>\$ 98</b>

Note A: Source is AICPA's 2006 National PCPS/TSCPA Management of an Accounting Practice Survey

Note B: source is US Bureau of Labor Statistics (<ftp://ftp.bls.gov/pub/special.requests/cpi/cpi.txt>)

**Kentucky American Water Company**  
**Billing Rates Of Kentucky Engineers**

Note: Billing rates were those in effect in 2006

A. Calculation of Average Hourly Rate by Engineer Position

Name of Firm	Average Hourly Billing Rates			
	CAD Drafter Engineer Tech	Engineer Design Engineer Project Engineer Elect Proj Engineer	Project Manager Project Associate Sr. Mgr. Engineer	Officer Principal Engineer
Firm #1	\$65	\$93	\$121	\$237
Firm #2	\$63	\$71	\$114	na

B. Calculation of Overall Average Engineering Hourly Billing Rate

Average Hourly Billing Rate (From Above)	CAD Drafter Engineer Tech	Engineer Design Engineer Project Engineer Elect Proj Engineer	Project Manager Project Associate Sr. Mgr. Engineer	Officer Principal Engineer	Weighted Average
		\$64	\$82	\$117	
Typical Percent of Time on an Engineering Assignment	30%	35%	25%	10%	
	\$19	\$29	\$29	\$24	<b>\$101</b>

Source: Information provided by American Water Works Service Company



### Service Company Versus Outside Provider Cost Comparison

As shown in the table below, Service Company costs per hour are considerably lower than those of outside providers.

Service Provider	12 Months Ended December 31, 2006		
	Service Company	Outside Provider	Difference-- Service Co. Greater(Less) Than Outside
Attorney	\$ 131	\$ 244	\$ (113)
Management Consultant	\$ 94	\$ 218	\$ (124)
Certified Public Accountant	\$ 68	\$ 98	\$ (30)
Professional Engineer	\$ 85	\$ 101	\$ (16)

Based on these cost per hour differentials and the number of managerial and professional services hours billed to KAWC during the 12-months ended December 31, 2006, outside service providers would have cost \$2,602,632 more than the Service Company (see table below). Thus, on average, outside provider's hourly rates are almost 44% higher than those of the Service Company (\$2,602,632 / \$5,878,690).

Service Provider	12 Months Ended December 31, 2006		
	Hourly Rate Difference-- Service Co. Greater(Less) Than Outside	Service Company Hours Charged	Dollar Difference
Attorney	\$ (113)	2,041	\$ (231,164)
Management Consultant	\$ (124)	11,786	\$ (1,459,265)
Certified Public Accountant	\$ (30)	25,258	\$ (761,368)
Professional Engineer	\$ (16)	9,510	\$ (150,835)
Service Company Less Than Outside Providers			\$ (2,602,632)

If KAWC were to use outside service providers rather than the Services Company for managerial and professional services, it would incur other additional expenses besides those associated with higher hourly rates. Managing outside firms who would perform 48,595 hours of work (around 32 full-time equivalents at 1,500 billable hours per FTE) would add a significant workload to the existing KAWC management team. Thus, it would be necessary for KAWC to add at least one position to supervise the outside firms and ensure they delivered quality and timely services. The individuals that would fill these positions would need a good understanding of each profession being managed. They must also have management experience and the authority necessary to give them credibility with the outside firms. As calculated in the table below, this position would add another \$121,400 per year to KAWC's personnel expenses.

#### Cost of Adding Administrative Positions To KAWC's Staff

	Total
New Positions' Salary	\$ 85,000
Benefits (at 52%)	\$ 36,400
Total Cost of the New Position	\$ 121,400

Thus, the total effect on the ratepayers of KAWC of contracting all services now provided by Service Company would be an increase in their costs of **\$2,724,032** (\$2,602,632 + \$121,400).

**Other Cost Comparisons**

Every year, the Belleville Lab conducts a comparison of its cost for performing major tests to the cost of using outside testing laboratories. Over the past several years, these surveys have shown the following results been as follows:

Year	Number of Major Tests Surveyed	Percent Belleville Lower Than Outside Labs
2000	26	15%
2001	25	19%
2002	24	16%
2003	23	10%
2004	24	9%
2005	24	25%

These studies provide additional evidence that the Service Company arrangement is the lowest-cost alternative for KAWC.

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## V – Customer Account Services Cost Comparison

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### Background

It is difficult to compare the cost of American Water's National Call Centers with outside providers of the same call center-related services. Call center survey data is proprietary and expensive to obtain. For this reason, KAWC's National Call Center costs are compared to those of neighboring electric utilities because the data necessary to make this comparison is readily available to the public.

Electric utility cost information comes from their FERC Form 1. FERC's chart of accounts is defined in chapter 18, part 101 of Code of Federal Regulations. FERC accounts that contain call center-related expenses and are used in this study's comparison are:

- Account 903 Customer Accounts Expense – Records and Collection Expense
- Account 905 Customer Accounts Expense – Miscellaneous Customer Accounts Expense.

