

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2007-00143**  
**PUBLIC SERVICE COMMISSION'S FIRST SET OF INFORMATION REQUESTS**  
**ITEMS 1 – 33**

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Witness Responsible:

Michael A. Miller

3. Provide a complete copy of all Kentucky-American budget instructions, assumptions, directives, manuals, policies and procedures, timelines, and descriptions of budget procedures.

Response:

Attached are budget assumptions, however, different ST & LT interest rates were used in the case based on the latest "Value Line" forecasts per the testimony of Mr. Michael A. Miller. For the electronic version, refer to KAW\_R\_PSCDR1#3\_052107.pdf.

**AMERICAN WATER**  
**Business Plan Assumptions**  
**May 10, 2006**

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<b>Financial</b>					
WACC	7.5%	7.5%	7.5%	7.5%	7.5%
Short Term Interest Rate	5.5%	5.5%	5.5%	5.5%	5.5%
LongTerm Interest Rate	6.3%	6.3%	6.3%	6.3%	6.3%
Federal Income Tax Rate	35.0%	35.0%	35.0%	35.0%	35.0%
FX Rate	\$/CDN\$ 1.120	1.120	1.120	1.120	1.120
Consumer Price Index	2.5%	2.5%	2.5%	2.5%	2.5%
<b>People Related</b>					
Annual Wage Increase	4.0%	4.0%	4.0%	4.0%	4.0%
Health Insurance (Active)					
- Regulated Weighted Avg	11,551	12,591	13,724	14,959	16,305
- Non-Regulated Weighted Avg	7,512	8,188	8,925	9,728	10,604
Social Security (% Salary)	The social security rate is 7.65% for employee and employer. The social security portion is 6.20% on earnings up to \$94,200 in 2006. The Medicare portion is 1.45% on all earnings.				
Pension Load (% Salary)					
Post-Retirement Welfare (% Salary)					
Bonus Calculation (as a % of target)	100%	100%	100%	100%	100%
<b>Commodities (over 2006 actual prices)</b>					
Electricity	Determined locally				
Chemicals	6.5%	3.0%	2.5%	2.5%	2.5%
Chlorine	7.0%	3.5%	2.5%	2.5%	2.5%
Fleet	5.0%	2.5%	2.5%	2.5%	2.5%
Fuel	5.0%	2.5%	2.5%	2.5%	2.5%
Residuals	2.0%	2.5%	2.5%	2.5%	2.5%
Travel	2.5%	2.5%	2.5%	2.5%	2.5%