

ASSOCIATION OF
MANAGEMENT
CONSULTING
FIRMS 

*Operating Ratios
For Management
Consulting Firms*

A Resource for
Benchmarking

2006 United States Edition

Detailed Tables—Total Consulting Fees

	LESS THAN \$2,000,000		\$2,000,000 TO \$4,999,999		\$5,000,000 TO \$19,999,999		\$20,000,000 & OVER	
	Typical	Middle Range	Typical	Middle Range	Typical	Middle Range	Typical	Middle Range
EMPLOYEE DEVELOPMENT								
Prof Development Expense (time @ total salary & bonus compensation cost, and \$ spent):								
As a % of Total Consulting Fee Revenues Per Consulting Associate	8.7%	ISD - ISD	2.5%	1.0 - 2,166	1.9%	1.5 - 3,590	2.3%	1.8 - 5,365
	\$11,649	ISD - ISD	\$5,659	10,022	\$4,099	13,527	\$6,888	9,297
BUSINESS DEVELOPMENT COSTS								
Total Business Development Costs (time @ total salary & bonus compensation cost, and \$ spent):								
As a % of Total Consulting Fee Revenues	8.6%	13.0	8.8%	3.6 - 11.5	7.6%	3.6 - 10.3	8.9%	6.8 - 9.0
As a % of New Client Fees	30.6%	22.9 - 41.4	23.2%	20.0 - 103.9	18.2%	14.1 - 32.4	32.4%	23.4 - 39.0
BILLING RATES								
Hourly Billing Rate for Employees Earning:								
\$35,000/Yr Base Salary	\$68	49 - 101	\$85	55 - 125	\$75	ISD - ISD	\$100	85 - 121
\$60,000/Yr Base Salary	\$98	78 - 121	\$168	130 - 215	\$145	115 - 171	\$159	151 - 160
\$75,000/Yr Base Salary	\$150	114 - 205	\$210	195 - 225	\$178	141 - 199	\$200	185 - 217
\$125,000/Yr Base Salary	\$200	149 - 266	\$250	195 - 325	\$263	221 - 325	\$275	267 - 290
Billing Rates to Earnings: Multipliers:								
Overall Company								
\$35,000/Yr Consultant (Base Salary)	3.7 TIMES	2.8 - 3.9	4.9 TIMES	4.0 - 6.2	4.6 TIMES	ISD - ISD	5.3 TIMES	5.0 - 6.0
\$60,000/Yr Consultant (Base Salary)	4.0 TIMES	2.9 - 6.0	5.1 TIMES	3.3 - 7.4	4.5 TIMES	ISD - ISD	5.9 TIMES	5.1 - 7.2
\$75,000/Yr Consultant (Base Salary)	3.4 TIMES	2.7 - 4.2	5.8 TIMES	4.5 - 7.5	5.0 TIMES	4.0 - 5.9	5.5 TIMES	5.2 - 5.6
\$125,000/Yr Consultant (Base Salary)	4.2 TIMES	3.2 - 5.7	5.8 TIMES	4.2 - 6.2	4.9 TIMES	3.9 - 5.5	5.6 TIMES	5.1 - 6.0
	3.3 TIMES	2.5 - 4.4	4.2 TIMES	3.2 - 5.4	4.4 TIMES	3.7 - 5.4	4.6 TIMES	4.4 - 4.8
Standard Hourly Billing Rates for:								
Senior Partners or Equivalent	\$250	200 - 283	\$283	241 - 420	\$395	325 - 465	\$373	350 - 515
Junior Partners or Equivalent	\$263	ISD - ISD	\$311	211 - 406	\$328	291 - 381	\$314	292 - 416
Senior Management Consultants	\$143	116 - 188	\$205	164 - 280	\$260	216 - 325	\$251	245 - 335
Management Consultants	\$110	90 - 160	\$163	150 - 244	\$205	163 - 244	\$208	190 - 249
Entry Level Consultants	\$75	ISD - ISD	\$174	ISD - ISD	\$163	116 - 181	\$157	135 - 194
Research Associates	ISD	ISD - ISD	\$128	ISD - ISD	ISD	ISD - ISD	\$122	74 - 149
Maximum Hourly Billing Rates for:								
Senior Partners or Equivalent	\$250	220 - 308	\$325	260 - 469	\$400	375 - 600	\$600	470 - 645
Junior Partners or Equivalent	ISD	ISD - ISD	\$320	215 - 429	\$375	330 - 453	\$450	ISD - ISD
Senior Management Consultants	\$175	175 - 175	\$250	160 - 290	\$325	240 - 400	\$400	313 - 452
Management Consultants	\$125	110 - 160	\$225	160 - 250	\$235	208 - 301	\$290	250 - 373
Entry Level Consultants	ISD	ISD - ISD	\$175	ISD - ISD	\$183	164 - 210	\$260	215 - 288
Research Associates	ISD	ISD - ISD	\$143	ISD - ISD	ISD	ISD - ISD	\$193	118 - 241
% Increase Last Yr in Billing Rates for:								
Senior Partners or Equivalent	4.0%	0.0 - 5.0	5.0%	2.5 - 10.0	8.0%	2.5 - 11.5	3.3%	3.0 - 8.0
Junior Partners or Equivalent	ISD	ISD - ISD	0.0%	ISD - ISD	10.5%	1.5 - 16.5	2.0%	1.0 - 6.4
Senior Management Consultants	2.0%	ISD - ISD	8.0%	2.5 - 10.0	8.0%	2.5 - 10.0	1.0%	0.0 - 3.3
Management Consultants	5.0%	ISD - ISD	10.0%	2.5 - 10.5	8.0%	3.0 - 10.0	3.3%	0.0 - 4.0
Entry Level Consultants	ISD	ISD - ISD	0.0%	ISD - ISD	2.0%	0.0 - 10.0	3.0%	2.0 - 6.0
Research Associates	ISD	ISD - ISD	ISD	ISD - ISD	ISD	ISD - ISD	3.3%	2.3 - 5.0
Total Consulting Staff	5.6%	ISD - ISD	10.0%	8.8 - 10.7	10.0%	7.1 - 11.5	3.0%	2.6 - 3.6
Typical Percentage Make-Up on Project Specific Billable Expenses -If Applicable	6.9%	0.0 - 11.3	2.3%	0.0 - 0.0	1.2%	0.0 - 1.0	0.0%	0.0 - 0.0

**Kentucky American Water Company
Management Consultant Billing Rates
Company Witness: Patrick Baryenbruch**

A Calculation of Average Hourly Billing Rate by Consultant Position
Survey billing rates were those in effect in 2005 (Note A)

		Average Hourly Rates (Note A)				
		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	\$ 212

Escalation to Test Year Mid-Point June 30, 2006 (Note 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 Consultants At June 30, 2006	\$ 218

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/cpia1.txt)

Calculation From Survey

		Average Standard Hourly Rates (Note A)				
		Entry-Level Consultant	Associate Consultant	Senior Consultant	Junior Partner	Senior Partner
<u>Typical Rate By Firm Size</u>						
<u>Less than \$2 million</u>						
	Range - Low	\$ 90	\$ 116			\$ 200
	Range - High	\$ 160	\$ 188			\$ 283
	Average	\$ 75	\$ 125	\$ 152	\$ 263	\$ 242
<u>\$2-\$5 million</u>						
	Range - Low	\$ 150	\$ 164	\$ 211	\$ 241	
	Range - High	\$ 244	\$ 280	\$ 406	\$ 420	
	Average	\$ 174	\$ 197	\$ 222	\$ 309	\$ 331
<u>\$5 - \$20 million</u>						
	Range - Low	\$ 116	\$ 163	\$ 216	\$ 291	\$ 325
	Range - High	\$ 181	\$ 244	\$ 325	\$ 381	\$ 465
	Average	\$ 149	\$ 204	\$ 271	\$ 336	\$ 395
<u>\$20 million and over</u>						
	Range - Low	\$ 135	\$ 190	\$ 245	\$ 292	\$ 350
	Range - High	\$ 194	\$ 249	\$ 335	\$ 416	\$ 515
	Average	\$ 165	\$ 220	\$ 290	\$ 373	\$ 433
	Overall Average	\$ 141	\$ 186	\$ 234	\$ 320	\$ 350

Note: see separate hardcopy of the AMCF survey

Kentucky American Water Company
Consumer Price Index Data
Company Witness: Patrick Baryenbruch

03-16-2007

U.S. Department Of Labor
Bureau of Labor Statistics
Washington, D.C. 20212

Consumer Price Index

All Urban Consumers - (CPI-U)

U.S. city average

All items

1982=89=100

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Annual Avg.	Percent change	
														Dec- Dec	Avg- Avg
1913	9.8	9.8	9.8	9.8	9.7	9.8	9.9	9.9	10.0	10.0	10.1	10.0	9.9		
1914	10.0	9.9	9.9	9.8	9.5	9.5	10.0	10.2	10.2	10.1	10.2	10.1	10.0	1.0	1.0
1915	10.1	10.0	9.9	10.0	10.1	10.1	10.1	10.1	10.1	10.2	10.3	10.3	10.1	2.0	1.0
1916	10.4	10.4	10.5	10.6	10.7	10.8	10.8	10.9	11.1	11.3	11.5	11.6	10.9	12.6	7.9
1917	11.7	12.0	12.0	12.6	12.8	13.0	12.8	13.0	13.3	13.5	13.5	13.7	12.8	18.1	17.4
1918	14.0	14.1	14.0	14.2	14.5	14.7	15.1	15.4	15.7	16.0	16.3	16.5	15.1	20.4	18.0
1919	16.5	16.2	16.4	16.7	16.9	16.9	17.4	17.7	17.8	18.1	18.5	18.9	17.3	14.5	14.6
1920	19.3	19.5	19.7	20.3	20.6	20.9	20.8	20.3	20.0	19.9	19.8	19.4	20.0	2.6	15.6
1921	19.0	18.4	18.3	18.1	17.7	17.6	17.7	17.7	17.5	17.5	17.4	17.5	17.9	-10.8	-10.5
1922	16.9	16.9	16.7	16.7	16.7	16.7	16.8	16.6	16.6	16.7	16.8	16.9	16.8	-2.3	-6.1
1923	16.8	16.8	16.8	16.9	16.9	17.0	17.2	17.1	17.2	17.3	17.3	17.3	17.1	2.4	1.8
1924	17.9	17.7	17.1	17.0	17.0	17.0	17.1	17.0	17.1	17.2	17.2	17.3	17.1	0.0	0.0
1925	17.5	17.2	17.3	17.2	17.3	17.5	17.7	17.7	17.7	17.7	18.0	17.9	17.5	3.5	2.3
1996	154.4	154.9	155.7	156.3	156.6	156.7	157.0	157.3	157.8	158.3	158.6	158.6	156.9	3.3	3.0
1997	159.1	159.6	160.0	160.2	160.1	160.3	160.5	160.8	161.2	161.6	161.5	161.3	160.5	1.7	2.3
1998	161.6	161.8	162.2	162.5	162.8	163.0	163.2	163.4	163.6	164.0	164.0	163.9	163.0	1.6	1.6
1999	164.3	164.5	165.0	166.2	166.2	166.2	166.7	167.1	167.9	168.2	168.3	168.3	166.6	2.7	2.2
2000	168.8	169.8	171.2	171.3	171.5	172.4	172.8	172.8	173.7	174.0	174.1	174.0	172.2	3.4	3.4
2001	175.1	175.8	176.2	176.9	177.7	178.0	177.5	177.5	178.3	177.7	177.4	176.7	177.1	1.6	2.8
2002	177.1	177.8	178.8	178.8	179.8	179.9	180.1	180.7	181.0	181.3	181.3	180.9	179.9	2.4	1.6
2003	181.7	183.1	184.2	183.8	183.5	183.7	183.9	184.6	185.2	185.0	184.5	184.3	184.0	1.9	2.3
2004	185.2	186.2	187.4	188.0	189.1	189.7	189.4	189.5	189.9	190.9	191.0	190.3	188.9	3.3	2.7
2005	190.7	191.8	193.3	194.6	194.4	194.5	195.4	196.4	198.8	199.2	197.6	196.8	195.3	3.4	3.4
2006	198.9	198.7	199.8	201.5	202.5	202.9	203.5	203.9	202.9	201.8	201.5	201.8	201.6	2.5	3.2
2007	202.416	203.499													

**Kentucky American Water Company
Kentucky CPA Billing Rates
Company Witness: Patrick Baryenbruch**

A. Calculation of Average Hourly Billing Rate by Public Accounting Position
Survey billing rates were those in effect in 2005 (Note A)

Type of Firm	Average Hourly Billing Rate (Note A)			
	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

Type of Firm	Staff Accountant	Senior Accountant	Manager	Partner	Weighted Average
	Average Hourly Billing Rate (From Above)	\$ 65	\$ 77	\$ 112	
Typical Percent of Time Spent on an Accounting Assignment	30%	30%	20%	20%	
	\$ 20	\$ 23	\$ 22	\$ 30	\$ 95

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	\$ 98

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/cpiat.txt)

	Firm Size			Average
	Small	Medium	Large	
Partner				
Active Owner	\$ 111.96	\$ 149.06	\$ 190.41	\$ 150
Director/Manager				
Director		\$ 103.86	\$ 133.51	
Manager		\$ 96.00	\$ 113.82	
Average Manager		\$ 99.93	\$ 123.67	\$ 112
Senior Accountant	\$ 75.00	\$ 62.50	\$ 94.26	\$ 77
Staff Accountant				
Associate		\$ 65.00	\$ 75.42	
New Professional		\$ 50.00	\$ 70.30	
Average Staff Accountant		\$ 57.50	\$ 72.86	\$ 65

Kentucky American Water Company
2006 AICPA MAP Survey
Company Witness: Patrick Baryenbruch

PRIVATE AND CONFIDENTIAL

APPENDIX I -- GRAPHS FOR KENTUCKY

2006 National PCPS / TSCPA Management of an Accounting Practice Survey
Report prepared for: Kentucky Society of CPAs

SECTION I
SUMMARY GRAPHS

Definitions:

We have assigned you the following peer groups for benchmarking. We have attempted to group practices of comparable size, so that the performance benchmarks will be more meaningful. For more targeted benchmarks please consider visiting the online reports.

All Kentucky
Small East South Central
Medium East South Central
Large East South Central

All the respondents from the East South Central census subregion
Small firms (<\$200K in revenues) in the East South Central census subregion
Medium firms (\$300-999K in revenues) in the East South Central census subregion
Large firms (>1M+ in revenues) in the East South Central census subregion

As defined herein, "Large" refers to firms with more than \$1 million in revenue; "Medium" to firms with \$300,000 to \$1 million in revenue; and "Small" to firms with less than \$300,000 in revenue. There are also subclasses for responding firms: <\$150K, \$150-299K, \$300-\$549K, \$550-\$999K, \$1M-\$1.99M and \$2M+ in

Caveats

- Graphs may be stretched or condensed. Each report has been automatically prepared, so optimal scaling was not always possible. Actual numbers will be provided in the following tables.
- In certain cases, respondents did not provide internally consistent answers, provided "out of range" responses, or entered answers that suggested that the question had been misunderstood. In such cases, we endeavored to revise answers to reflect our best understanding of the respondent's intentions. Thus you may observe some changes to your response as entered.
- There is also an online report available for the 2006 MAP Survey that will enable respondents to define their own benchmarks.
- "Net remaining Per Owner" as shown in the report may not always exactly match firm revenues less expenses, due to input and interpretation issues.