In addition, labor-related overheads charged to the following FERC accounts must be added to the labor components of Accounts 903 and 905.

- Account 926 Employee Pension and Benefits
- Account 408 Taxes Other Than Income (employer's portion of FICA).

Schedule 9 provides FERC's description of what should be charged to these accounts. In questioning the controller of a large Southeastern electric utility, it was determined that expenses of the activities described below are recorded in the designated FERC accounts.

#### **903 Records and Collection Expense**

- Customer Call Center – customer calls/contact, credit, order taking/disposition, bill collection efforts, outage calls
- Call Center IT – maintenance of phone banks, voice recognition units, call center software applications, telecommunications
- Customer billing – bill printing, stuffing and mailing
- Remittance processing – processing of customer payments received in the mail
- Bill payment centers – locations where customers can pay their bills in person

#### **905 Miscellaneous Customer Accounts Expense**

- Customer Information System IT – maintenance and support of the customer information system

This study assumes the FERC accounts for other electric and gas utilities contain expenses for the same activities.

**Kentucky American Water Company**  
**FERC Account Descriptions**

**903 – Customer Records and Collection Expenses**

This account shall include the cost of labor, materials used and expenses incurred in work on customer applications, contracts, orders, credit investigations, billing and accounting, collections and complaints.

Labor

1. Receiving, preparing, recording and handling routine orders for service, disconnections, transfers or meter tests initiated by the customer, excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
2. Investigations of customers' credit and keeping of records pertaining thereto, including records of uncollectible accounts written off.
3. Receiving, refunding or applying customer deposits and maintaining customer deposit, line extension, and other miscellaneous records.
4. Checking consumption shown by meter readers' reports where incidental to preparation of billing data.
5. Preparing address plates and addressing bills and delinquent notices.
6. Preparing billing data.
7. Operating billing and bookkeeping machines.
8. Verifying billing records with contracts or rate schedules.
9. Preparing bills for delivery, and mailing or delivering bills.
10. Collecting revenues, including collection from prepayment meters unless incidental to meter reading operations.
11. Balancing collections, preparing collections for deposit, and preparing cash reports.
12. Posting collections and other credits or charges to customer accounts and extending unpaid balances.
13. Balancing customer accounts and controls.
14. Preparing, mailing, or delivering delinquent notices and preparing reports of delinquent accounts.
15. Final meter reading of delinquent accounts when done by collectors incidental to regular activities.
16. Disconnecting and reconnecting services because of nonpayment of bills.
17. Receiving, recording, and handling of inquiries, complaints, and requests for investigations from customers, including preparation of necessary orders, but excluding the cost of carrying out such orders, which is chargeable to the account appropriate for the work called for by such orders.
18. Statistical and tabulating work on customer accounts and revenues, but not including special analyses for sales department, rate department, or other general purposes, unless incidental to regular customer accounting routines.
19. Preparing and periodically rewriting meter reading sheets.
20. Determining consumption and computing estimated or average consumption when performed by employees other than those engaged in reading meters.

Materials and expenses

21. Address plates and supplies.
22. Cash overages and shortages.
23. Commissions or fees to others for collecting.
24. Payments to credit organizations for investigations and reports.
25. Postage.
26. Transportation expenses, including transportation of customer bills and meter books under centralized billing procedure.
27. Transportation, meals, and incidental expenses.
28. Bank charges, exchange, and other fees for cashing and depositing customers' checks.
29. Forms for recording orders for services, removals, etc.
30. Rent of mechanical equipment.

**Kentucky American Water Company**  
**FERC Account Descriptions**

**905 – Miscellaneous Customer Accounts Expenses**

This account shall include the cost of labor, materials used and expenses incurred not provided for in other accounts.

Labor

1. General clerical and stenographic work.
2. Miscellaneous labor.

Materials and expenses

3. Communication service.
4. Miscellaneous office supplies and expenses and stationery and printing other than those specifically provided for in accounts 902 and 903.

**Comparison Group**

Electric utilities included in the comparison group are shown in the table below. These are companies whose FERC Form 1 show amounts for accounts 903 and 905.

Kentucky	<ul style="list-style-type: none"> <li>• Kentucky Power</li> <li>• Kentucky Utilities</li> </ul>	<ul style="list-style-type: none"> <li>• Louisville Gas &amp; Electric</li> <li>• Union Light, Heat &amp; Power</li> </ul>
Illinois	<ul style="list-style-type: none"> <li>• Commonwealth Edison</li> <li>• Illinois Power</li> </ul>	<ul style="list-style-type: none"> <li>• MidAmerica Energy</li> </ul>
Indiana	<ul style="list-style-type: none"> <li>• Indiana Michigan Power</li> <li>• Indianapolis Power &amp; Light</li> </ul>	<ul style="list-style-type: none"> <li>• Northern Indiana Public Service</li> <li>• Public Service of Indiana</li> </ul>
Missouri	<ul style="list-style-type: none"> <li>• Kansas City Power &amp; Light</li> </ul>	
Ohio	<ul style="list-style-type: none"> <li>• Cincinnati Gas &amp; Electric</li> <li>• Cleveland Electric</li> <li>• Columbus Southern Power</li> <li>• Dayton Power &amp; Light</li> </ul>	<ul style="list-style-type: none"> <li>• Ohio Edison</li> <li>• Ohio Power</li> <li>• Toledo Edison</li> </ul>
Tennessee	<ul style="list-style-type: none"> <li>• Kingsport Power</li> </ul>	
Virginia	<ul style="list-style-type: none"> <li>• Appalachian Power</li> </ul>	<ul style="list-style-type: none"> <li>• Virginia Electric Power</li> </ul>
West Virginia	<ul style="list-style-type: none"> <li>• Wheeling Power</li> </ul>	

Some neighboring electric utilities could not be included in the comparison group because they did not submit the necessary FERC Form 1 data.

**Comparison Approach**

The basis for this comparison is customer account services expenses per customer. KAWC's cost pool was developed to include the same expenses included in electric utility's FERC accounts 903 and 905. As shown in the graphic below, KAWC's resultant cost pool contains the expenses of Service Company locations and certain operating company expenses.

American Water	Electric Utilities
<u>Service Company</u> Pensacola & Alton Call Centers a. Customer contact b. Customer order processing c. Billing information processing d. Collections e. Correspondence processing  <u>IT Service Centers</u> a. Support expenses for the customer information system (ORCOM)  <u>Kentucky American Water</u> a. Payment processing	FERC Acct 903 - Records and Collection Expense and FERC Acct 905 - Misc Customer Accounts Expense a. Customer contact b. Customer order processing c. Bill preparation and mailing d. Collections e. Payment processing f. Correspondence processing

**KAWC Cost Per Customer**

In order to make a valid comparison to neighboring electric utilities, certain adjustments had to be made to the applicable Service Company charges to KAWC. It was necessary to adjust the National Call Center charges because electric utilities experience an average of 2.50 calls per customer compared to American Water's 1.28 calls per customer. Thus, National Call Center expenses had to be increased, for comparison purposes, to reflect its costs at a 2.50 calls per customer level. As shown below, KAWC's adjusted annual expense per customer is \$26.18—the number that can be compared to neighboring electric utilities' expenses.

**Kentucky-American 2006 Cost Per Customer**

Cost Component		2006 Service Co Charges	Adjustment Fewer Calls For Water Cos. (A)	Adjusted
<b>Service Company</b>				
Call Centers	Call processing, order processing, credit, bill collection	\$ 1,315,990	\$ 1,254,303	\$ 2,570,294
Regional Offices		\$ 156,227		\$ 156,227
IT/Data Centers	Bill preparation and mailing	\$ 274,661		\$ 274,661
Operating Company	Customer payment processing			\$ 152,198 <small>Note B</small>
Cost Pool Total				\$ 3,153,378
Total Customers				116,865
<b>2006 Cost Per Kentucky-American Customer</b>				<b>\$ 26.98</b>

Note A: Adjustment for American Water's fewer calls per customer

This adjustment is necessary because water utilities experience fewer calls per customer than do electric utilities

Test year annualized Call Center charges	\$ 1,315,990
Electric utility industry's avg calls/customer	2.50
American Water's avg calls/customer	1.28
Percent different	95%
Total Adjustment B	\$ 1,254,303

Note B: Estimated customer payment processing expenses

Number of customers	116,865
Number of payments/customer/year	12
Total payments processed/year	1,402,380
Bank charge per item	\$ 0.1085
Total estimated annual expense	\$ 152,198

### Electric Utility Group Cost Per Customer

Schedule 10 shows the actual 2005 customer accounts expense per customer calculation for the electric utility comparison group. All of the underlying data was taken from the utilities' FERC Form 1.

### Summary Of Results

As shown in the table below, KAWC's cost per customer is near the average of the electric utility comparison group. It can therefore be concluded that the customer accounts-related expenses, including those of the Alton and Pensacola Call Centers, assigned by the Service Company to KAWC are reasonable.

<b>Average Customer Accounts Expense Per Customer</b>	
Louisville Gas & Electric	\$ 12.43
Illinois Power	\$ 14.01
Virginia Electric Power	\$ 15.77
Ohio Edison	\$ 16.68
Cleveland Electric Illuminating	\$ 17.15
Dayton Power & Light	\$ 19.72
Toledo Edison	\$ 21.45
Indianapolis Power & Light	\$ 21.91
Kentucky Utilities	\$ 24.87
Union Heat, Light & Power	\$ 25.64
Public Service of Indiana	\$ 26.02
<b>Comparison Group Average</b>	<b>\$ 26.07</b>
Kansas City Power & Light	\$ 26.64
<b>Kentucky American Water</b>	<b>\$ 26.98</b>
Wheeling Power	\$ 29.20
Cincinnati Gas & Electric	\$ 30.50
MidAmerican Energy	\$ 31.14
Indiana Michigan Power	\$ 31.50
Kingsport Power	\$ 32.18
Ohio Power	\$ 32.30
Appalachian Power	\$ 32.40
Commonwealth Edison	\$ 33.43
Kentucky Power	\$ 34.25
Columbus & Souther Power	\$ 35.49
Northern Indiana Public Service	\$ 35.82