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PRIVATE AND CONFIDENTIAL 2006 PCPS/TSCPA National Management of an Accounting Practice Report prepared for: Kentucky Society of CPAs APPENDIX II

Detailed descriptions of codes on page 1	East South Central				Midwest Region						
	All ESC	Small	Medium	Large	All Firms	<100K	100-200K	200-549K	550-999K	1M-1.99M	2M+
Number of firms	80	24	19	37	1,642	14	22	31	33	32	37
Full-Time Professional Staff -- Continued											
Realization											
Partners / Owners	63.8%	80.3%	67.0%	63.1%	62.2%	62.0%	67.5%	67.3%	63.7%	63.3%	66.1%
Directors (11+ Years Exp)	61.6%	N/A	60.6%	61.0%	66.4%	N/A	77.5%	77.2%	67.2%	76.0%	59.1%
Managers (6-10 Years Exp)	66.1%	N/A	69.2%	67.1%	69.1%	N/A	59.1%	70.1%	76.1%	77.4%	69.8%
Sr Associates (4-5 Years Exp)	70.0%	69.7%	62.1%	72.2%	72.1%	N/A	57.1%	75.4%	75.9%	77.0%	74.7%
Associates (1-3 Years Exp)	73.3%	N/A	71.1%	73.0%	72.4%	N/A	72.1%	77.5%	65.7%	76.8%	73.3%
New Professionals	74.0%	N/A	68.5%	76.0%	69.4%	N/A	N/A	N/A	78.2%	81.2%	60.5%
Average Billing Rate											
Partners / Owners	167.85	111.95	149.06	190.41	167.89	129.23	140.63	143.60	159.35	168.56	226.70
Directors (11+ Years Exp)	125.21		103.66	133.61	133.61		71.26	114.83	104.09	126.66	123.92
Managers (6-10 Years Exp)	111.53		95.00	113.82	118.45		83.00	88.79	95.77	110.99	123.33
Sr Associates (4-5 Years Exp)	89.92	75.00	62.60	94.22	99.15		80.00	72.60	81.20	92.62	120.91
Associates (1-3 Years Exp)	73.29		65.02	75.42	80.35		45.00	63.71	65.00	78.28	64.00
New Professionals	68.45		50.00	70.30	76.02				63.00	67.43	79.81
Average Compensation											
Partners / Owners	188,477	84,514	162,551	268,634	184,692	49,362	114,430	149,223	155,662	230,481	295,273
Directors (11+ Years Exp)	65,450		59,421	71,062	77,641		45,712	65,155	60,735	74,537	111,876
Managers (6-10 Years Exp)	83,867		48,502	62,008	64,717		45,807	46,620	51,207	67,250	80,444
Sr Associates (4-5 Years Exp)	48,412	48,000	33,613	48,261	54,041		42,000	40,741	47,472	48,156	62,760
Associates (1-3 Years Exp)	39,160		28,357	39,150	40,484		25,000	34,815	30,255	38,062	44,618
New Professionals	29,817		26,500	26,269	33,954				21,252	30,422	30,264
Compensation Per Compensated Hour											
Partners / Owners	\$53.37	\$40.80	\$72.70	\$109.31	\$84.09	\$26.60	\$55.07	\$60.83	\$68.07	\$101.82	\$124.35
Directors (11+ Years Exp)	\$31.36	N/A	\$28.39	\$32.45	\$35.86	N/A	\$22.05	\$35.31	\$28.40	\$34.59	\$46.77
Managers (6-10 Years Exp)	\$28.36	N/A	\$22.03	\$29.28	\$29.89	N/A	\$21.65	\$24.79	\$24.15	\$30.76	\$38.55
Sr Associates (4-5 Years Exp)	\$21.00	\$21.57	\$15.49	\$22.80	\$25.50	N/A	\$20.00	\$19.53	\$22.22	\$21.54	\$27.09
Associates (1-3 Years Exp)	\$19.00	N/A	\$16.73	\$18.66	\$19.34	N/A	\$15.46	\$18.59	\$17.62	\$18.08	\$21.15
New Professionals	\$16.00	N/A	\$12.50	\$13.60	\$18.19	N/A	N/A	N/A	\$10.35	\$10.83	\$10.77

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Kentucky American Water Company
Consumer Price Index Data
Company Witness: Patrick Baryenbruch

03-16-2007

U.S. Department Of Labor
Bureau of Labor Statistics
Washington, D.C. 20212

Consumer Price Index

All Urban Consumers - (CPI-U)

U.S. city average

All items

1982=89=100

Year	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sep.	Oct.	Nov.	Dec.	Annual Avg.	Percent change	
														Dec- Dec	Avg- Avg
1913	9.8	9.8	9.8	9.8	9.7	9.8	9.9	9.9	10.0	10.0	10.1	10.0	9.9		
1914	10.0	9.9	9.9	9.8	9.9	9.9	10.0	10.2	10.2	10.1	10.2	10.1	10.0	1.0	1.0
1915	10.1	10.0	9.9	10.0	10.1	10.1	10.1	10.1	10.2	10.2	10.3	10.3	10.1	2.0	1.0
1916	10.4	10.4	10.5	10.6	10.7	10.8	10.8	10.9	11.1	11.3	11.5	11.6	10.9	12.6	7.9
1917	11.7	12.0	12.0	12.6	12.8	13.0	12.8	13.0	13.3	13.5	13.5	13.7	12.8	18.1	17.4
1918	14.0	14.1	14.0	14.2	14.5	14.7	15.1	15.4	15.7	16.0	16.3	16.5	15.1	20.4	18.0
1919	16.5	16.2	16.4	16.7	16.9	16.9	17.4	17.7	17.8	18.1	18.5	18.9	17.3	14.5	14.6
1920	19.3	19.5	19.7	20.3	20.6	20.9	20.9	20.9	20.9	19.9	19.9	19.4	20.0	2.6	15.6
1921	19.0	18.4	18.3	18.1	17.7	17.6	17.7	17.7	17.5	17.5	17.4	17.5	17.9	-10.8	-10.5
1922	16.9	16.9	16.7	16.7	16.7	16.7	16.8	16.6	16.6	16.7	16.8	16.9	16.8	-2.3	-6.1
1923	16.8	16.8	16.8	16.9	16.9	17.0	17.2	17.1	17.2	17.3	17.3	17.3	17.1	2.4	1.8
1924	17.3	17.2	17.1	17.0	17.0	17.0	17.1	17.0	17.1	17.2	17.2	17.3	17.1	0.0	0.0
1925	17.3	17.2	17.3	17.2	17.3	17.5	17.7	17.7	17.7	17.7	18.0	17.9	17.5	3.5	2.3
1996	154.4	154.9	155.7	156.3	156.6	156.7	157.0	157.3	157.8	158.3	158.6	158.6	156.9	3.3	3.0
1997	159.1	159.6	160.0	160.2	160.1	160.3	160.5	160.8	161.2	161.6	161.5	161.3	160.5	1.7	2.3
1998	161.6	161.9	162.2	162.5	162.8	163.0	163.2	163.4	163.6	164.0	164.0	163.9	163.0	1.6	1.6
1999	164.3	164.5	165.0	166.2	166.2	166.2	166.7	167.1	167.9	168.2	168.3	168.3	166.6	2.7	2.2
2000	168.8	169.8	171.2	171.3	171.5	172.4	172.8	172.8	173.7	174.0	174.1	174.0	172.2	3.4	3.4
2001	175.1	175.8	176.2	176.9	177.7	178.0	177.5	177.5	178.3	177.7	177.4	176.7	177.1	1.6	2.8
2002	177.1	177.8	178.8	179.8	179.8	179.9	180.1	180.7	181.0	181.3	181.3	180.9	179.9	2.4	1.6
2003	181.7	183.1	184.2	183.8	183.5	183.7	183.9	184.6	185.2	185.0	184.5	184.3	184.0	1.9	2.3
2004	185.2	186.2	187.4	188.0	189.1	189.7	189.4	189.5	189.9	190.9	191.0	190.3	188.9	3.3	2.7
2005	190.7	191.8	193.3	194.6	194.4	194.5	195.4	196.4	198.8	199.2	197.6	196.8	195.3	5.4	3.4
2006	198.3	198.7	199.8	201.5	202.5	202.9	203.5	203.9	202.9	201.8	201.5	201.8	201.6	2.5	3.2
2007	202.416	203.499													

**Kentucky American Water Company
Kentucky Professional Engineers
Company Witness: Patrick Baryenbruch**

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	\$101

Source: Information provided by American Water Works Service Company

	Billing Rate Range			Average	CAD Drafter Engineer Tech	Engineer Design Engineer Project Engineer Elect Proj Engineer	Project Manager Project Associate Sr. Mgr. Engineer	Officer Principal Engineer
	Low	High	Average					
Strand Associates								
Principal Engineer	\$ 207	\$ 267	\$ 237					\$ 237
Sr. Project Manager	\$ 120	\$ 156	\$ 138			\$ 138		
Project Manager	\$ 81	\$ 125	\$ 103			\$ 103		
Project Engineer	\$ 52	\$ 133	\$ 93		\$ 93			
Field Technician	\$ 43	\$ 87	\$ 65	\$ 65				
Average Strand				\$ 65	\$ 93	\$ 121	\$ 237	
Quest Engineers								
Project Manager	\$ 110					\$ 110		
Engineer VIII	\$ 141					\$ 141		
Engineer VII	\$ 92					\$ 92		
Engineer VI	\$ 83				\$ 83			
Engineer V	\$ 78				\$ 78			
Engineer IV	\$ 73				\$ 73			
Engineer III	\$ 64				\$ 64			
Engineer I/II	\$ 57				\$ 57			
Senior Technician	\$ 75			\$ 75				
Technician	\$ 51			\$ 51				
Average Quest				\$ 63	\$ 71	\$ 114	na	

Kentucky American Water Company
 Outside Engineering Firm Hourly Rates (CONFIDENTIAL)
 Company Witness: Patrick Baryenbruch

Firm 1 - Strand Associates, Inc. (CONFIDENTIAL)

The following table shows Strand's typical classifications and related billing rate ranges. Strand does not utilize NSPE's Professional Grade Descriptions. The rates shown on Schedule B above were interpolated from the information below. Some adjustments may be necessary.

STRAND ASSOCIATES, INC.
 BILLING RATE RANGES
 JULY 1, 2004 – JUNE 30, 2005*

Staff Category	Billing Rate Range (\$/hr)	
Principal Engineer	\$207.00	to \$267.00
Senior Project Manager	\$120.00	to \$156.00
Project Manager	\$ 81.00	to \$125.00
Project Engineer/Scientist	\$ 52.00	to \$133.00
Officer and Field Technician	\$ 43.00	to \$ 87.00
Secretary	\$ 55.77	Average

* Updated annually on July 1

Firm 2 - Quest Engineers (CONFIDENTIAL)

Quest Engineers, Inc.
 National Account Representative – Charles R. Scroggin, P.E.
 July 30, 2004

American Water

SCHEDULE B

**Billing Rate Schedule for
 Master Agreement and all associated Task Orders**

Personnel Classification	Billing Rate - Home Office	Overtime Billing Rate -HO	Billing Rate- Field	Overtime Billing Rate - Field
Principal/Executive/Engineer IX (if applicable per 1.4.1 Schedule A)	\$0	Not Applicable	Not Applicable	Not Applicable
Project Manager	\$110	Not Applicable	Not Applicable	Not Applicable
Engineer VIII *	\$141	Not Applicable	Not Applicable	Not Applicable
Engineer VII*	\$92	Not Applicable	Not Applicable	Not Applicable
Engineer VI*	\$83	Not Applicable	Not Applicable	Not Applicable
Engineer V*	\$78	Not Applicable	Not Applicable	Not Applicable
Engineer IV*	\$73	Not Applicable	Not Applicable	Not Applicable
Engineer III*	\$64	Not Applicable	Not Applicable	Not Applicable
Engineer I/II*	\$57	Not Applicable	\$45 ¹	Not Applicable
Senior Technician	\$75	Not Applicable	Not Applicable	Not Applicable
Technician	\$51	\$58	\$40 ²	\$47
Land Surveyor	\$75 ²	Not Applicable	\$50 ⁴	\$59
Resident Project Representative Engineer III	Not Applicable	Not Applicable	\$50	Not Applicable
Resident Project Representative Engineer IV	Not Applicable	Not Applicable	\$57	Not Applicable
Resident Project Representative Tech III**	Not Applicable	Not Applicable	\$42	\$54

2005 Cost Study for American Water's Belleville Laboratory

A Cost of Labor	B Method	C Time Allocation * (Hours / Sample)	D 2005 Tests Completed	E Cost of Labor per Test Method	F Total Labor cost per Test Method	G Total Physical Cost per Test Method	H Total Test Cost per Test Method	I 2005 Belleville Cost per Test Method	"Best" Commercial Lab Information			
									J UL Bid Price** per Test Method	K Total	L Total	
				C x A	D x E	Note 1	F + G	H / D	J	K	L	M Total
CARBAMATES	531.1	0.5	398	\$13	\$5,303	\$90,216	\$95,520	\$240	\$180	\$71,640	\$115	\$45,770
CRYPTO/GIARDIA** 1623		7.0	632	\$187	\$117,900	\$155,545	\$273,445	\$433	\$468	\$295,776	NA	\$182,370
CYANIDE	SM4500C	0.5	918	\$13	\$12,232	\$27,998	\$40,231	\$44	\$36	\$33,048	\$40	\$36,720
DIQUAT	549.2	1.0	478	\$27	\$12,739	\$114,481	\$127,220	\$266	\$158	\$75,524	\$115	\$54,970
EDB/BCP	504.1	1.0	501	\$27	\$13,352	\$71,551	\$84,903	\$169	\$86	\$43,086	\$60	\$30,060
ENDOTHALL	548.1	2.0	392	\$53	\$20,894	\$109,005	\$129,898	\$331	\$149	\$58,408	\$130	\$50,960
GLYPHOSATE	547.0	0.5	305	\$13	\$4,064	\$90,216	\$94,280	\$309	\$126	\$38,430	\$115	\$35,075
HAA's	SM6251B	2.0	3894	\$53	\$207,550	\$320,424	\$527,974	\$136	\$162	\$630,828	\$150	\$584,100
HERBICIDES	515.3	2.0	1067	\$53	\$56,871	\$100,793	\$157,665	\$148	\$203	\$216,601	\$150	\$160,050
IC - DBP's	300.1	1.0	413	\$27	\$11,006	\$90,974	\$101,981	\$247	\$68	\$28,084	\$135	\$55,755
IC - MINERALS	300.0	0.5	1940	\$13	\$25,851	\$55,996	\$81,847	\$42	\$49	\$95,060	\$45	\$87,300
ICP	200.7	1.3	4388	\$33	\$146,175	\$301,758	\$447,933	\$102	\$405	\$1,777,140	\$60	\$263,280
ICPMS	200.8	2.0	6640	\$53	\$353,912	\$598,850	\$952,762	\$143	\$260	\$1,726,400	\$240	\$1,593,600
LEAD & COPPER	200.8	0.5	2714	\$13	\$36,164	\$18,665	\$54,829	\$20	\$22	\$59,708	\$24	\$55,136
MERCURY	245.2	0.5	1151	\$12	\$13,803	\$15,555	\$29,358	\$26	\$27	\$31,077	\$25	\$28,775
NITRATE & NITRITE	300.0	0.3	1977	\$7	\$13,172	\$43,553	\$56,724	\$29	\$34	\$67,218	\$30	\$59,310
PCB's	505	0.9	620	\$23	\$14,045	\$85,550	\$99,595	\$161	\$86	\$53,320	\$125	\$77,500
PERCHLORATES	314.0	0.5	175	\$13	\$2,332	\$34,351	\$36,683	\$210	\$99	\$17,325	\$75	\$13,125
RADON	913.0	0.5	397	\$13	\$5,290	\$46,664	\$51,954	\$131	\$68	\$26,996	\$60	\$23,820
SEMI-VOLATILES	525.2	4.5	1340	\$120	\$160,700	\$248,873	\$409,572	\$306	\$293	\$382,620	\$250	\$335,000
TOC	SM5310B	0.3	2873	\$7	\$19,141	\$62,218	\$81,360	\$28	\$32	\$91,936	\$40	\$114,920
TTHM's	502.2	0.8	3982	\$20	\$79,590	\$155,545	\$235,136	\$59	\$81	\$322,542	\$65	\$258,830
UV254	SM5910B	0.3	640	\$7	\$4,264	\$7,777	\$12,041	\$19	\$23	\$14,720	\$30	\$19,200
VOLATILES	524.2	1.3	3153	\$33	\$105,034	\$264,427	\$369,461	\$117	\$180	\$567,940	\$150	\$472,950
Totals			40988		\$1,441,384	\$3,110,987	\$4,552,371			\$6,735,027		\$4,648,576

Note: Fixed costs were spread among the 24 test groups based on space allocations, capital asset costs, test volume and labor intensiveness.

Additional services not included in EHL or Montgomery Watson costs include EPA Reporting, unused sample kits, RUSH sample charges and other initiatives

- * Time Allocation: average time per sample based on typical batch sizes
- ** EHL: Not certified in Ohio
- *** Montgomery Watson Labs: Not certified in Ohio, Missouri, Iowa and New Mexico.
- **** Cost per sample adjusted based on average number of slides (1.59 slides per sample)
- ***** Rush Surcharge of 50% and \$25 for EPA form completion added for Commercial Labs based on minimum typical charges

Total Cost Analysis
 Average of EHL and MWL Belleville Lab
 Outside Percent Higher 25%

The best prices per test are shown in red.