**Kentucky American Water Company**  
**Comparison Group 2005 Actual Customer Accounts Expense Per Customer**

	West Virginia	Kentucky			Virginia		
	Wheeling Power	Kentucky Power	Kentucky Utilities	Louisville Gas & Electric	Union Light, Heat & Power	Appalachian Power	Virginia Electric Power
<b>Customer Account Management Cost Pool</b>							
FERC Account Balances:							
Acct 903 - Customer Records & Collection (page 322, line 131)	\$ 1,124,907	\$ 5,669,498	\$ 10,832,569	\$ 4,279,581	\$ 2,787,640	\$ 28,324,797	\$ 27,055,213
Acct 905 - Misc Customer Accounts (page 322, line 133)	\$ 3,916	\$ 15,566	\$ 130,794	\$ 276,482	\$ 96,072	\$ 65,026	\$ -
Subtotal	\$ 1,128,823	\$ 5,685,064	\$ 10,963,363	\$ 4,556,063	\$ 2,883,712	\$ 28,389,823	\$ 27,055,213
Add: Employee Benefits & Employer FICA (not included in above amounts)							
Account 926 - Employee Pension & Benefits <b>Note A</b>	\$ 45,742	\$ 180,973	\$ 1,641,361	\$ 265,773	\$ 279,291	\$ 1,155,330	\$ 6,548,241
Account 408 - Taxes Other Than Income (Employer's Portion of FICA) <b>Note B</b>	\$ 31,178	\$ 135,759	\$ 358,923	\$ 62,820	\$ 195,943	\$ 850,432	\$ 2,461,320
<b>Total Cost Pool</b>	<b>\$ 1,205,743</b>	<b>\$ 6,001,796</b>	<b>\$ 12,963,648</b>	<b>\$ 4,884,656</b>	<b>\$ 3,358,947</b>	<b>\$ 30,395,584</b>	<b>\$ 36,064,774</b>
Total Customers (page 304, line 43)	41,294	175,255	521,342	392,998	131,028	938,029	2,287,193
<b>Customer Account Services Expense per Customer</b>	<b>\$ 29.20</b>	<b>\$ 34.25</b>	<b>\$ 24.87</b>	<b>\$ 12.43</b>	<b>\$ 25.64</b>	<b>\$ 32.40</b>	<b>\$ 15.77</b>
<b>Note A:</b> Calculation of <u>Pension &amp; Benefits</u> Pertaining to Customer Acct Mgmt							
Account 926 - Employee Pension & Benefits (page 323, line 158)	\$ 486,262	\$ 3,634,365	\$ 22,757,866	\$ 21,039,968	\$ 3,124,822	\$ 17,426,702	\$ 130,305,500
Total Payroll (page 355, line 96)	\$ 4,332,473	\$ 35,638,655	\$ 65,053,063	\$ 65,008,192	\$ 28,657,418	\$ 167,682,274	\$ 640,242,951
Total Benefits as Percent of Payroll	11.2%	10.2%	35.0%	32.4%	10.9%	10.4%	20.4%
Payroll Charged to Customer Accts Expenses (page 354, line 6)	\$ 407,551	\$ 1,774,628	\$ 4,691,810	\$ 821,173	\$ 2,561,351	\$ 11,116,753	\$ 32,174,121
Pension & Benefits Pertaining to Customer Accts Expenses	\$ 45,742	\$ 180,973	\$ 1,641,361	\$ 265,773	\$ 279,291	\$ 1,155,330	\$ 6,548,241
<b>Note B:</b> Calculation of <u>Employer's FICA</u> Pertaining to Customer Acct Mgmt							
Payroll Charged to Customer Accts Expenses (page 354, line 6)	\$ 407,551	\$ 1,774,628	\$ 4,691,810	\$ 821,173	\$ 2,561,351	\$ 11,116,753	\$ 32,174,121
Employer's Portion of FICA (6.20%) and Medicare (1.45%)	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
Estimated Employer's Portion of FICA	\$ 31,178	\$ 135,759	\$ 358,923	\$ 62,820	\$ 195,943	\$ 850,432	\$ 2,461,320

**Kentucky American Water Company**  
**Comparison Group 2005 Actual Customer Accounts Expense Per Customer**

		Ohio						
		Cin Gas & Electric	Cleveland Electric Illum.	Columbus Southern Pwr	Dayton Power & Light	Ohio Edison	Ohio Power	Toledo Edison
<b>Customer Account Services Cost Pool</b>								
FERC Account Balances:								
Acct 903 - Customer Records & Collection (page 322, line 131)		\$ 16,957,239	\$ 11,230,608	\$ 23,820,271	\$ 8,492,898	\$ 14,841,763	\$ 21,665,275	\$ 5,303,736
Acct 905 - Misc Customer Accounts (page 322, line 133)		\$ 330,392	\$ 548,454	\$ 43,621	\$ -	\$ 606,191	\$ 57,486	\$ 473,314
Subtotal		\$ 17,287,631	\$ 11,779,062	\$ 23,863,892	\$ 8,492,898	\$ 15,447,954	\$ 21,722,761	\$ 5,777,050
Add: Employee Benefits & Employer FICA (not included in above amounts)								
Account 926 - Employee Pension & Benefits	<b>Note A</b>	\$ 2,385,460	\$ 950,879	\$ 861,354	\$ 1,102,139	\$ 1,332,841	\$ 675,068	\$ 745,337
Account 408 - Taxes Other Than Income (Employer's Portion of FICA)	<b>Note B</b>	\$ 994,470	\$ 333,890	\$ 447,526	\$ 491,627	\$ 471,882	\$ 497,301	\$ 183,541
<b>Total Cost Pool</b>		<b>\$ 20,667,561</b>	<b>\$ 13,063,831</b>	<b>\$ 25,172,772</b>	<b>\$ 10,086,663</b>	<b>\$ 17,252,677</b>	<b>\$ 22,895,130</b>	<b>\$ 6,705,928</b>
Total Customers (page 304, line 43)		677,662	761,559	709,305	511,595	1,034,352	708,823	312,698
<b>Customer Account Services Expense per Customer</b>		<b>\$ 30.50</b>	<b>\$ 17.15</b>	<b>\$ 35.49</b>	<b>\$ 19.72</b>	<b>\$ 16.68</b>	<b>\$ 32.30</b>	<b>\$ 21.45</b>
<b>Note A:</b> Calculation of <u>Pension &amp; Benefits</u> Pertaining to Customer Acct Mgmt								
Account 926 - Employee Pension & Benefits (page 323, line 158)		\$ 47,475,767	\$ 15,685,439	\$ 12,034,999	\$ 15,099,058	\$ 18,208,700	\$ 17,071,647	\$ 9,733,958
Total Payroll (page 355, line 96)		\$ 258,720,076	\$ 71,996,883	\$ 81,737,364	\$ 88,041,518	\$ 84,269,929	\$ 164,393,699	\$ 31,333,451
Total Benefits as Percent of Payroll		18.4%	21.8%	14.7%	17.1%	21.6%	10.4%	31.1%
Payroll Charged to Customer Accts Expenses (page 354, line 6)		\$ 12,999,608	\$ 4,364,576	\$ 5,850,008	\$ 6,426,492	\$ 6,168,392	\$ 6,500,661	\$ 2,399,227
Pension & Benefits Pertaining to Customer Accts Expenses		\$ 2,385,460	\$ 950,879	\$ 861,354	\$ 1,102,139	\$ 1,332,841	\$ 675,068	\$ 745,337
<b>Note B:</b> Calculation of <u>Employer's FICA</u> Pertaining to Customer Acct Mgmt								
Payroll Charged to Customer Accts Expenses (page 354, line 6)		\$ 12,999,608	\$ 4,364,576	\$ 5,850,008	\$ 6,426,492	\$ 6,168,392	\$ 6,500,661	\$ 2,399,227
Employer's Portion of FICA (6.20%) and Medicare (1.45%)		7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
Estimated Employer's Portion of FICA		\$ 994,470	\$ 333,890	\$ 447,526	\$ 491,627	\$ 471,882	\$ 497,301	\$ 183,541