Kentucky American Water Company
Kentucky Public Service Commission Staff Interrogatory 1.o.
Company Witness - Patrick Baryenbruch

2006 Cost Study for American Water's Belleville Laboratory

A Cost of Labor \$29.38	B Method	C Time Allocation * (Hours / Sample)	D 2006 Tests Completed	E Cost of Labor per Test Method	F D x E Total Labor cost per Test Method	G Physical Cost per Test Method	H Total Test Cost per Test Method	I 2006 Belleville Cost per Test Method	"Best" Commercial Lab Information			
									J per Test Method	K Total	L per Test Method	M Total
CARBAMATES	531.1	0.5	689	\$15	\$10,121	Note 1	\$85,718	H/D	\$124	\$124,020	\$125	\$86,125
CRYPTO/GIARDIA	1623	7.0	632	\$206	\$129,977	\$75,596	\$264,370	\$418	\$418	\$255,960	NA	\$273,445
CYANIDE	SM4500C	0.5	835	\$15	\$12,266	\$134,393	\$29,065	\$35	\$35	\$30,060	\$50	\$41,750
DIQUAT	549.2	1.0	665	\$28	\$18,561	\$67,197	\$85,757	\$129	\$129	\$105,070	\$125	\$83,125
EDB/DBCP	504.1	1.0	820	\$28	\$22,887	\$25,199	\$48,086	\$59	\$59	\$70,520	\$50	\$41,000
ENDOTHALL	548.1	2.0	690	\$57	\$39,531	\$67,197	\$106,727	\$155	\$155	\$102,810	\$125	\$86,250
GLYPHOSATE	547.0	0.5	632	\$15	\$9,284	\$67,197	\$76,481	\$121	\$121	\$79,632	\$125	\$79,000
HAA's	SM6251B	1.8	3767	\$51	\$193,680	\$335,983	\$529,664	\$141	\$141	\$610,254	\$150	\$565,050
HERBICIDES	515.3	2.0	1395	\$59	\$81,970	\$167,992	\$249,962	\$179	\$179	\$283,185	\$150	\$209,250
IC - DBP's	300.1	1.0	402	\$29	\$11,811	\$92,395	\$104,206	\$259	\$259	\$27,336	\$150	\$60,300
IC - MINERALS	300.0	0.5	2023	\$37	\$29,718	\$50,397	\$80,115	\$40	\$40	\$99,127	\$45	\$91,035
ICP	200.7	1.3	4266	\$15	\$156,669	\$268,787	\$425,455	\$100	\$100	\$1,727,730	\$105	\$447,930
ICPMS	200.8	2.0	5541	\$59	\$325,589	\$843,318	\$1,168,907	\$211	\$211	\$1,440,660	\$315	\$1,745,415
LEAD & COPPER	200.8	0.5	1742	\$15	\$25,590	\$13,439	\$39,029	\$22	\$22	\$38,324	\$30	\$52,260
MERCURY	245.2/200.8	0.5	1204	\$13	\$15,918	\$13,439	\$29,357	\$24	\$24	\$32,508	\$30	\$36,120
NITRATE & NITRITE	300.0	0.3	1652	\$7	\$12,134	\$33,598	\$45,732	\$28	\$28	\$56,168	\$30	\$49,560
PCB's	505	0.9	681	\$25	\$17,007	\$67,197	\$84,203	\$124	\$124	\$88,566	\$150	\$102,150
PERCHLORATES	314.0	0.6	274	\$16	\$4,428	\$33,598	\$38,026	\$139	\$139	\$27,126	\$50	\$13,700
RADON	913.0	0.5	936	\$15	\$13,750	\$33,598	\$47,348	\$51	\$51	\$63,648	\$75	\$70,200
SEMI-VOLATILES	525.2	2.0	1844	\$59	\$108,353	\$446,858	\$555,211	\$301	\$301	\$640,292	\$250	\$461,000
TOC	SM5310C	0.2	3737	\$6	\$21,959	\$83,996	\$105,954	\$28	\$28	\$119,584	\$40	\$149,480
TTHM's	502.2	0.8	3845	\$24	\$90,373	\$151,192	\$241,565	\$63	\$63	\$311,445	\$65	\$249,925
UV254	SM5910B	0.2	53	\$6	\$311	\$1,680	\$1,991	\$38	\$38	\$1,219	\$35	\$1,855
VOLATILES	524.2	1.3	3127	\$37	\$114,839	\$268,787	\$383,626	\$123	\$123	\$464,360	\$125	\$390,875
Totals - Testing			41452		\$1,466,726	\$3,359,833	\$4,826,559			\$6,669,604		\$5,386,800
Rush surcharge of 50% per sample request and EPA form surcharge (\$50 per form) ****							\$0			\$230,001		\$347,400
Total Cost							\$4,826,559			\$6,899,604		\$5,734,200

Note: Physical costs were spread among the 24 test groups based on space allocations, capital asset costs, test volume and labor intensiveness.

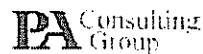
- * Time Allocation: average time per sample based on typical batch sizes
- ** UL. Not certified in Ohio
- *** Montgomery Watson Labs: Not certified in Ohio, Missouri, Iowa and New Mexico.
- **** Rush Surcharge of 50% per sample request added for UL and MW Labs. EPA form surcharge of \$50 per form added for MW Labs.

Total Cost Analysis
Average of EHL and MWL
Belleville Lab
Outside Percent Higher
31%

The best prices per test are shown in red.

Kentucky American Water Company
 Average Number of Electric Industry Calls/Customer
 Company Witness - Patrick Baryenbruch

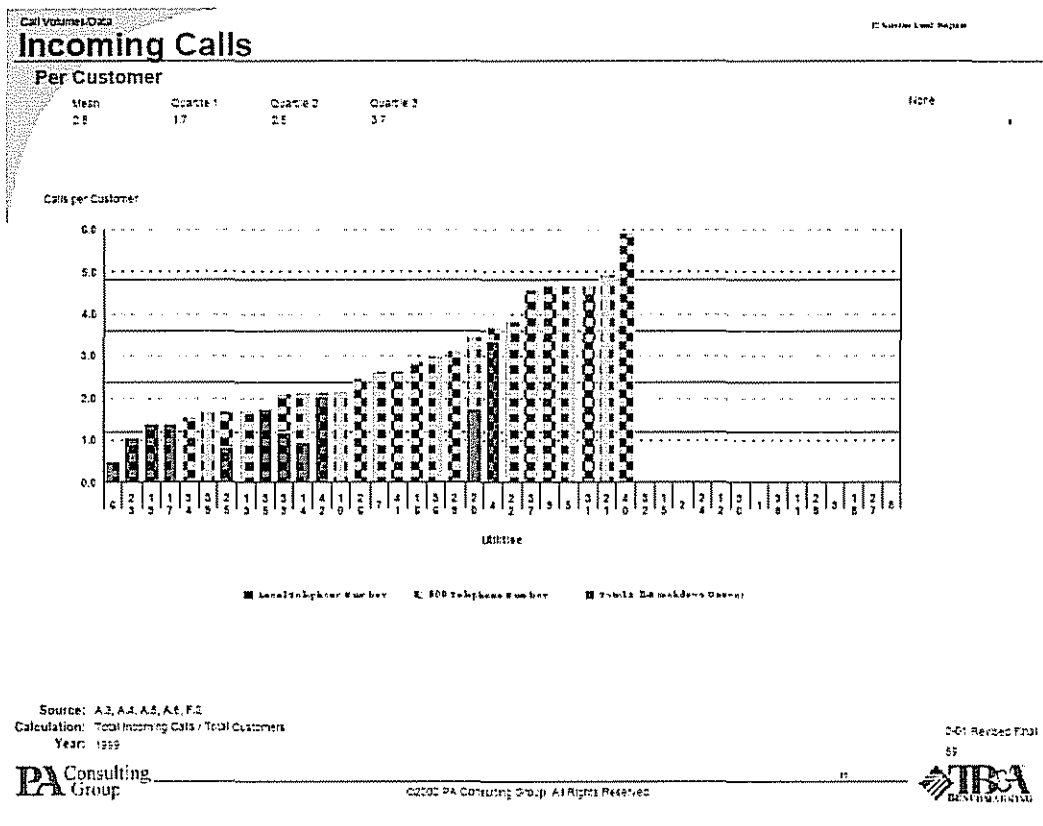
Confidential



**Annual Customer Service
 Best Practices Survey**

Profiles and Comparisons of Electric,
 Gas and Combination Utilities

February 2001 (1999 Year-End Data) - Revised



Note: The 2.5 Electric industry average represents the median of the above survey data

**Kentucky American Water Company
American Water Call Centers Average Calls Per Customer
Company Witness - Patrick Baryenbruch**

	Total Calls	Total Cust	Avg Call/Cust
2006	4,182,186	3,278,624	1.276

Source: John Watkins, Senior Financial Analyst
Senior Financial Analyst
Northeast Region
(he obtained it from Karen Cooper, of the
Alton Call Center)

Kentucky American Water Company
Kentucky Public Service Commission Interrogatory 1.q.(3)
Respondent - Patrick Baryenbruch

Kentucky

2006 Monthly volume and cost

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	AVG
Transactions	89,141	87,768	98,829	70,503	99,588	88,716	87,840	96,950	82,527	96,555	90,514	not received	988,931
Costs	9,474	9,358	10,745	8,188	10,855	9,483	9,401	10,381	8,698	10,228	10,518	received	107,327
Per unit	\$0.1063	\$0.1066	\$0.1087	\$0.1161	\$0.1090	\$0.1069	\$0.1070	\$0.1071	\$0.1054	\$0.1059	\$0.1162	Yet	\$0.1085

Description	December	December	December	Yr to date	Yr to date	Yr to date	Yr to date	Yr to date	Annual
	Actual	Plan	Variance	Prior Year	Actual	December Plan	December Variance	Prior Year	Forecast
00012 Kentucky-American Water Co.									
F18 Customer Accounting									
520100 M & S Oper CA	563	110	453	566	1,993	1,320	673	2,052	1,320
15 M & S Oper CA									
570100 Uncollectible Accounts	23,309	27,923	4,614CR	64,809	405,811	335,010	70,801	477,358	335,010
15 Uncollectible Accounts	3,658		3,658		3,658				
16 Uncollectible Accts-MI's									
575000 Misc Oper CA	6,112	300	5,812	933	10,015	3,600	6,415	18,920	3,600
15 Misc Oper CA					197		197		
1510 Misc Oper CA Mtr Read									
575100 Bank Service Charges CA	19,078	15,173	3,605	13,956	200,345	185,676	14,669	181,355	185,676
15 Bank Service Charges CA									
575200 Collection Agencies CA	1,332	1,615	283CR	2,878	24,217	19,380	4,837	18,948	19,380
15 Collection Agencies CA									
575420 Forms CA	4,179	4,700	521CR	1,734	145,337	56,400	88,937	58,746	56,400
15 Forms CA									
575620 Office & Admin Supplies CA	1,506	175	1,331	999	28,223	4,800	23,423	18,523	4,800
15 Office & Admin Supplies CA									
575660 Postage CA	40,130	38,341	1,789	43,494	506,205	460,092	46,113	501,207	460,092
15 Postage CA									
575740 Telephone CA	1,204	7,880	6,676CR	10,603	73,389	94,560	21,171CR	100,504	94,560
15 Telephone CA									
575741 Cell Phone CA									
15 Cell Phone CA									
575820 Uniforms CA									
15 Uniforms CA									
F18 Customer Accounting	101,071	96,517	4,554	139,972	1,399,606	1,160,838	238,768	1,377,864	1,160,838
00012 Kentucky-American Water Co.	101,071	96,517	4,554	139,972	1,399,606	1,160,838	238,768	1,377,864	1,160,838

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143**

**COMMISSION STAFF'S SECOND SET
OF INFORMATION REQUESTS**

Item 22 of 80

Witness: Michael A. Miller

22. In Case No. 2004-00103, Kentucky-American's forecasted management fees were stated at \$3,800,677, detailed as follows:

Belleville Lab	\$190,529
Call Center/National Customer Care Center	831,065
Corporate	707,381
ITS Shared Service	819,399
Shared Service	448,017
Southeast Region	<u>804,286</u>
Total	<u>\$3,800,677</u>

Of this total, the Commission allocated \$367 to other operations, removed business development costs of \$117,525, and permitted the recovery of \$3,682,785. The forecasted management fees in this case are \$6,246,717, a 70 percent increase.

- a. List the amounts shown in Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 70 of 118 using the Service Company names used in Case No. 2004-00103 as shown above.
- b. State the reason(s) for the change in the level of each forecasted Service Company charge in this case as compared to that of Case No. 2004-00103.
- c. List each business development costs included in the forecasted Management Fees of this case, state whether it is directly assignable or allocated, and describe the services associated with the cost.

Response:

- a. Please see the attached schedule.
- b. See the response to part a. above.
- c. KAWC receives business development support from the SE Regional Office. The Business Development ("BD") field personnel charge time directly to state projects on which they work and administrative personnel charge formulas unless they are working on specific projects. The forecasted test-year expense for

KAWC BD development is \$79,365. This amount was determined by applying the 2006 actual percentage of SE Region BD costs to the 2007 BD budget. See the attached schedule for the various expenses included in the Southeast Region 2007 budget which are primarily made up of labor and labor overhead. The BD function is responsible for developing a comprehensive plan for all potential growth opportunities of KAWC. Those activities include contacts with all potential opportunities in Kentucky and developing relationships with key stake holders, assessing the potential for acquisition or other arrangements that would benefit KAWC and its customers. Once a BD project moves to the proposal stage, the BD personnel develop the financial and operations model in conjunction with local KAWC employees that define the level of investment and operations considerations that are required to complete the proposal. Once a proposal is accepted by the client, the BD personnel, in conjunction with local KAWC personnel, develop the agreements for execution, as well as any documents that are required for regulatory approval. Once the BD project is approved, the BD personnel work with local KAWC personnel to develop the integration plan of the project. This is the process that led to the Owenton acquisition and the renewal of the Bluegrass Station contract renewal.

For electronic version, refer to KAW_R_PSCDR2#22_061807.pdf

Kentucky American Water
Management Fees by category
PSC DR 2 Question 22a

	2004-00103 Filing	2007-00143 Filing	Variance	%
Belleville Lab	190,529	191,177	648	0.34% Notes 1,2,3
National Customer Care Center	831,065	1,557,125	726,060	87.37% Notes 1,2,4
Corporate	707,381	1,635,375	927,994	131.19% Notes 1,2,5
Information Technology	819,399	942,482	123,083	15.02% Notes 1,2,6
Shared Service	448,017	493,404	45,387	10.13% Notes 1,2,5,7
Southeast Region	804,286	1,427,154	622,868	77.44% Notes 1,2,8
Total	3,800,677	6,246,717	2,446,040	64.36%

- Note 1** Please see the testimony of Michael Miller, Exhibit MAM-7 which demonstrates that the increase in Service Company Charges has been more than offset by expense savings in labor and other expenses at KAWC.
- Note 2** The Service Company charges are primarily made up of labor and labor overheads. The average pay increase has been 4% per year. Medical insurance costs have increase on at an average of 8-10% per year as indicated in the Actuarial Reports, and Service Company pension expense has increase by 150% due to lower market returns, lower discount rates and changes in the federal funding requirements. These increases are above the CPI and would apply to increase for each Service Company office.
- Note 3** The Research section of the Water Quality (WQ) operations is now charged through Corporate
- Note 4** The level of Customer Call Center (CCC) costs included in the previous rate case was based on a partial year estimate and was underrecovered in the 2004 rate case. The actual cost from the CCC for 2005 was \$1,209, 964 which distorts the actual increase in the CCC costs shown above. There has been an increase over the original estimated employee level for the CCC to meet targeted service and customer satisfaction levels. The call volumes have significantly exceeded the estimates provided from the operating companies, including KAWC. It has been determined prior to the call center technology that the Operating Company's (OPCO's) were experiencing blocked front end calls due to a shortage of phone circuits. The technology at the call center was able to detect this problem, but additional employees have been required to meet the increased volume. In addition, the use of the Interactive Voice Recognition (IVR) has not risen to the level expected, again requiring additional employees to handle the call volumes.
- Note 5** The level of Corporate Center costs included in the previous rate case was based on estimates and were underrecovered in the 2004 rate case. The actual cost from the Corporate Center for 2005 was \$1,031,427 which distorts the actual increase in the Corporate Center costs shown above. A number of factors have impacted this increase including: (i) Shared Services Center (SSC) employees have been transferred to the Corporate Finance Area, (ii) additional legal staff has been required to meet the legal workload, (iii) SSC employees responsible for Service Company accounting and taxes were transferred to the Corporate Center, (iv) finance vacancies and temp. employees existing in 2005 have been replaced with permanent positions, (v) positions have been filled to address the Best Practices across the system (including full staffing for Procurement) which have and will continue to drive efficiency gains at KAWC (See Snergy Reports required as condition in Change of Control Order, and (vi) vacancies related to reorganization were not incorporated into the previous rate case.
- Note 6** IT costs have been driven by the inflationary factors from Note 2 above.
- Note 7** SSC cost are below the inflationary factors due to the movement of functions to the Corporate Center.
- Note 8** In 2005 AWW undertook a reorganization of its Regional alignment. Prior to the reorganization AWW was made up of 7 regional offices. The reorganization realigned the 7 Regional offices located in Hershey, PA; St. Louis, MO; Chula Vista, CA; and Cherry Hill, NJ. The reorganization also included moving some functions to the Regional level (from the operating company level) in order to share those resources across operating companies thereby lowering the cost to each operating company and driving more uniform and efficient operating practices across the operating companies. Please refer to the testimony of Michael Miller and Exhibit MAM-7 for an analysis of the impact on KAWC since the 2000 rate case. Five positions included in KAWC's labor & labor overhead expenses in the previous rate case are now obtained through the Regional Service Company functions (Human Resources Manager, Manager of Loss Control, Operations Manager, Director of Engineering, Director of Water Quality).