**Kentucky American Water Company**  
**Comparison Group 2005 Actual Customer Accounts Expense Per Customer**

	<b>Missouri</b>		<b>Illinois</b>		<b>Tennessee</b>
	Kansas City Power & Light	Commonwealth Edison	Illinois Power	MidAmerica Energy	Kingsport Power
<b>Customer Account Services Cost Pool</b>					
FERC Account Balances:					
Acct 903 - Customer Records & Collection (page 322, line 131)	\$ 11,049,856	\$ 106,497,723	\$ 6,940,415	\$ 14,864,999	\$ 1,433,975
Acct 905 - Misc Customer Accounts (page 322, line 133)	\$ 7,221	\$ -	\$ 307,504	\$ 710,122	\$ 2,709
Subtotal	\$ 11,057,077	\$ 106,497,723	\$ 7,247,919	\$ 15,575,121	\$ 1,436,684
Add: Employee Benefits & Employer FICA (not included in above amounts)					
Account 926 - Employee Pension & Benefits <b>Note A</b>	\$ 1,617,439	\$ 11,760,247	\$ 620,503	\$ 2,651,407	\$ 19,249
Account 408 - Taxes Other Than Income (Employer's Portion of FICA) <b>Note B</b>	\$ 589,767	\$ 5,811,184	\$ 614,028	\$ 1,273,961	\$ 22,989
<b>Total Cost Pool</b>	<b>\$ 13,264,283</b>	<b>\$ 124,069,155</b>	<b>\$ 8,482,450</b>	<b>\$ 19,500,489</b>	<b>\$ 1,478,923</b>
Total Customers (page 304, line 43)	497,877	3,711,762	605,279	626,226	45,960
<b>Customer Account Services Expense per Customer</b>	<b>\$ 26.64</b>	<b>\$ 33.43</b>	<b>\$ 14.01</b>	<b>\$ 31.14</b>	<b>\$ 32.18</b>
<b>Note A:</b> Calculation of <u>Pension &amp; Benefits</u> Pertaining to Customer Acct Mgmt					
Account 926 - Employee Pension & Benefits (page 323, line 158)	\$ 39,543,929	\$ 72,745,805	\$ 11,558,108	\$ 40,108,225	\$ 260,234
Total Payroll (page 355, line 96)	\$ 188,482,542	\$ 469,888,402	\$ 149,509,773	\$ 251,913,704	\$ 4,062,743
Total Benefits as Percent of Payroll	21.0%	15.5%	7.7%	15.9%	6.4%
Payroll Charged to Customer Accts Expenses (page 354, line 6)	\$ 7,709,375	\$ 75,963,195	\$ 8,026,507	\$ 16,653,088	\$ 300,515
Pension & Benefits Pertaining to Customer Accts Expenses	\$ 1,617,439	\$ 11,760,247	\$ 620,503	\$ 2,651,407	\$ 19,249
<b>Note B:</b> Calculation of <u>Employer's FICA</u> Pertaining to Customer Acct Mgmt					
Payroll Charged to Customer Accts Expenses (page 354, line 6)	\$ 7,709,375	\$ 75,963,195	\$ 8,026,507	\$ 16,653,088	\$ 300,515
Employer's Portion of FICA (6.20%) and Medicare (1.45%)	7.65%	7.65%	7.65%	7.65%	7.65%
Estimated Employer's Portion of FICA	\$ 589,767	\$ 5,811,184	\$ 614,028	\$ 1,273,961	\$ 22,989

**Kentucky American Water Company**  
**Comparison Group 2005 Actual Customer Accounts Expense Per Customer**

	Indiana				Group Average
	Indiana Michigan Pwr	Indianapolis Power & Light	NIPSCO	Pub Service of Indiana	
<b>Customer Account Services Cost Pool</b>					
FERC Account Balances:					
Acct 903 - Customer Records & Collection (page 322, line 131)	\$ 17,053,003	\$ 7,326,360	\$ 14,221,619	\$ 14,922,938	\$ 376,696,883
Acct 905 - Misc Customer Accounts (page 322, line 133)	\$ 44,548	\$ 397,889	\$ 145,257	\$ 121,962	\$ 4,384,526
Subtotal	\$ 17,097,551	\$ 7,724,249	\$ 14,366,876	\$ 15,044,900	\$ 381,081,409
Add: Employee Benefits & Employer FICA (not included in above amounts)					
Account 926 - Employee Pension & Benefits <b>Note A</b>	\$ 718,820	\$ 1,899,860	\$ 1,155,339	\$ 3,726,773	\$ 42,339,427
Account 408 - Taxes Other Than Income (Employer's Portion of FICA) <b>Note B</b>	\$ 434,513	\$ 514,872	\$ 470,395	\$ 977,535	\$ 18,225,856
<b>Total Cost Pool</b>	<b>\$ 18,250,885</b>	<b>\$ 10,138,981</b>	<b>\$ 15,992,610</b>	<b>\$ 19,749,208</b>	<b>\$ 441,646,693</b>
Total Customers (page 304, line 43)	579,376	462,837	446,495	758,912	16,937,857
<b>Customer Account Services Expense per Customer</b>	<b>\$ 31.50</b>	<b>\$ 21.91</b>	<b>\$ 35.82</b>	<b>\$ 26.02</b>	<b>\$ 26.07</b>
<b>Note A:</b> Calculation of <u>Pension &amp; Benefits</u> Pertaining to Customer Acct Mgmt					
Account 926 - Employee Pension & Benefits (page 323, line 158)	\$ 26,142,933	\$ 32,170,538	\$ 31,993,279	\$ 62,558,153	\$ 651,166,257
Total Payroll (page 355, line 96)	\$ 206,573,891	\$ 113,965,747	\$ 170,274,964	\$ 214,497,393	\$ 3,556,277,105
Total Benefits as Percent of Payroll	12.7%	28.2%	18.8%	29.2%	18.3%
Payroll Charged to Customer Accts Expenses (page 354, line 6)	\$ 5,679,911	\$ 6,730,350	\$ 6,148,956	\$ 12,778,240	\$ 238,246,488
Pension & Benefits Pertaining to Customer Accts Expenses	\$ 718,820	\$ 1,899,860	\$ 1,155,339	\$ 3,726,773	\$ 43,623,730
<b>Note B:</b> Calculation of <u>Employer's FICA</u> Pertaining to Customer Acct Mgmt					
Payroll Charged to Customer Accts Expenses (page 354, line 6)	\$ 5,679,911	\$ 6,730,350	\$ 6,148,956	\$ 12,778,240	\$ 238,246,488
Employer's Portion of FICA (6.20%) and Medicare (1.45%)	7.65%	7.65%	7.65%	7.65%	7.65%
Estimated Employer's Portion of FICA	\$ 434,513	\$ 514,872	\$ 470,395	\$ 977,535	\$ 18,225,856