83410
CLOUDOUSE
BUSDEVELOP

American Motor Works Company
Business Development
Service Company Budget
For the Period Ending 11/31/2007

	2007 January	2007 February	2007 March	2007 April	2007 May	2007 June	2007 July	2007 August	2007 Sept	2007 Oct	2007 Nov	2007 Dec	Totals
DEFC													
035628 SE-Business													
601320 Labor	103,007	96,089	99,311	98,024	107,577	99,372	102,002	107,577	95,274	107,577	105,802	99,366	1,213,772
601320 Labor Plan Exp	19,559	19,559	19,559	19,559	19,559	19,559	19,559	19,559	19,559	19,559	19,559	19,559	238,315
504180 Group Insurance	1,587	1,587	1,587	1,587	1,587	1,587	1,587	1,587	1,587	1,587	1,587	1,587	18,842
507100 401K Incentive	2,116	1,867	2,031	2,006	2,147	2,103	2,103	2,147	2,103	2,147	2,103	2,103	25,842
507100 Transportation	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	1,200	14,400
505000 Miscellaneous Ops	300	300	300	300	300	300	300	300	300	300	300	300	3,600
575002 Misc General Offi	2,050	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	12,000
575010 Advertising	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	10,417	125,004
575103 Charitable Contri	300	300	300	300	300	300	300	300	300	300	300	300	3,600
575249 Co Dues/Membershi	450	450	450	450	450	450	450	450	450	450	450	450	5,400
575241 Co Dues/Membershi	19,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500	10,500	126,000
575249 Empl Exp AG-PR J	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
575242 Empl Exp Cont/Res	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
575241 Media Descrip-PR	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
575242 Media Descrip-PR	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	2,000	24,000
575243 Travel & Frisbee Ho	650	650	650	650	650	650	650	650	650	650	650	650	7,800
575243 Cell Phone AC	210	210	210	210	210	210	210	210	210	210	210	210	2,520
575243 Data Lines AC	672	672	672	672	672	672	672	672	672	672	672	672	8,064
575000 Miscellaneous Mat	309	309	309	309	309	309	309	309	309	309	309	309	3,708
585100 FUTA	178,858	157,768	168,373	166,654	178,867	168,302	172,765	178,256	162,413	175,933	168,964	170,479	2,047,623
585345 FICA	3,093	3,093	3,093	3,093	3,093	3,093	3,093	3,093	3,093	3,093	3,093	3,093	37,116
585350 SUTA	178,858	157,768	168,373	166,654	178,867	168,302	172,765	178,256	162,413	175,933	168,964	170,479	2,047,623

X 3.576 %
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**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143**

**COMMISSION STAFF'S SECOND SET
OF INFORMATION REQUESTS**

Item 23 of 80

Witness: Michael A. Miller

23. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 69 of 118. State whether the amounts related to David Whitehouse and Susan Lancho totaling \$265,725 are included in the \$6,247,146.

Response:

The amounts related to David Whitehouse and Susan Lancho have been removed from the management fee forecasted total of \$6,247,146.

For electronic version, refer to KAW_R_PSCDR2#23_061807.pdf

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143**

**COMMISSION STAFF'S SECOND SET
OF INFORMATION REQUESTS**

Item 24 of 80

Witness: Sheila Miller/Michael Miller

24. At page 7 of her direct testimony, Shelia Miller states that the forecasted group insurance reflects the current insurance premium rates adjusted to reflect an 8 percent increase effective January 1, 2008.
- a. Provide the current group insurance statements to show the "current group insurance premium rates" that are referenced.
 - b. State whether Kentucky-American applied the 8 percent increase to each component of group insurance (e.g., life, short-term disability, medical, dental, vision).
 - c. Provide the documents upon which Kentucky-American relies to support an 8 percent increase in group insurance premiums.

Response:

- a. See the attached group insurance statements for 2007.
- b. The 8 percent increase was applied to each component of group insurance that was used in the calculation.
- c. Please refer to staff's first set of information requests, item 1. For electronic version, refer to KAW_R_PSCDR1#1a_052107.pdf which is the latest information on medical trends as supplied by the Company's actuary Towers Perrin.

For electronic version of this document, refer to KAW_R_PSCDR2#24_061807.pdf

FORM 392 - TOTAL
Revision date: 01/2004

**HORIZON BLUECROSS/BLUESHIELD
GROUP INSURANCE PREMIUM STATEMENT
(Rates effective January 1, 2007)**

COMPANY: Kentucky American Water Co
MONTH OF: January 07

Insurance/Employees:	Rate	Premium
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ACTIVE EMPLOYEES

LIVES LIFE INSURANCE:

54	4,293,000	1 Life - Basic (Non Bargaining)	\$0.180 per \$1,000	\$772.74
73	3,844,000	2 Life - Basic (Bargaining)	\$0.180 per \$1,000	691.92
73	730,000	3 A. D. & D. (\$10,000 cov. per employee)	0.020 per \$1,000	14.60
54	4,293,000	4 A. D. & D. (Non Bargaining)	0.020 per \$1,000	85.86
4	364,998	5 Life - Voluntary Under 30	\$0.06 per \$1,000	21.90
9	922,485	6 Life - Voluntary 30-34	\$0.08 per \$1,000	73.80
6	661,348	7 Life - Voluntary 35-39	\$0.10 per \$1,000	66.13
9	975,034	8 Life - Voluntary 40-44	\$0.12 per \$1,000	117.00
11	926,547	9 Life - Voluntary 45-49	\$0.19 per \$1,000	176.04
5	555,748	10 Life - Voluntary 50-54	\$0.32 per \$1,000	177.84
9	741,148	11 Life - Voluntary 55-59	\$0.59 per \$1,000	437.28
1	95,450	12 Life - Voluntary 60-64	\$0.75 per \$1,000	71.59
0	0	13 Life - Voluntary 65-69	\$1.37 per \$1,000	0.00
0	0	14 Life - Voluntary 70 and over	\$2.21 per \$1,000	0.00
49	980,000	15 Life - Dependent Spouse	\$0.25 per \$1,000	245.00
45	820,000	16 Life - Dependent Children	\$1.20 per \$1,000	54.00
0	0	17 Life - Supplemental	\$0.35 per \$1,000	0.00
2	60,000	18 Life - Optional	\$0.35 per \$1,000	21.00

DISABILITY:

225,931	19 Long Term Disability (non union only)	\$0.400 per \$100	903.73
127	20 Short-term Managed Disability	\$1.58 per EMPLOYEE	200.66
0	21 A.& S.-Coverage for New Jersey only	\$0.20 per \$10	0.00

MEDICAL, DENTAL & PRESCRIPTION COVERAGE:

23	22 Employees without dependent coverage	\$482.00	11,086.00
100	23 Employees with dependent coverage	\$1,188.00	118,800.00
0	24 Employees with single dental coverage only	\$36.00	0.00
2	25 Employees with dependent dental coverage only	\$85.00	170.00

Actives' subtotal:

\$134,187.09

CONTINUATION OF COVERAGE

MEDICAL, DENTAL & PRESCRIPTION COVERAGE:

0	30 Individual (former emp., spouse, or dependent)	\$482.00	0.00
0	31 Family (2 or more individuals)	\$1,188.00	0.00
0	32 Employee with single dental coverage only	\$36.00	0.00
0	33 Employees with dependent dental coverage only	\$85.00	0.00

Continuation of Coverage Subtotal:

\$0.00

TOTAL PREMIUM TO BE PAID TO TRUST:

\$134,187.09

FORM 392 - TOTAL
Revision date: 01/2004

HORIZON BLUECROSS/BLUESHIELD
GROUP INSURANCE PREMIUM STATEMENT
(Rates effective January 1, 2007)

COMPANY: Kentucky American Water Co
MONTH OF: February 2007

Insurance/Employees:	Rate	Premium
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ACTIVE EMPLOYEES

LIVES LIFE INSURANCE:

55	4,293,000	1 Life - Basic (Non Bargaining)	\$0.180 per \$1,000	\$772.74
73	3,802,000	2 Life - Basic (Bargaining)	\$0.180 per \$1,000	684.36
73	730,000	3 A. D. & D. (\$10,000 cov. per employee)	0.020 per \$1,000	14.60
55	4,293,000	4 A. D. & D. (Non Bargaining)	0.020 per \$1,000	85.86
3	277,514	5 Life - Voluntary Under 30	\$0.06 per \$1,000	16.65
8	699,071	6 Life - Voluntary 30-34	\$0.08 per \$1,000	55.93
7	773,946	7 Life - Voluntary 35-39	\$0.10 per \$1,000	77.39
6	710,582	8 Life - Voluntary 40-44	\$0.12 per \$1,000	85.27
12	1,266,648	9 Life - Voluntary 45-49	\$0.19 per \$1,000	240.66
7	645,556	10 Life - Voluntary 50-54	\$0.32 per \$1,000	206.58
9	741,148	11 Life - Voluntary 55-59	\$0.59 per \$1,000	437.28
1	95,450	12 Life - Voluntary 60-64	\$0.75 per \$1,000	71.59
0	0	13 Life - Voluntary 65-69	\$1.37 per \$1,000	0.00
0	0	14 Life - Voluntary 70 and over	\$2.21 per \$1,000	0.00
49	980,000	15 Life - Dependent Spouse	\$0.25 per \$1,000	245.00
44	800,000	16 Life - Dependent Children	\$1.20 per \$1,000	52.80
0	0	17 Life - Supplemental	\$0.35 per \$1,000	0.00
2	60,000	18 Life - Optional	\$0.35 per \$1,000	21.00

DISABILITY:

244,431	19 Long Term Disability (non union only)	\$0.400 per \$100	977.73
128	20 Short-term Managed Disability	\$1.58 per EMPLOYEE	202.24
0	21 A. & S. - Coverage for New Jersey only	\$0.20 per \$10	0.00

MEDICAL, DENTAL & PRESCRIPTION COVERAGE:

24	22 Employees without dependent coverage	\$482.00	11,568.00
99	23 Employees with dependent coverage	\$1,188.00	117,612.00
0	24 Employees with single dental coverage only	\$36.00	0.00
2	25 Employees with dependent dental coverage only	\$85.00	170.00

Actives' subtotal:

\$133,597.68

CONTINUATION OF COVERAGE

MEDICAL, DENTAL & PRESCRIPTION COVERAGE:

0	30 Individual (former emp., spouse, or dependent)	\$482.00	0.00
0	31 Family (2 or more individuals)	\$1,188.00	0.00
0	32 Employee with single dental coverage only	\$36.00	0.00
0	33 Employees with dependent dental coverage only	\$85.00	0.00

Continuation of Coverage Subtotal:

\$0.00

TOTAL PREMIUM TO BE PAID TO TRUST:

\$133,597.68

FORM 392 - TOTAL
Revision date: 01/2007

**HORIZON BLUECROSS/BLUESHIELD
GROUP INSURANCE PREMIUM STATEMENT
(Rates effective January 1, 2007)**

COMPANY: Kentucky American Water Co
MONTH OF: March 2007

Insurance/Employees:	Rate	Premium
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ACTIVE EMPLOYEES

LIVES LIFE INSURANCE:

57	4,549,000	1 Life - Basic (Non Bargaining)	\$0.180 per \$1,000	\$818.82
75	3,802,000	2 Life - Basic (Bargaining)	\$0.180 per \$1,000	684.36
75	750,000	3 A. D. & D. (\$10,000 cov. per employee)	0.020 per \$1,000	15.00
57	4,549,000	4 A. D. & D. (Non Bargaining)	0.020 per \$1,000	90.98
3	277,514	5 Life - Voluntary Under 30	\$0.06 per \$1,000	16.65
8	699,071	6 Life - Voluntary 30-34	\$0.08 per \$1,000	55.93
8	857,946	7 Life - Voluntary 35-39	\$0.10 per \$1,000	85.79
6	710,582	8 Life - Voluntary 40-44	\$0.12 per \$1,000	85.27
12	1,266,648	9 Life - Voluntary 45-49	\$0.19 per \$1,000	240.66
7	645,556	10 Life - Voluntary 50-54	\$0.32 per \$1,000	206.58
9	741,148	11 Life - Voluntary 55-59	\$0.59 per \$1,000	437.28
1	95,450	12 Life - Voluntary 60-64	\$0.75 per \$1,000	71.59
0	0	13 Life - Voluntary 65-69	\$1.37 per \$1,000	0.00
0	0	14 Life - Voluntary 70 and over	\$2.21 per \$1,000	0.00
49	980,000	15 Life - Dependent Spouse	\$0.25 per \$1,000	245.00
47	840,000	16 Life - Dependent Children	\$1.20 per \$1,000	56.40
0	0	17 Life - Supplemental	\$0.35 per \$1,000	0.00
2	60,000	18 Life - Optional	\$0.35 per \$1,000	21.00

DISABILITY:

258,598	19 Long Term Disability (non union only)	\$0.400 per \$100	1,034.39
132	20 Short-term Managed Disability	\$1.58 per EMPLOYEE	208.56
0	21 A. & S.-Coverage for New Jersey only	\$0.20 per \$10	0.00

MEDICAL, DENTAL & PRESCRIPTION COVERAGE:

24	22 Employees without dependent coverage	\$482.00	11,568.00
145	23 Employees with dependent coverage	\$1,188.00	172,260.00
0	24 Employees with single dental coverage only	\$36.00	0.00
2	25 Employees with dependent dental coverage only	\$85.00	170.00

Actives' subtotal:

\$188,372.26

CONTINUATION OF COVERAGE

MEDICAL, DENTAL & PRESCRIPTION COVERAGE:

0	30 Individual (former emp., spouse, or dependent)	\$482.00	0.00
0	31 Family (2 or more individuals)	\$1,188.00	0.00
0	32 Employee with single dental coverage only	\$36.00	0.00
0	33 Employees with dependent dental coverage only	\$85.00	0.00

Continuation of Coverage Subtotal:

\$0.00

TOTAL PREMIUM TO BE PAID TO TRUST:

\$188,372.26

FORM 392 - TOTAL
Revision date: 01/2007

**HORIZON BLUECROSS/BLUESHIELD
GROUP INSURANCE PREMIUM STATEMENT
(Rates effective January 1, 2007)**

COMPANY: Kentucky American Water Co
MONTH OF: April 2007

Insurance/Employees:		Rate	Premium
ACTIVE EMPLOYEES			
LIVES LIFE INSURANCE:			
58	4,684,000	1 Life - Basic (Non Bargaining)	\$0.180 per \$1,000 \$843.12
74	3,897,000	2 Life - Basic (Bargaining)	\$0.180 per \$1,000 701.46
74	740,000	3 A. D. & D. (\$10,000 cov. per employee)	0.020 per \$1,000 14.80
58	4,684,000	4 A. D. & D. (Non Bargaining)	0.020 per \$1,000 93.68
4	317,158	5 Life - Voluntary Under 30	\$0.06 per \$1,000 19.03
8	704,604	6 Life - Voluntary 30-34	\$0.08 per \$1,000 56.37
8	857,946	7 Life - Voluntary 35-39	\$0.10 per \$1,000 85.79
6	710,582	8 Life - Voluntary 40-44	\$0.12 per \$1,000 85.27
12	1,266,648	9 Life - Voluntary 45-49	\$0.19 per \$1,000 240.66
8	774,661	10 Life - Voluntary 50-54	\$0.32 per \$1,000 247.89
9	741,148	11 Life - Voluntary 55-59	\$0.59 per \$1,000 437.28
1	95,450	12 Life - Voluntary 60-64	\$0.75 per \$1,000 71.59
0	0	13 Life - Voluntary 65-69	\$1.37 per \$1,000 0.00
0	0	14 Life - Voluntary 70 and over	\$2.21 per \$1,000 0.00
49	980,000	15 Life - Dependent Spouse	\$0.25 per \$1,000 245.00
47	830,000	16 Life - Dependent Children	\$1.20 per \$1,000 56.40
0	0	17 Life - Supplemental	\$0.35 per \$1,000 0.00
2	60,000	18 Life - Optional	\$0.35 per \$1,000 21.00

DISABILITY:			
262,581	19	Long Term Disability (non union only)	\$0.400 per \$100 1,050.33
132	20	Short-term Managed Disability	\$1.58 per EMPLOYEE 208.56
0	21	A. & S.-Coverage for New Jersey only	\$0.20 per \$10 0.00

MEDICAL, DENTAL & PRESCRIPTION COVERAGE:			
25	22	Employees without dependent coverage	\$482.00 12,050.00
124	23	Employees with dependent coverage	\$1,188.00 147,312.00
0	24	Employees with single dental coverage only	\$36.00 0.00
2	25	Employees with dependent dental coverage only	\$85.00 170.00

Actives' subtotal: \$164,010.23

CONTINUATION OF COVERAGE

MEDICAL, DENTAL & PRESCRIPTION COVERAGE:			
1	30	Individual (former emp., spouse, or dependent)	\$482.00 482.00
0	31	Family (2 or more individuals)	\$1,188.00 0.00
0	32	Employee with single dental coverage only	\$36.00 0.00
0	33	Employees with dependent dental coverage only	\$85.00 0.00

Continuation of Coverage Subtotal: \$482.00

TOTAL PREMIUM TO BE PAID TO TRUST: \$164,492.23

FORM 392 - TOTAL
Revision date: 01/2007

**HORIZON BLUECROSS/BLUESHIELD
GROUP INSURANCE PREMIUM STATEMENT
(Rates effective January 1, 2007)**

COMPANY: Kentucky American Water Co
MONTH OF: May 2007

Insurance/Employees:	Rate	Premium
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ACTIVE EMPLOYEES

LIVES LIFE INSURANCE:

Count	Salary	Description	Rate	Rate Type	Rate Basis	Premium
59	4,947,000	1 Life - Basic (Non Bargaining)	\$0.180	per	\$1,000	\$890.46
74	3,897,000	2 Life - Basic (Bargaining)	\$0.180	per	\$1,000	701.46
74	740,000	3 A. D. & D. (\$10,000 cov. per employee)	0.020	per	\$1,000	14.80
59	4,947,000	4 A. D. & D. (Non Bargaining)	0.020	per	\$1,000	98.94
4	317,158	5 Life - Voluntary Under 30	\$0.06	per	\$1,000	19.03
8	706,059	6 Life - Voluntary 30-34	\$0.08	per	\$1,000	56.48
8	868,996	7 Life - Voluntary 35-39	\$0.10	per	\$1,000	86.90
6	724,532	8 Life - Voluntary 40-44	\$0.12	per	\$1,000	86.94
12	1,285,848	9 Life - Voluntary 45-49	\$0.19	per	\$1,000	244.31
8	784,911	10 Life - Voluntary 50-54	\$0.32	per	\$1,000	251.17
9	755,757	11 Life - Voluntary 55-59	\$0.59	per	\$1,000	445.90
1	98,750	12 Life - Voluntary 60-64	\$0.75	per	\$1,000	74.06
0	0	13 Life - Voluntary 65-69	\$1.37	per	\$1,000	0.00
0	0	14 Life - Voluntary 70 and over	\$2.21	per	\$1,000	0.00
49	980,000	15 Life - Dependent Spouse	\$0.25	per	\$1,000	245.00
47	840,000	16 Life - Dependent Children	\$1.20	per	\$1,000	56.40
0	0	17 Life - Supplemental	\$0.35	per	\$1,000	0.00
2	60,000	18 Life - Optional	\$0.35	per	\$1,000	21.00

DISABILITY:

277,137	19 Long Term Disability (non union only)	\$0.400	per	\$100	1,108.55
133	20 Short-term Managed Disability	\$1.58	per	EMPLOYEE	210.14
0	21 A. & S.-Coverage for New Jersey only	\$0.20	per	\$10	0.00

MEDICAL, DENTAL & PRESCRIPTION COVERAGE:

26	22 Employees without dependent coverage	\$482.00		12,532.00
124	23 Employees with dependent coverage	\$1,188.00		147,312.00
0	24 Employees with single dental coverage only	\$36.00		0.00
2	25 Employees with dependent dental coverage only	\$85.00		170.00

Actives' subtotal:

\$164,625.54

CONTINUATION OF COVERAGE

MEDICAL, DENTAL & PRESCRIPTION COVERAGE:

1	30 Individual (former emp., spouse, or dependent)	\$482.00		482.00
0	31 Family (2 or more individuals)	\$1,188.00		0.00
0	32 Employee with single dental coverage only	\$36.00		0.00
0	33 Employees with dependent dental coverage only	\$85.00		0.00

Continuation of Coverage Subtotal:

\$482.00

TOTAL PREMIUM TO BE PAID TO TRUST:

\$165,107.54

FORM 392 - TOTAL
Revision date: 01/2007

**HORIZON BLUECROSS/BLUESHIELD
GROUP INSURANCE PREMIUM STATEMENT
(Rates effective January 1, 2007)**

COMPANY: Kentucky American Water Co
MONTH OF: June 2007

Insurance/Employees:	Rate	Premium
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ACTIVE EMPLOYEES

LIVES LIFE INSURANCE:

60	5,001,000	1 Life - Basic (Non Bargaining)	\$0.180 per \$1,000	\$900.18
74	4,036,000	2 Life - Basic (Bargaining)	\$0.180 per \$1,000	726.48
74	740,000	3 A. D. & D. (\$10,000 cov. per employee)	0.020 per \$1,000	14.80
60	5,001,000	4 A. D. & D. (Non Bargaining)	0.020 per \$1,000	100.02
5	350,002	5 Life - Voluntary Under 30	\$0.06 per \$1,000	21.00
8	706,059	6 Life - Voluntary 30-34	\$0.08 per \$1,000	56.48
8	868,996	7 Life - Voluntary 35-39	\$0.10 per \$1,000	86.90
6	724,532	8 Life - Voluntary 40-44	\$0.12 per \$1,000	86.94
12	1,285,848	9 Life - Voluntary 45-49	\$0.19 per \$1,000	244.31
8	784,911	10 Life - Voluntary 50-54	\$0.32 per \$1,000	251.17
9	755,757	11 Life - Voluntary 55-59	\$0.59 per \$1,000	445.90
1	98,750	12 Life - Voluntary 60-64	\$0.75 per \$1,000	74.06
0	0	13 Life - Voluntary 65-69	\$1.37 per \$1,000	0.00
0	0	14 Life - Voluntary 70 and over	\$2.21 per \$1,000	0.00
51	1,020,000	15 Life - Dependent Spouse	\$0.25 per \$1,000	255.00
49	890,000	16 Life - Dependent Children	\$1.20 per \$1,000	58.80
0	0	17 Life - Supplemental	\$0.35 per \$1,000	0.00
2	60,000	18 Life - Optional	\$0.35 per \$1,000	21.00

DISABILITY:

280,084	19 Long Term Disability (non union only)	\$0.400 per \$100	1,120.34
134	20 Short-term Managed Disability	\$1.58 per EMPLOYEE	211.72
0	21 A. & S.-Coverage for New Jersey only	\$0.20 per \$10	0.00

MEDICAL, DENTAL & PRESCRIPTION COVERAGE:

26	22 Employees without dependent coverage	\$482.00	12,532.00
103	23 Employees with dependent coverage	\$1,188.00	122,364.00
0	24 Employees with single dental coverage only	\$36.00	0.00
2	25 Employees with dependent dental coverage only	\$85.00	170.00

Actives' subtotal:

\$139,741.10

CONTINUATION OF COVERAGE

MEDICAL, DENTAL & PRESCRIPTION COVERAGE:

1	30 Individual (former emp., spouse, or dependent)	\$482.00	482.00
0	31 Family (2 or more individuals)	\$1,188.00	0.00
0	32 Employee with single dental coverage only	\$36.00	0.00
0	33 Employees with dependent dental coverage only	\$85.00	0.00

Continuation of Coverage Subtotal:

\$482.00

TOTAL PREMIUM TO BE PAID TO TRUST:

\$140,223.10

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143**

**COMMISSION STAFF'S SECOND SET
OF INFORMATION REQUESTS**

Item 25 of 80

Witness: Sheila Miller

25. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 71 of 118, Group Insurance Attrition Year.
- a. Provide the monthly employee contributions that were used to calculate the reimbursements of \$1,296 for "Employees without Dependent Coverage" and \$11,110 for "Employees with Dependent Coverage."
 - b. Provide a schedule listing monthly employee group insurance contributions for the 5-year period from January 1, 2001 through December 31, 2006.

Response:

- a. The \$1,296 was calculated based on a monthly amount of \$48 per employee for "Employees without Dependent Coverage". The \$11,110 was calculated based on a monthly amount of \$101 per employee for "Employees with Dependent Coverage".
- b. See attached schedule.

For electronic version, refer to KAW_R_PSCDR2#25_061807.pdf

PSCDR2#25b
Employee group insurance contributions by month for 2001-2006

	January	February	March	April	May	June	July	August	September	October	November	December	Total
2001													
1115 D	1,005.00	1,005.00	1,005.00	770.00	770.00	770.00	267.62	267.62	267.62	267.62	401.43	267.62	7,064.53
1135 D	1,910.00	1,960.00	1,960.00	1,970.00	1,980.00	1,990.00	3,575.87	3,550.50	3,522.81	3,538.96	5,670.69	3,603.56	35,232.39
1155 D	100.00	120.00	120.00	120.00	120.00	120.00							700.00
Total 2001	3,015.00	3,085.00	3,085.00	2,860.00	2,870.00	2,880.00	3,843.49	3,818.12	3,790.43	3,806.58	6,072.12	3,871.18	42,996.92
2002													
1115 D	288.41	267.62	267.62	83.03	408.39	272.26	272.26	272.26	272.26	272.26	413.01	258.42	3,347.80
1135 D	4,158.00	4,144.16	4,155.68	4,259.52	6,403.12	4,222.60	4,204.14	4,215.68	4,227.22	4,134.92	6,278.54	4,132.62	54,536.20
Total 2002	4,446.41	4,411.78	4,423.30	4,342.55	6,811.51	4,494.86	4,476.40	4,487.94	4,499.48	4,407.18	6,691.55	4,391.04	57,884.00
2003													
1135 D	4,523.79	4,503.02	4,581.95	4,825.10	6,974.70	4,573.65	4,552.88	4,511.34	4,586.11	6,821.00	4,507.17	4,345.16	59,305.87
Total 2003	4,523.79	4,503.02	4,581.95	4,825.10	6,974.70	4,573.65	4,552.88	4,511.34	4,586.11	6,821.00	4,507.17	4,345.16	59,305.87
2004													
1135 D	4,823.65	4,879.05	4,842.12	7,136.24	4,657.48	4,588.24	4,491.30	4,375.90	4,163.56	5,903.76	3,854.30	3,849.68	57,565.28
Total 2004	4,823.65	4,879.05	4,842.12	7,136.24	4,657.48	4,588.24	4,491.30	4,375.90	4,163.56	5,903.76	3,854.30	3,849.68	57,565.28
2005													
1135 D	4,355.14	4,476.10	4,405.90	6,613.92	4,395.74	4,370.36	4,446.51	4,324.68	6,446.42	4,284.08	4,284.08	4,284.08	56,687.01
Total 2005	4,355.14	4,476.10	4,405.90	6,613.92	4,395.74	4,370.36	4,446.51	4,324.68	6,446.42	4,284.08	4,284.08	4,284.08	56,687.01
2006													
1270 D	5,604.60	5,493.84	8,527.84	5,672.92	5,891.68	6,268.28	6,305.20	6,366.12	9,567.64	6,329.20	6,282.12	6,279.36	78,588.80
1273 D	1,426.18	1,464.95	2,255.58	1,539.72	1,521.72	1,503.72	1,503.72	1,503.72	2,255.58	1,503.72	1,503.72	1,581.26	19,563.59
Total 2006	7,030.78	6,958.79	10,783.42	7,212.64	7,413.40	7,772.00	7,808.92	7,869.84	11,823.22	7,832.92	7,785.84	7,860.62	98,152.39

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143**

**COMMISSION STAFF'S SECOND SET
OF INFORMATION REQUESTS**

Item 26 of 80

Witness: Michael A. Miller

26. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 75 of 118.
- a. State the basis for the allocation.
 - b. Explain why a capitalization rate of 17 percent is used instead of the 18.25 percent used for other payroll-related costs.
 - c. State the number of active participants for each company listed.
 - d. Provide the Towers Perrin report supporting the total included in the schedule on page 75.

Response:

- a. The number of active participants.
- b. The 17% capitalization rate used in the original filing was in error. This is being corrected in the update to the filing to correct mathematical errors.
- c. Please see the attached schedules that provide the most current allocations based on active participants and most recent actuarially determined FAS 106 cost and the allocation participants included in the original filing. Please note that the most current data indicates an increase over the amount of FAS 106 costs included in the Company's filing.
- d. Please see the response to PSCDR2, questions 28 a. that provides the August 18, 2006 letter from Towers Perrin which is the latest document supporting the FAS 106 costs shown in part c. above.