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## VI - Need For Service Company Services

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### Analysis Of Services

The final aspect of this study was an assessment of whether the services that are provided to KAWC by the Service Company would be necessary if KAWC were a stand-alone water utility. The first step in this evaluation was to determine specifically what the Service Company does for KAWC. Based on discussions with Service Company personnel, the matrix in Schedule 11 was created showing which entity—KAWC or a Service Company location—is responsible for each of the functions KAWC requires to ultimately provide service to its customers. This matrix was reviewed to determine: (1) if there was redundancy or overlap in the services being provided by the Service Company and (2) if Service Company services are typical of those needed by a stand-alone water utility.

Upon review of Schedule 11, the following conclusions can be drawn:

- The services that the Service Company provides are necessary and would be required even if KAWC were a stand-alone water utility.
- There is no redundancy or overlap in the services provided by the Service Company to KAWC. For all of the services listed in Schedule 11, there was only one entity that was primarily responsible for the service.

**Kentucky American Water Company  
 Designation Of Responsibility For Water Utility Functions**

Water Company Function	Kentucky American	Performed By: American Water Service Company					
		Customer Call Centers	Regional Office	Shared Services	Corporate Office	IT Service Centers	Belleville Lab
<b>Engineering and Construction Management</b>							
CPS Preparation	S		P		S		
Five-Year System Planning	S		S				
Engineering Standards & Policies Development					P		
Project Design							
Major Projects (e.g., new treatment plant)	S		P		S		
Special Projects	P		S		S		
Minor Projects (e.g., pipelines)	P						
Construction Project Management							
Major Projects	S		P				
Special Projects	S		P				
Minor Projects							
Hydraulics Review	S		P				
Developers Extensions	P						
Tank Painting	P		S				
<b>Water Quality and Purification</b>							
Water Quality Standards Development			S		S		P
Research Studies	S				S		P
Water Quality Program Implementation	P		S		S		
Water Treatment Operations & Maintenance	P		S		S		
Compliance Sampling	P		S				S
Testing/Other Sampling	S		S		S		P
<b>Transmission and Distribution</b>							
Preventive Maintenance Program Development	P						
System Maintenance	P						
Leak Detection	P		S				
<b>Customer Service</b>							
Community Relations	P		S		S		
Customer Contact	S						
Call Processing		P					
Service Order Creation	S		S				
Service Order Processing	P						
Customer Credit							
Meter Reading	P						S
Customer Bill Preparation							P
Bill Collection	S						S
Customer Payment Processing	S			P			
Meter Standards Development			S		P		
Meter Testing, Maintenance & Replacement	P		S				

**Kentucky American Water Company  
 Designation Of Responsibility For Water Utility Functions**

Water Company Function	Primarily Responsible Provides Support	Performed By:					
	P S	American Water Service Company					
	Kentucky American	Customer Call Centers	Regional Office	Shared Services	Corporate Office	IT Service Centers	Belleville Lab
<b>Financial Management</b>							
Financial Planning	P		P		S		
Financings—Equity					S		
Financings--Long Term Debt & Preferred (A)	S		P				
Short Term Lines of Credit Arrangements (A)	S		P				
Investor Relations			S		P		
Insurance Program Administration					P		
Loss Control/Safety Program Administration	S		P		S		
Pension Fund Asset Management					P		
Cash Management/Disbursements				P			
<b>Internal Auditing</b>					P		
<b>Budgeting and Variance Reporting</b>					P		
Corporate Guidelines & Instructions					P		
Regional Guidelines & Instructions			P				
Budget Preparation							
Revenue	P		S				
O&M	P		S				
Depreciation and Interest Expense	S		S				
Budget Preparation--Service Company Charges		S	P	P	S	S	S
Capital Budget Preparation—Projects	P		S				
Capital Budget Preparation--Non-Project Work							
Prepare Monthly Budget Variance Report ("Budget/Plan Analysis")	P		S				
Prepare Capital Project Budget Status Report	S		P				
Year-End Projections	P		S				
<b>Accounting and Taxes</b>							
Accounts Payable Accounting	S			P			
Payroll Accounting	S			P			
Work Order Accounting	S			P			
Fixed Asset Accounting	S			P			
Journal Entry Preparation--Billing Corrections	S			P			
Journal Entry Preparation--All Others	S			P			
Financial Statement Preparation				P			
State Commission Reporting	S		S	P			
Income Taxes—State				P			
Income Taxes—Federal				P			
Property Taxes	S			P			
Gross Receipts Taxes	S			P			

Note A: Financings and lines of credit are the responsibility of American Capital Corporation