For electronic version, refer to KAW_R_PSCDR2#26_061807.pdf

American Water
Allocation Percentages of Estimated FAS 106 Costs Before Purchase Accounting and Retiree Contributions
Fiscal Years 2007 - 2011

Retiree Welfare Plan: Annual Valuation
Using data collected as of July 1, 2005
Does not include \$500 VERA for AWW Union employees

COMPANY	Active	Company/locality	Inactive	Retirees and Dependents		Surviving Spouses	Total Participants	FAS 106 Cost Allocation %**	Contributions Allocation %***	2006	2007	2008	2009	2010	2011
				Actives	Dependents of Actives										
AMERICAN WATER WORKS COMPANY	26	99001,67	99001,67	23	7	4	2	0.56%	0.41%	136,660	125,280	114,840	114,840	104,400	94,540
AMERICAN WATER SERVICES (AET, L.P.)	1	99002	99002	1	1	-	2	0.02%	0.00%	5,116	4,720	4,320	3,960	3,600	3,260
AMERICAN WATER RESOURCES	21	21	21	-	1	1	2	0.01%	0.06%	2,568	2,360	2,160	1,960	1,800	1,630
AMERICAN WATER WORKS COMPANY (Parent Division)	2	2	2	-	17	12	31	0.97%	0.97%	0	0	0	0	0	0
AWW SERVICE COMPANY															
Voorhees	31 or 3/5	31 or 3/5	31 or 3/5	103	83	55	394	4.61%	4.94%	1,179,249	1,087,960	995,760	912,760	829,800	751,430
Bellefonte, IL Lab (R)	3/2	3/2	3/2	32	1	-	55	0.39%	0.03%	98,763	92,040	84,240	77,220	70,200	63,570
Hershey, PA Data Center (W)	3/7	3/4	3/4	49	6	3	97	0.11%	0.28%	29,138	25,960	23,760	21,760	19,600	17,930
New England (K)	3/4	3/4	3/4	-	2	1	3	0.00%	0.09%	0	0	0	0	0	0
Richmond, IN Data Center (H)	3/3	3/3	3/3	-	6	3	8	0.10%	0.28%	25,580	23,600	21,600	19,600	18,000	16,300
Western (L)	3/6	3/6	3/6	18	10	4	28	0.27%	0.16%	69,067	63,720	58,320	53,460	48,600	44,010
Haddon Heights IS	3/9	3/9	3/9	5	4	2	11	0.04%	0.13%	10,232	9,440	8,640	7,920	7,200	6,520
Northeast Region	3/10	3/10	3/10	9	2	2	13	0.00%	0.13%	204,642	186,800	172,800	158,400	144,000	130,400
Southeast Region	3/11	3/11	3/11	20	2	-	25	0.80%	0.09%	590,904	545,160	498,960	457,980	415,800	376,530
Illinois Region	3/12	3/12	3/12	14	2	2	18	0.08%	0.13%	15,348	14,160	12,960	11,880	10,800	9,780
Illinois Region	3/13	3/13	3/13	26	1	1	28	0.08%	0.06%	396,262	366,360	326,160	296,980	271,800	246,130
Alton, IL Call Center	3/14	3/14	3/14	18	13	2	34	0.25%	0.09%	63,951	59,000	54,000	49,500	45,000	40,750
Shared Services	3/15	3/15	3/15	59	4	-	63	1.18%	0.09%	301,847	278,480	254,880	233,640	212,400	192,340
Permiscola Call Center	3/15	3/15	3/15	59	4	-	63	0.02%	0.09%	5,116	4,720	4,320	3,960	3,600	3,260
ITS	3/15	3/15	3/15	59	4	-	63	1.19%	0.09%	304,405	280,640	257,400	235,620	214,200	193,970
Total AAWWS	417	316	316	117	75	20	945	9.40%	0.22%	1,092,321	984,400	896,400	792,000	720,000	652,000
								13.24%	6.63%	3,866,824	3,124,640	2,859,840	2,621,520	2,383,200	2,158,120
NORTHEAST REGION															
LONG ISLAND	38	38	38	89	47	32	273	2.76%	2.53%	711,131	666,080	600,480	550,440	500,400	453,140
NEW JERSEY - AM	18	18	18	360	212	133	715	11.36%	11.54%	2,813,590	2,688,040	2,460,240	2,255,220	2,050,200	1,856,570
Total Northeast Region	56	56	56	449	259	165	988	14.17%	14.07%	3,624,721	3,344,120	3,060,720	2,805,660	2,550,600	2,309,710
SOUTHEAST REGION															
KENTUCKY - AM	12	12	12	96	43	32	171	3.07%	2.56%	785,313	724,520	663,120	607,860	562,600	500,410
MARYLAND - AM	13	13	13	7	11	11	37	0.40%	0.69%	102,321	94,400	86,400	79,200	72,000	65,200
PENNSYLVANIA - AM	24	24	24	915	772	487	2,164	23.65%	25.77%	8,049,728	7,581,400	6,988,400	6,462,700	5,957,000	5,442,420
TENNESSEE - AM	26,107	26,107	26,107	104	83	75	324	3.34%	4.29%	854,380	786,240	721,440	661,320	601,200	544,420
VIRGINIA - AM - EASTERN DISTRICT	42	42	42	7	6	-	13	0.13%	0.00%	33,264	30,660	28,080	25,740	23,400	21,190
VIRGINIA - AM	27	27	27	61	34	27	122	1.94%	2.22%	496,257	457,840	419,040	384,120	349,200	316,220
WEST VIRGINIA - AM	28	28	28	306	280	155	861	8.35%	9.42%	2,135,950	1,870,600	1,693,600	1,553,200	1,403,000	1,261,050
Total Southeast Region	1,531	1,287	1,287	805	518	114	4,255	40.86%	44.95%	10,457,204	9,647,680	8,830,080	8,094,240	7,368,400	6,663,440
CENTRAL REGION															
ILLINOIS - AM	9	9	9	235	190	123	548	8.22%	10.60%	2,102,696	1,939,920	1,775,520	1,627,560	1,479,600	1,339,860
INDIANA - AM	10	10	10	311	264	168	743	7.84%	8.38%	2,005,491	1,850,240	1,693,440	1,552,320	1,411,200	1,277,920
IOWA - AM	11	11	11	53	35	28	116	1.80%	2.22%	460,444	424,800	388,800	356,400	324,000	293,400
MICHIGAN - AM	16	16	16	7	6	9	18	0.16%	0.16%	46,044	42,480	38,880	35,640	32,400	29,340
MISSOURI - AM	17	17	17	238	198	73	514	5.78%	4.32%	1,478,538	1,364,080	1,248,480	1,144,640	1,040,400	942,140
OHIO - AM	22	22	22	84	55	33	172	1.90%	2.28%	486,025	448,400	410,400	376,200	342,000	309,700
Total Central Region	962	811	811	502	314	178	2,667	26.72%	27.96%	6,579,239	6,069,920	5,555,320	5,092,660	4,629,600	4,192,360
WEST REGION															
CALIFORNIA - AM	5	5	5	149	128	68	345	3.86%	3.86%	992,513	915,680	838,080	768,240	698,400	632,440
NEW MEXICO - AM	19	19	19	16	13	10	39	0.63%	0.63%	122,785	113,280	103,680	95,040	86,400	78,240
HAWAII - AM	30	30	30	16	13	-	28	0.29%	0.00%	74,183	68,440	62,640	57,420	52,200	47,270
ARIZONA - AM	29/65	29/65	29/65	10	9	4	24	0.33%	0.16%	84,415	77,880	71,280	65,340	59,400	53,790
Total West Region	150	153	153	82	55	12	302	4.98%	4.67%	1,273,896	1,175,280	1,075,680	986,040	896,400	811,740
TOTAL SYSTEM	3,652	3,050	3,050	1,795	1,148	254	9,859	100.00%	100.00%	\$25,560,244	\$23,600,000	\$21,600,000	\$19,800,000	\$18,000,000	\$16,300,000

American Water
Allocation Percentages of Estimated FAS 106 Costs Before Purchase Accounting and Retiree Contributions
Fiscal Years 2007 - 2011
 Retiree Welfare Plan: Annual Valuation
 Using data collected as of July 1, 2005
 Does not include \$600 VEBA for AWW Union employees

Total

COMPANY Kentucky American Water 2007 Annual Business Plan Line 14 - OPEBS	Company/Locality	Retirees and Dependents			Surviving Spouses	Total Participants	FAS 106 Cost Allocation %**	Contributions Allocation %**	2006	2007	2008	2009	2010	2011
		Actives	Dependents of Actives	Retirees and Disableds										
SOUTHEAST REGION														
KENTUCKY - AM	12	120	98	43	32	7	300	3.07%	785,313	585,000	548,600	512,200	475,800	442,000
MARYLAND - AM	13	8	7	11	11	-	37	0.89%	102,321	94,400	86,400	79,200	72,000	65,200
PENNSYLVANIA - AM	24	915	772	487	276	61	2,511	23.65%	6,049,728	5,561,400	5,108,400	4,682,700	4,257,000	3,854,950
TENNESSEE - AM	26,107	104	83	75	51	11	324	3.34%	854,380	788,240	721,440	661,320	601,200	544,420
VIRGINIA - AM - EASTERN DISTRICT	42	7	6	-	-	-	13	0.13%	33,254	30,680	28,080	25,740	23,400	21,190
VIRGINIA - AM	27	71	61	34	27	10	203	1.94%	496,257	457,840	419,040	384,120	349,200	316,220
WEST VIRGINIA - AM	28	306	260	155	121	25	867	8.35%	2,135,950	1,970,600	1,803,600	1,653,300	1,503,000	1,361,050
Total Southeast Region		1,531	1,287	805	518	114	4,255	40.88%	10,457,204	9,508,160	8,715,560	7,998,560	7,281,600	6,605,030

KY	Expense per Month Cap%	Budget Expense/month	FAS 106 Cost Allocation %**	Contributions Allocation %**	2006	2007	2008	2009	2010	2011	PBOP
		0			65,443	48,750	45,717	42,663	39,650	36,833	
	6.00%	0			11,125	8,288	7,772	7,256	6,741	6,262	
		0	17%		54,318	40,463	37,945	35,427	32,910	30,572	
					651,810	485,550	455,338	425,126	394,914	366,860	
					505,100	485,550	455,338	425,126	394,914	366,860	

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143**

**COMMISSION STAFF'S SECOND SET
OF INFORMATION REQUESTS**

Item 27 of 80

Witness: Michael Miller

27. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, pages 75 and 77 of 118.
- a. State the basis of allocation on page 75.
 - b. Provide the schedules for the allocations for the previous 5 calendar years.
 - c. On each schedule provided in response to Item 27(b), provide the number of active participants in each plan for each company.

Response:

- a. See the response to PSCDR2, question 26 a.
- b. See the attached documents for the allocation participants used for 2004, 2005 and 2006 which provide the active participants and allocation factors for FAS 106 expense. The document with the requested data for 2007-2011 is attached to the response to PSCDR2, question 26 c. The Company has not been able to locate the data for 2003 at this time.
- c. Please see the response to part b. above.

For electronic version, refer to KAW_R_PSCDR2#27_061807.pdf



American Water
Preliminary Allocation Percentages of 2004 FAS 106 Cost and Retiree Contributions

Retiree Welfare Plan, Annual Valuation
Using data collected as of July 1, 2003

COMPANY	Active		Dependents and Disableds		Retirees and Disableds		Total		FAS 106 Cost Allocation %**
	Males	Females	Actives	Dependents of Actives*	Disableds	Retirees and Disableds	Surviving Spouses	Total Participants	
AMERICAN WATER WORKS COMPANY	1	6	7	5	3	2	2	17	0.17%
AMERICAN WATER SERVICES (AAET, L.P.)	19	4	23	20	12	7	3	65	0.64%
AMERICAN WATER SERVICES (Corp)	5	-	5	5	8	8	-	26	0.26%
AMERICAN WATER RESOURCES	-	-	-	-	1	1	1	2	0.02%
AWW SERVICE COMPANY									
Voorhees	79	55	134	104	93	71	22	424	4.17%
Belleville, IL Lab (R)	10	25	35	24	1	60	-	60	0.59%
Hershey, PA Data Center (W)	24	9	33	27	6	3	-	69	0.68%
New England (K)	-	-	-	-	1	1	-	2	0.02%
Richmond, IN Data Center (H)	1	1	2	2	3	2	-	9	0.09%
Western (L)	9	8	17	13	2	1	-	33	0.32%
Haddon Heights IS	9	5	14	11	-	-	-	25	0.25%
Northeast Region	9	5	14	11	1	1	-	27	0.27%
Southeast Region	21	7	28	23	1	1	-	52	0.51%
Indiana Region	9	3	12	10	1	1	-	24	0.24%
Illinois Region	7	18	25	17	-	-	-	42	0.41%
Alton, IL Call Center	15	10	25	20	-	-	-	45	0.44%
Shared Services	41	69	110	78	1	1	-	190	1.87%
Total AWWs	234	215	449	340	110	81	22	1,002	9.86%
CALIFORNIA - AM	124	19	143	123	68	60	10	404	3.97%
HAWAII - AM	17	2	19	17	-	-	-	36	0.35%
ILLINOIS - AM	223	59	282	236	187	138	23	866	8.51%
INDIANA - AM	266	81	347	288	115	87	22	859	8.44%
IOWA - AM	48	14	62	52	34	31	9	186	1.85%
KENTUCKY - AM	92	42	134	109	37	30	5	315	3.10%
LONG ISLAND	24	6	30	25	-	-	-	55	0.54%
MARYLAND - AM	8	1	9	8	11	11	-	39	0.38%
MICHIGAN - AM	4	2	6	5	4	2	-	17	0.17%
MISSOURI - AM	423	80	314	263	58	46	7	688	6.76%
NEW JERSEY - AM	368	88	456	384	198	145	28	1,211	11.89%
NEW MEXICO - AM	15	7	22	18	7	7	1	55	0.54%
OHIO - AM	57	15	72	60	33	31	9	205	2.01%
ARIZONA - AM	8	1	9	8	5	5	1	28	0.28%
PENNSYLVANIA - AM	769	187	956	804	478	362	55	2,655	26.08%
TENNESSEE - AM	75	45	120	94	59	48	10	331	3.25%
VIRGINIA - AM - EASTERN DISTRICT	5	2	7	6	-	-	-	13	0.13%
VIRGINIA - AM	62	15	77	65	33	28	10	213	2.09%
WEST VIRGINIA - AM	257	58	313	265	152	133	24	887	8.71%
TOTAL SYSTEM	###	947	3,862	3,200	1,613	1,263	239	10,177	100.00%

* Based on assumption that 90% of active males and 60% of active females will be married at retirement.

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

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

American Water
Preliminary Allocation Percentages of 2005 FAS 106 Cost and Retiree Contributions
Retiree Welfare Plan: Annual Valuation
Using data collected as of July 1, 2004

COMPANY	Total					FAS 106 Cost Allocation %**	
	Actives	Dependents and of Retirees Disabled	Retirees and Disabled	Surviving Spouses	Total Participants		
AMERICAN WATER WORKS COMPANY	-	-	5	4	-	9	0.09%
AMERICAN WATER SERVICES (AAET, L.P.)	26	23	7	4	2	62	0.69%
AMERICAN WATER SERVICES (Corp)	1	1	-	-	-	2	0.02%
AMERICAN WATER RESOURCES	-	-	1	1	-	2	0.02%
AMERICAN WATER WORKS COMPANY (Parent Division)	-	-	17	12	2	31	0.31%
AWW SERVICE COMPANY							
Northwest	133	103	89	55	20	394	3.99%
Belleville, IL Lab (R)	32	22	1	-	-	55	0.58%
Hershey, PA Data Center (W)	46	39	6	3	-	97	0.98%
New England (K)	-	-	2	1	-	3	0.03%
Richmond, IN Data Center (H)	-	-	5	3	-	9	0.09%
Western (L)	13	10	4	1	-	28	0.28%
Haddon Heights IS	5	4	2	2	-	13	0.13%
Northwest Region	12	9	2	2	-	25	0.25%
Southeast Region	24	20	2	1	-	47	0.47%
Indiana Region	14	11	2	2	-	29	0.29%
Illinois Region	34	26	1	1	-	62	0.63%
Allton, IL Call Center	18	13	2	1	-	34	0.34%
Shared Services	83	59	4	3	-	149	1.51%
Total AWW	417	316	117	75	20	945	9.55%
NORTHEAST REGION							
LONG ISLAND	103	89	47	32	2	273	2.76%
NEW JERSEY - AM	422	360	212	133	24	1,151	11.63%
Total Northeast Region	525	449	259	165	26	1,424	14.39%
SOUTHEAST REGION							
KENTUCKY - AM	120	98	43	32	7	300	3.03%
MARYLAND - AM	8	7	11	11	-	37	0.37%
PENNSYLVANIA - AM	915	772	487	276	61	2,511	25.39%
TENNESSEE - AM	104	83	75	51	11	324	3.27%
VIRGINIA - AM - EASTERN DISTRICT	7	6	-	-	-	13	0.13%
VIRGINIA - AM	71	61	34	27	10	203	2.05%
WEST VIRGINIA - AM	306	260	155	121	25	867	8.75%
Total Southeast Region	1,531	1,287	805	518	114	4,255	42.98%
CENTRAL REGION							
ILLINOIS - AM	279	235	190	123	26	653	6.62%
INDIANA - AM	311	264	188	79	21	843	8.52%
IOWA - AM	63	53	35	28	8	187	1.89%
MICHIGAN - AM	7	6	3	2	-	18	0.18%
MISSOURI - AM	288	198	73	51	14	574	5.80%
OHIO - AM	64	55	33	31	9	192	1.94%
Total Central Region	962	811	502	314	78	2,667	26.95%
WEST REGION							
CALIFORNIA - AM	149	128	68	46	10	401	4.05%
NEW MEXICO - AM	16	13	10	9	1	49	0.49%
HAWAII - AM	15	13	-	-	-	28	0.28%
ARIZONA - AM	10	9	4	-	1	24	0.24%
Total West Region	180	163	82	55	12	502	5.06%
TOTAL SYSTEM	3,652	3,050	1,795	1,148	254	9,899	100.00%

* Based on assumption that 90% of active males and 60% of active females will be married at retirement.

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

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

04/04/03

American Water
Allocation of 2003 FAS 106 Cost and Retiree Contributions
Retiree Welfare Plan: Annual Valuation
Using data collected as of July 1, 2002

COMPANY	Actives	Dependents of Actives*	Retirees and Disableds	Dependents of Retirees and Disableds	Surviving Spouses	Total Participants	FAS 106 Cost Allocation %**	Allocation of FAS 106 Cost	Contributions Allocation %***	Allocation of Expected Retiree Contributions
AMERICAN WATER WORKS COMPANY	9	6	1	1	-	17	0.17%	41,334	0.07%	897
AMERICAN WATER SERVICES (Dedham)	23	20	12	7	4	66	0.65%	158,042	0.76%	9,734
AMERICAN WATER SERVICES (Corp)	6	5	12	10	-	33	0.33%	80,237	0.73%	9,350
AMERICAN WATER RESOURCES	-	-	1	1	-	2	0.02%	4,863	0.07%	897
AWW SERVICE COMPANY										
Voorhees	137	107	90	69	23	426	4.20%	1,021,195	6.00%	76,847
Bellefonte, IL Lab (R)	39	28	-	-	-	67	0.65%	160,474	0.00%	0
Hershey, PA Data Center (W)	26	20	5	2	-	53	0.52%	126,434	0.23%	2,946
New England (K)	-	-	1	1	-	2	0.02%	4,863	0.07%	897
Richmond, IN Data Center (H)	3	2	3	2	-	10	0.10%	24,314	0.16%	2,049
Western (L)	25	19	2	1	-	47	0.46%	111,845	0.10%	1,281
Haddon Heights IS	12	9	-	-	-	21	0.21%	51,069	0.00%	0
Northeast Region	14	11	1	1	-	27	0.27%	65,848	0.07%	897
Southeast Region	19	15	1	-	-	35	0.34%	82,668	0.03%	384
Indiana Region	8	6	-	-	-	14	0.14%	34,040	0.00%	0
Illinois Region	10	7	-	-	-	17	0.17%	41,334	0.00%	0
Alton, IL Calif Center	31	23	-	-	-	54	0.53%	128,865	0.00%	0
Shared Services	117	83	1	1	-	202	1.99%	483,852	0.07%	897
Total AWW	441	330	104	77	23	975	9.61%	2,336,592	6.73%	86,198
CALIFORNIA - AM	137	117	67	56	9	386	3.80%	923,839	4.36%	55,842
HAWAII - AM	19	17	-	-	-	36	0.35%	85,100	0.00%	0
ILLINOIS - AM	312	254	181	129	28	904	8.91%	2,166,393	11.15%	142,808
INDIANA - AM	361	299	115	85	18	878	8.65%	2,103,176	7.19%	92,089
IOWA - AM	69	56	31	27	8	191	1.88%	457,105	2.18%	27,921
KENTUCKY - AM	140	113	35	28	4	320	3.15%	765,895	2.21%	28,305
LONG ISLAND	27	22	-	-	-	49	0.48%	116,708	0.00%	0
MARYLAND - AM	11	9	8	8	-	36	0.35%	85,100	0.53%	6,788
MICHIGAN - AM	7	6	3	2	-	18	0.18%	43,766	0.17%	2,177
MISSOURI - AM	266	219	52	40	9	586	5.77%	1,402,928	3.33%	42,650
NEW JERSEY - AM	452	380	196	143	28	1,199	11.81%	2,871,504	12.11%	155,102
NEW MEXICO - AM	22	18	7	6	1	54	0.53%	128,865	0.46%	5,892
OHIO - AM	82	68	30	28	11	219	2.16%	525,186	2.26%	29,202
ARIZONA - AM	10	8	5	4	1	28	0.28%	68,080	0.33%	4,227
PENNSYLVANIA - AM	972	818	479	359	59	2,697	26.48%	6,438,393	29.60%	379,112
TENNESSEE - AM	126	99	56	43	11	335	3.30%	802,368	3.63%	46,483
VIRGINIA - AM - EASTERN DISTRICT	6	5	-	-	-	11	0.11%	26,746	0.00%	0
VIRGINIA - AM	80	67	33	28	8	216	2.13%	517,892	2.26%	28,202
WEST VIRGINIA - AM	327	278	146	126	26	903	8.90%	2,163,981	9.83%	125,901
TOTAL SYSTEM	3,905	3,214	1,574	1,208	248	10,149	100.00%	\$24,314,174	100.00%	\$1,280,787

* Based on assumption that 90% of actives males and 60% of active females will be married at retirement.
 ** The allocation percentage for each company is equal to the ratio of total participants for that company to total participants for the entire American system.
 *** The allocation percentage for retiree contributions is equal to the ratio of total inactive participants for that company to total inactive participants for the entire American system.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143**

**COMMISSION STAFF'S SECOND SET
OF INFORMATION REQUESTS**

Item 28 of 80

Witness: Michael Miller

28. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 74 of 118, Five-Year Projection of Postretirement Welfare Cost.
- a. Provide the letter of August 18, 2006 referenced in the footnote on this page.
 - b. Provide the most recent Towers Perrin actuarial report on OPEBS.

Response:

- a. Please see the attached document.
- b. Please see the attached document.

For the electronic version, refer to KAW_R_PSCDR2#28_061807.pdf



PRIVATE AND CONFIDENTIAL

August 18, 2006

Mr. Ed Keiffer
Director Accounting
American Water
1025 Laurel Oak Road
Voorhees, NJ 08043-7770

Dear Ed:

American Water – Pension and Postretirement Welfare Projections

As requested, attached are five-year projections for the current American Water and Elizabethtown Water sponsored qualified and postretirement welfare (PRW) plans. The projections are as follows:

- For the qualified pension plans
 - the IRS minimum required contributions for the plan years beginning in 2006 through 2010, (e.g., for the AW pension plan this is the plan year beginning July 1, 2006 through the plan year beginning July 1, 2010)
 - the accounting costs under FAS 87 before purchase accounting, FAS 87 after purchase accounting, and IAS 19 for fiscal years 2006 through 2011
- For the PRW plans, the accounting costs under FAS 106 before purchase accounting, FAS 106 after purchase accounting and IAS 19 and the cash costs for fiscal years 2006 through 2011. All projections reflect the subsidy provided under Medicare Part D.

Qualified Pension Plan Projections

The projected FAS 87 accounting costs (before and after purchase accounting) and IAS 19 accounting costs (split by OR cost and IC cost) are summarized in Exhibit 1, and the projected minimum required contributions are summarized in Exhibit 2. The results are shown on a plan by plan basis for each qualified plan.

Mr. Ed Keiffer
August 18, 2006
Page 2.



The projections are based on the data and results of the:

- July 1, 2005 funding and January 1, 2006 accounting actuarial valuations for the AW pension plan
 - Assets as of June 30, 2006
 - Census data as of June 30, 2005
- January 1, 2006 actuarial valuation for the Elizabethtown pension plan
 - Assets as of June 30, 2006
 - Obligations as of December 31, 2005 reflecting assumption changes and plan changes but based on the census data as of January 1, 2006
- We reflected the plan merger of the E'town plan into AW plan as of December 31, 2006. This will cause a mid-year remeasurement for funding purposes.
- We reflected the E'town curtailment for 2006.
- For funding purposes, we captured the plan changes for both the AW pension plan and E'town pension plan effective January 1, 2006 (see Exhibit A for details).
 - This includes changes for AW union and nonunion, E'town union and nonunion and Long Island union.
 - These changes were already reflected for 2006 accounting costs and are now reflected for 2006 plan year contributions.
- We did not anticipate any plan changes (e.g., changes that may be attributable to future union negotiations for any union employees) after January 1, 2006 (except known LI union changes as of January 1, 2008 and January 1, 2010) for the projection period.
- Since the AW plan is closed to new hires (for most of the population), we reflected 5% turnover per year (terminations and retirements) for current employees.
 - Based on a historical demographic analysis that we recently conducted, the valuation assumptions indicate that a 5% turnover rate is reasonable for the projection period.
 - As was assumed in the projections produced in February, we assumed that AW does not expect significant reductions or increases in headcount over the projection period.
- We assumed that AW contributes the minimum required contribution on a quarterly basis – consistent with current practice.

Mr. Ed Keiffer
August 18, 2006
Page 3.



- Recently, the Senate has passed the Pension Protection Act (PPA) of 2006.
 - The new funding rules will be effective for plan years beginning in 2008.
 - The interest rate relief of 2004 and 2005 is extended to the 2006 and 2007 plan years. Below are the assumed Current Liability (CL) rates. For the July 1, 2006 and July 1, 2007 plan years, the CL rates assume that the composite corporate bond yield for July 2006 of 6.15% remains constant over the projection period. We also reflected an update to the CL mortality table as of July 1, 2007 from the 1983 GAM table to the expected mortality table, the RP 2000 table with adjustments.
 - Under the new rules, the funding target will be 100% of the accrued liability with a potential three-year transition.
 - The interest rate used to determine the funding target will be determined using three "segment" interest rates based on a high-quality corporate bond yield curve, averaged over 24 months. There is a three-year phase-in from current corporate bond rates to new segment rates from 2008-2010. However, the employer can opt out of the transition. American Water may elect to use the full yield curve of interest without any averaging. Based on our discussions, AW has chosen to allow the interest rate be transitioned to the full yield curve over 3-years for purposes of these projections.

Plan year	As of July 1 st
	3-year transition
2006*	5.77%
2007**	5.90%
2008***	6.10%
2009***	6.20%
2010***	6.23%

- * The CL interest rate for the E'town plan as of January 1, 2006 is 5.77%.
- ** The CL interest rates for 2006 and 2007 are based on the corporate bond yields over 4 years.
- *** For the years 2008, 2009 and 2010, the interest rates are estimated based on the new funding rules.

- The mortality table to determine the liabilities was updated to meet the new expected requirements in 2007, i.e., the RP2000 table with adjustments.
- Assets are smoothed over three years instead of the current five-year period, using the new 90%-110% corridor.
- The new rules provide an increased funding target if the plan is deemed to be "at-risk". We have projected AW pension plan's "at-risk" status. The "at-risk" test requires that the plan is below 80% without reflecting at-risk provisions and less than 70% after reflecting the "at-risk" assumptions. We have only completed the 80% test and have determined that the plan is not "at-risk" during the projection period, based on the assumptions used.

Mr. Ed Keiffer
August 18, 2006
Page 4.



- The projections reflect all of the assumptions discussed at the December assumption setting meeting – retirement rates, termination rates, mortality table (where not prescribed), EROA, salary increase rate, etc.
- We did not reflect:
 - Any potential changes to the accounting rules for either FAS or IAS
 - Future plan changes that have not yet been negotiated or determined, other than Long Island
 - The impact of the IPO, if any, that will be issued by AW
 - Potential partial plan termination for E'town

Postretirement Welfare Plan Projections

The projected FAS 106 accounting costs (before and after purchase accounting), the IAS 19 accounting costs and the Estimated Cash Contributions are reflected in Exhibit 3. The accounting costs are shown after reflecting Medicare Part D. The results are shown separately for each plan.

Basis of Projections

The projections are based on the data and results of the:

- The January 1, 2006 accounting valuation for the AW plan, St. Louis plan and Northern Illinois plan
- The January 1, 2005 actuarial valuations for the E'town plan rolled forward to December 31, 2005 and adjusted for assumption changes and curtailment as of January 1, 2006
- We reflected the E'town curtailment for 2006.
- We reflected the plan mergers of St. Louis and E'town into AW plan as of December 31, 2006
- Since the AW plan and E'town plan are closed to new hires (for most of the population), we assumed a 5% per year turnover assumption for current employees.
- We reflected the impact of the federal subsidy due to Medicare Part D in the current AW, E'town and St. Louis postretirement welfare costs.
- We assumed the RWE promise remains in effect for the entire projection period

Mr. Ed Keiffer
August 18, 2006
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- We assumed pre-65 retiree contributions for both union and non-union legacy AW (not covered by RWE promise) are based on the active union contributions set forth in the union contract. After 2010, we assume the 2010 contributions are increased with assumed health care trend.
- For E'town VEBA assets, we adjusted the assets by \$1.7M to reflect the reimbursement of benefit payments from the VEBA to the company, as discussed.
- We did not reflect:
 - Any potential changes to the accounting rules for either FAS or IAS
 - Future plan changes not yet determined, including any plan changes that may be attributable to future union negotiations for any union employees
 - Divestiture of AW and the potential impact on the accounting costs
 - The cost of the \$500/year VEBA benefit

Assumptions and Methods

The key assumptions and methods that have been used in the projections are summarized below:

Baseline Accounting Assumptions

- 5.65% discount rate for all plans for fiscal year 2006 and 6.15% discount rate for all plans for fiscal years 2007 and thereafter, as discussed. The Moody's Aa bond yield as of August 10, 2006 was 6.00%.
- 4.25% compensation increase rate per year
- 8.25% expected return on asset rate (pre-tax); 7.95% expected return on asset rate for the AW PRW plan (this represents a blended rate for the combination of taxable and nontaxable VEBAs). For the Elizabethtown Water PRW plan, 8.25% for Bargaining VEBA and 5.15% for the nonbargaining VEBA (this is about 6.7% for the entire plan).
- The RP 2000 table projected to 2015 with phase-out reflecting white/blue collar mortality for FAS 87/106, IAS 19 and going-concern funding for AW pension plan (for 2006 and 2007 plan years).

Mr. Ed Keiffer
August 18, 2006
Page 6.



■ Medical Trend Rate:

<u>Year</u>	<u>Rate</u>
2006	10%
2007	9%
2008	8%
2009	7%
2010	6%
2011+	5%

- For the AW pension plan, the accounting cost estimates assume AW will make the minimum required contribution for the respective plan year on a quarterly basis for the AW pension plan (consistent with current practice)
- For the AW PRW plan, St. Louis PRW plan and Elizabethtown PRW plan, contributions equal to the FAS 106 cost (before reflecting purchase accounting) were assumed to be made on a quarterly basis and were assumed to be fully deductible. This scope does not include an analysis of the tax-deductible limits for the projection period.

Baseline Pension Funding Assumptions

- Interest rate for determining the funding target for the AW pension plan were described earlier and based on a yield curve and the estimated benefit payments of the plan.
- 4.25% compensation increase rate per year for funding purposes
- Current liability interest rates as described earlier which represent estimates of the highest allowable rates that American can use. The interest rate relief of 2004 and 2005 continues for the 2006 and 2007 plan years. The projected current liability interest rate assumes that the Composite Corporate Bond Yield of 6.15%, in effect as of July 2006, remains constant until June 2007.
- The target liability interest rates for years on and after July 1, 2008 were projected assuming the yield curve as of July 31, 2006 stays constant. The interest rates are calculated based on AW plan's expected benefit payments.
- The mortality assumption was updated from 1983 GAM to RP2000 table that we expect to be prescribed by the IRS on and after July 1, 2007 (for Current Liability purposes). The RP2000 table is adjusted to provide mortality improvements to the current valuation year plus an additional fixed period of improvements

Mr. Ed Keiffer
August 18, 2006
Page 7.



General Assumptions Applicable to Accounting and Funding

- We used actual assets as of June 30, 2006. For the remainder of 2006 and all periods after 2006, we assumed an 8.25% investment return (annualized).
- We assumed that actual experience (asset returns, medical trend, mortality rates, etc.) matched the assumptions throughout the projection period. To the extent that actual experience differs from assumed experience these projections will change.
- Turnover rate was assumed to be 5% per year for calculating the service cost for plans that are closed to new hires.

Next Steps

In this projection, we have calculated minimum required contributions for plan years 2006 and later for the qualified pension plan. We understand that AW has made a decision on strategic contributions to be made through 2006.

The Pension Protection Act is the largest pension bill enacted in 30 years. It fundamentally changes contribution amounts and funding strategies. We recommend a meeting with AW to discuss the provisions of the Pension Protection Act and its implications for AW.

* * * *

Please let us know when would be a convenient time to meet to discuss the new law.

Sincerely,

Handwritten signature of Roy Costa.

Roy Costa, FSA
Senior Consultant

Direct Dial: 215-246-6675

Handwritten signature of Sheri X. DeCristofaro.