**Kentucky American Water Company  
 Designation Of Responsibility For Water Utility Functions**

Water Company Function	Kentucky American	Performed By: American Water Service Company					
		Customer Call Centers	Regional Office	Shared Services	Corporate Office	IT Service Centers	Belleville Lab
<b>Rates</b>							
Rate Studies & Tariff Change Administration	S		P				
Rate Case Planning and Preparation	S		P				
Rate Case Administration	S		P				
Commission Inquiry Response	S		P				
<b>Legal</b>			P		S		
<b>Purchasing and Materials Management</b>							
Specification Development	S		S	S	P		
Bid Solicitation	S			P			
Contract Administration	S			P			
Ordering	P						
Inventory Management	P			S			
<b>Human Resources Management</b>							
Benefit Program Development					P		
Benefits Program Administration	S		P				
Management Compensation Administration					P		
Wage & Salary Program Design					P		
Wage & Salary Administration	S		P				
Labor Negotiations--Wages	S		P				
Labor Negotiations--Benefits					P		
Labor Negotiations--Work Rules	S		P				
Training Program Development	S		S		P		
Training--Course Delivery	P						
Affirmative Action/EEO--Plan Development	P						
Affirmative Action/EEO--Implementation	P						
<b>Information Systems Services</b>							
Service Company Data Centers							
System Operations & Maintenance						P	
Software Maintenance						P	
Network Administration			P			S	
PC Acquisition & Support			P			S	
Help Desk			S			P	



## Governance Practices Associated With Service Company Charges

There are several ways by which KAWC exercises control over Service Company services and charges. The most important of these are described below.

- **Regional President Oversight** – The Regional President of the Southeast Region is on the Executive Management Team (EMT) of American Water. The Regional President is responsible for the overall performance of each operating company in the region, including PAWC, VAWC, WVAWC, KAWC, KAWC and MAWC. As part of the EMT, each Regional President has equal say with other EMT members in major business decisions of American Water and has the ability to monitor Service Company performance quality and spending. The regional president has dialogue with each operating sub president to address their local concerns.
- **Regional Vice President & Treasurer** – The Regional Vice President and Treasurer of the Southeast Region is responsible for the financial reporting, performance and internal controls of each of the operating companies in the region. The Vice President and Treasurer monitor the performance and reporting from the Service Company and pushes back whenever the quality and service are not appropriate. The operating sub interacts with the regional VP & Treasurer to discuss any concerns with billings, etc.
- **Operating Company Board Oversight** – KAWC board of directors includes members of American Water’s EMT, members of the regional management team and business and community leaders from outside the Company. This helps ensure that KAWC’s needs are a factor in the delivery of Service Company services.
- **Service Company Budget Review/Approval** – Every operating company’s regional president sits on the Service Company board and that board must formally approve the budget for Service Company charges for the next year. These budgeted charges are consolidated with the operating company’s own spending into an overall budget which must be approved by the operating company’s board of directors. KAWC’s president is chairman of the local board.
- **Major Project Review And Approval** – Major projects undertaken by the Service Company must first be reviewed by American Water’s Executive Management Team, which includes the Regional President. The Regional President, with input from the regional management team (including president of KAWC) has the ability to impact all new initiatives and projects before they are authorized.
- **Service Company Bill Scrutiny** – Regional office personnel review the monthly Service Company bill for accuracy and reasonableness on a monthly basis. Local subsidiary financial analyst has dialogue with regional office personnel on the monthly bill and any mistakes or overcharges are credited on a subsequent billing.
- **Service Company Budget Variance Reporting** – Each month, a summary variance analysis is prepared that explains differences between budgeted and actual Service Company spending. In addition, a more detailed monthly variance report, called the “Statement of Expenses and Billed Charges,” is produced by Service Company location and shows actual spending for the month.
- **Operating Company Budget Variance Reporting** – The “Budget/Plan Analysis,” produced monthly by each operating company, has a line item for Management Fees (i.e., Service Company charges). In this way, Service Company budget versus actual charges can be monitored for the month and year-to-date.

- **Capital Investment Management (CIM)** – CIM is one of American Water's primary business planning processes. It covers capital and asset planning and is employed throughout American Water and Thames Water. The current CIM process and procedures were established in 2003 as part of an initiative to implement leading water industry practices. CIM provides a full range of governance practices, including a formal protocol for assessing system needs, prioritizing expenditures, managing the capital program, approving project spending, delivering projects and measuring outputs. CIM ensures that:
  - Capital expenditure plans are aligned with the strategic intent of the business,
  - The impact of capital expenditure and income plans are fully reflected in operating expense plans,
  - The impacts of these plans are understood and affordable, and
  - Effective controls are in place over budgets (through business plans) and individual capital projects (through appropriate authorization thresholds, management and reporting processes).

The CIM process was designed to optimize the effectiveness of asset investment. The process is managed at three levels for all American Water companies, including all KAWC Operating Units. Monthly meetings are held to review projects and when appropriate, KAWC is represented locally by appropriate parties.