Sheri X. DeCristofaro, FSA
Consultant

215-246-6297

cc: Bob Sievers — American Water
Cynthia C. King, FSA — Towers Perrin/Philadelphia

Attachments

S:\00270\06RETWP\TEAM\AW 5YEAR PROJECTION_JAN.DOC

Exhibit 1

American Water
Five-Year Projection of Qualified Pension Plan Accounting Costs*

(\$ in Millions)

Estimated FAS 87 Cost Before Purchase Accounting

Plan Year	2006	2007	2008	2009	2010	2011
American Water	\$40.3	\$31.4	\$26.6	\$21.3	\$15.9	\$9.7
Elizabethtown ⁽¹⁾	\$2.4	N/A	N/A	N/A	N/A	N/A

Estimated FAS 87 Cost After Purchase Accounting

Plan Year	2006	2007	2008	2009	2010	2011
American Water	\$28.6	\$25.2	\$21.3	\$16.9	\$12.4	\$7.5
Elizabethtown ⁽¹⁾	\$2.4	N/A	N/A	N/A	N/A	N/A

Estimated IAS 19 Cost

		2006	2007	2008	2009	2010	2011
American Water	IC	\$ 5.7	\$ 3.6	\$ 0.0	\$ (4.1)	\$ (8.3)	\$(12.9)
	OR	\$ 21.6	\$ 20.7	\$ 21.9	\$ 21.0	\$ 21.2	\$ 20.2
	Total	\$ 27.3	\$ 24.3	\$ 21.9	\$ 16.9	\$ 12.9	\$ 7.3
Elizabethtown ⁽¹⁾	IC	\$ (0.1)	N/A	N/A	N/A	N/A	N/A
	OR	\$ 3.1	N/A	N/A	N/A	N/A	N/A
	Total	\$ 3.0	N/A	N/A	N/A	N/A	N/A

⁽¹⁾ 2006 accounting costs for the Elizabethtown plan reflected the curtailment as of January 1, 2006.

* Please see the letter dated August 18, 2006 for additional details

Exhibit 1

American Water
Five-Year Projection of Qualified Pension Plan Accounting Costs*

Assumptions

- Discount Rate: 5.65% for 2006, 6.15% for subsequent years
- Expected Return on Assets: 8.25%
- Actual Return on Assets: Actual asset values as of June 30, 2006, then assumed to earn 8.25% per annum in the projection period
- Mortality: RP2000 projected to 2015 with phase-out reflecting a 50% white collar and 50% blue collar blend
- Salary Increase Rate: 4.25% per year

* Please see the letter dated August 18, 2006 for additional details.

Exhibit 2

American Water
Five-Year Projection of Qualified Pension Funding Requirements*
(\$ in Millions)

Estimated ERISA Minimum Required Contribution

Plan Year	2006	2007	2008	2009	2010	2011
American Water	\$6.4	\$59.0	\$56.2	\$52.0	\$50.4	\$47.4
Elizabethtown	\$1.7	N/A	N/A	N/A	N/A	N/A

Assumptions

- Interest Rate: 8.25% for AW plan and Elizabethtown plan
- Current Liability Interest Rate (Target Liability Interest Rate after 2007)

<u>Plan Year</u>	<u>AW Plan as of July 1</u>
2006	5.77%
2007	5.90%
2008	6.10%
2009	6.20%
2010	6.23%

- Mortality: AAL: RP2000 projected to 2015 with phase-out reflecting a 50% white collar and 50% blue collar blend
CL/Target Liability: 1983 GAM for 2006, RP2000 with adjustments thereafter
- Salary Increase Rate: 4.25% per year

Note: The 2006 contribution for the AW plan reflected the strategic contributions that AW plans to make for the 2006 plan year.

* Please see the letter dated August 18, 2006 for additional details.

Exhibit 3

American Water
Five-Year Projection of Postretirement Welfare Cost
(\$ in Millions)

FAS 106 Cost Before Purchase Accounting

Plan Year	2006	2007	2008	2009	2010	2011
American Water	\$25.6	\$22.5	\$21.1	\$19.7	\$18.3	\$17.0
St. Louis	\$0.8	n/a	n/a	n/a	n/a	n/a
Northern Illinois	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Elizabethtown ⁽¹⁾	\$1.2	n/a	n/a	n/a	n/a	n/a

FAS 106 Cost After Purchase Accounting

Plan Year	2006	2007	2008	2009	2010	2011
American Water	\$16.3	\$13.5	\$12.5	\$11.5	\$10.5	\$9.5
St. Louis	\$(0.2)	n/a	n/a	n/a	n/a	n/a
Northern Illinois	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03	\$0.03
Elizabethtown ⁽¹⁾	\$1.2	n/a	n/a	n/a	n/a	n/a

⁽¹⁾ 2006 accounting costs for the Elizabethtown plan reflected the curtailment as of January 1, 2006.

Please see the letter dated August 18, 2006 for additional details.



August 18, 2006

Exhibit 3

American Water
Five-Year Projection of Postretirement Welfare Cost*
(\$ in Millions)

Estimated Cash Contributions

Plan Year	2006	2007	2008	2009	2010	2011
American Water	\$25.6	\$22.5	\$21.1	\$19.7	\$18.3	\$17.0
St. Louis	\$0.4	n/a	n/a	n/a	n/a	n/a
Northern Illinois	\$0.05	\$0.06	\$0.06	\$0.06	\$0.06	\$0.07
Elizabethtown	\$1.2	n/a	n/a	n/a	n/a	n/a

Assumptions

- Discount Rate: 5.65% for 2006, 6.15% for subsequent years
- Expected Return on Assets: 8.25% (pre-tax) or 7.95% (blended pre-tax and post tax) for AW plan; 8.25% (pre-tax) or 6.7% (blended pre-tax and post tax) for the Elizabethtown plan.
- Actual Return on Assets: Actual asset values as of June 30, 2006, then assumed to equal expected.
- Mortality: RP2000 projected to 2015 with phase-out reflecting a 50% white collar and 50% blue collar blend
- Medical Trend Rate:

<u>Year</u>	<u>Rate</u>
2006	10%
2007	9%
2008	8%
2009	7%
2010	6%
2011+	5%

* Please see the letter dated August 18, 2006 for additional details.

American Water Works Company, Inc.
Retiree Welfare Plan

Actuarial Valuation Report

Postretirement Welfare Cost for Fiscal Year Ending December 31, 2007

Employer Contributions for Plan Year Beginning January 1, 2007

May 2007

This report is confidential and intended solely for the information and benefit of the immediate recipient thereof. It may not be distributed to a third party unless expressly allowed under the "Actuarial Certification, Reliances and Distribution" section herein

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Management Summary of Valuation Results

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Financial Results

This report summarizes the financial results for American Water's Retiree Welfare Plan based on actuarial valuations as of January 1, 2007 and January 1, 2006.

	January 1, 2007 ⁽¹⁾	January 1, 2006
FAS 106 Postretirement Welfare Cost⁽²⁾		
Amount ⁽³⁾	\$ 25,013,949	\$ 25,580,244
Per active participant	6,079	7,586
FAS 106 Funded Position⁽²⁾		
Accumulated postretirement benefit obligation [APBO]	\$ 425,315,545	\$ 394,053,693
Fair value of assets [FV]	281,389,882	227,117,760
APBO funded percentage [FV ÷ APBO]	66.2%	57.6%
Accrued Postretirement Benefit Cost	\$ 29,776,429	\$ 14,253,047
Employer Contributions		
Funding policy	\$ 25,013,949	\$ 25,580,244
Estimated maximum tax-deductible limit ⁽⁴⁾	29,200,000	27,537,000 ⁽⁵⁾
Expected benefit payments and expenses, net of participant contributions	17,713,439	15,901,999 ⁽⁶⁾

(1) Results for fiscal year 2007 reflect the merger of the St. Louis Retiree Welfare Plan and the Elizabethtown Retiree Welfare Plan into the American Water Retiree Welfare Plan.

(2) All results are shown based on FAS 106 before application of purchase accounting due to the sale of American Water to RWE and reflect the Medicare Part D subsidy, except where noted otherwise.

(3) The annual postretirement welfare cost, ignoring the Medicare Part D subsidy, is \$32,969,872 for 2006 and \$30,924,631 for 2007. These amounts are used to adjust the company's deferred tax asset on the balance sheet.

(4) Estimated based on January 1 assets — should be redetermined at December 31. Actual maximum tax-deductible limit cannot be determined until end of year.

(5) Actual tax-deductible limit for 2006 tax year was \$42,900,000 under permissive aggregation, which includes the St. Louis, Elizabethtown and Long Island VEBA trusts.

(6) Actual benefit payments and expenses, net of participant contributions, for the American Water Plan, before the merger with Elizabethtown and St. Louis.

The results above do not reflect FAS 158.

Highlights

Economic Assumptions

The discount rate for postretirement welfare cost purposes is the rate at which the postretirement obligation could be effectively settled. This rate is based on high-grade bond yields, after allowing for call and default risk. The following bond yields were considered in the selection of economic assumptions:

	December 31, 2006	December 31, 2005
30-year Treasury	4.81%	4.54%
Moody's Aaa	5.85%	5.26%
Moody's Aa	5.72%	5.41%

The assumed rate of return on assets for postretirement welfare cost purposes is the weighted average of expected long-term asset return assumptions, net of taxes. The compensation increase rate is a long-term rate based on current expectations of future compensation increases. The assumptions for postretirement welfare cost purposes are:

	January 1, 2007	January 1, 2006
Discount rate for obligations	5.90%	5.65%
Rate of return on assets (pre-tax)	8.00%	8.25%
Rate of return on assets (after-tax) ⁽¹⁾	7.38%	7.95%

(1) Rate is blended average of the expected return on Bargaining VEBAs (which are tax exempt) and the after-tax return on Non-Bargained VEBAs.

Assumptions used to determine the statutory contribution limits must be reasonable, taking into account the experience of the plan and reasonable expectations. The discount rate used to determine normal cost and present value of projected benefits is based on the long-term expected return on assets, net of taxes. The assumptions for contribution purposes are:

	January 1, 2007⁽¹⁾	January 1, 2006⁽²⁾
Discount rate for normal cost and present value of projected benefits:		
▶ Bargaining medical and life insurance	8.00%	8.25%
▶ Non-bargaining medical	3.87%	5.15%

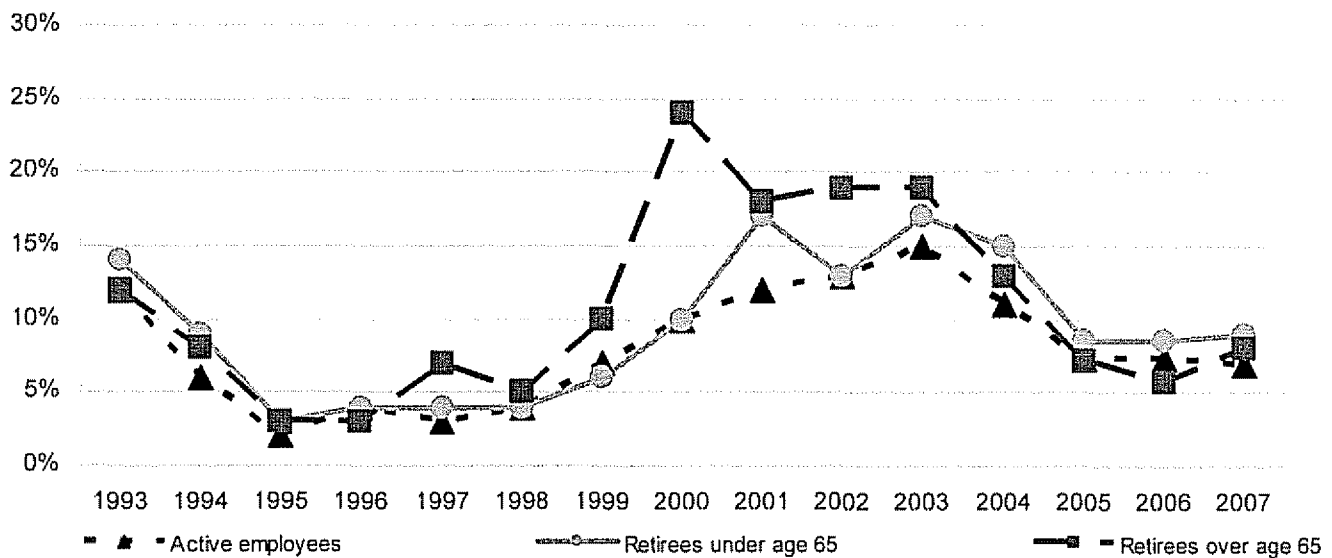
- (1) Deductible limits are finalized at year-end based on assumptions determined as of December 31, 2007. Assumptions shown here are preliminary.
- (2) 2006 assumptions shown are the assumptions used to estimate the 2006 deductible limit. Actual tax deductible limit for 2006 tax year was determined using a discount rate of 8.00% for the Bargaining medical and life insurance VEBA.

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Health Care Cost Assumptions

Health care cost trend rates are the assumed rates of increase in per capita health care charges. They are disclosed in American Water's financial statements.

As reported by the Towers Perrin Health Care Cost Survey, trend rates have historically shown a cyclical pattern, rising in some years and falling in others, and have been sensitive to a plan's demographics, mix of benefits offered and utilization of procedures.



The survey results indicate that health care cost trends vary considerably among survey participants.

The range of plan results reported in the 2007 Health Care Cost Survey was:

	Pre-Medicare eligible Non-HMOs	Pre-Medicare eligible HMOs	Medicare eligible HMOs	Medicare eligible Non-HMOs
10 th percentile	0%	0%	(2)%	0%
50 th percentile	7%	9%	10%	7%
90 th percentile	17%	18%	31%	17%

The health care cost trend assumptions used in the valuation are:

	January 1, 2007		January 1, 2006	
	<i>Pre-Medicare Eligible</i>	<i>Medicare Eligible</i>	<i>Pre-Medicare Eligible</i>	<i>Medicare Eligible</i>
Health Care Cost Trend				
2006 trend	N/A	N/A	10.0%	10.0%
2007 trend	9.0%	9.0%	9.0%	9.0%
Ultimate trend	5.0%	5.0%	5.0%	5.0%
Year ultimate reached	2011	2011	2011	2011

The assumed per capita costs are the expected annual per person cash costs of the medical plan, before reflecting participant contributions.

The average per capita costs used in the 2006 and 2007 valuations are:

	<i>Pre-Medicare Eligible</i>		<i>Medicare Eligible</i>	
	<i>Retiree</i>	<i>Spouse</i>	<i>Retiree</i>	<i>Spouse</i>
RWE Promise Participants				
▶ 2006 assumed per capita cost	\$ 9,212	\$ 9,212	\$ 3,819	\$ 3,819
▶ Assumed trend to 2007	9.0%	9.0%	9.0%	9.0%
▶ 2007 expected per capita cost	\$ 10,041	\$ 10,041	\$ 4,163	\$ 4,163
▶ 2007 assumed per capita cost	9,430	9,430	3,911	3,911
Non-RWE Promise Participants				
▶ 2006 assumed per capita cost	\$ 9,127	\$ 9,127	\$ 3,723	\$ 3,723
▶ Assumed trend to 2007	9.0%	9.0%	9.0%	9.0%
▶ 2007 expected per capita cost	\$ 9,948	\$ 9,948	\$ 4,058	\$ 4,058
▶ 2007 assumed per capita cost	9,324	9,324	3,815	3,815
St. Louis Participants				
▶ 2006 assumed per capita cost	\$ 8,775	\$ 8,775	\$ 3,723	\$ 3,723
▶ Assumed trend to 2007	9.0%	9.0%	9.0%	9.0%
▶ 2007 expected per capita cost	\$ 9,565	\$ 9,565	\$ 4,058	\$ 4,058
▶ 2007 assumed per capita cost	8,972	8,972	3,815	3,815

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	<i>Pre-Medicare Eligible</i>		<i>Medicare Eligible</i>	
	<i>Retiree</i>	<i>Spouse</i>	<i>Retiree</i>	<i>Spouse</i>
Elizabethtown Bargaining Participants				
▶ 2006 assumed per capita cost	\$ 8,863	\$ 8,863	\$ 3,723	\$ 3,723
▶ Assumed trend to 2007	9.0%	9.0%	9.0%	9.0%
▶ 2007 expected per capita cost	\$ 9,661	\$ 9,661	\$ 4,058	\$ 4,058
▶ 2007 assumed per capita cost	9,051	9,051	3,815	3,815
Elizabethtown Non-Bargaining Participants				
▶ 2006 assumed per capita cost	\$ 8,775	\$ 8,775	\$ 3,723	\$ 3,723
▶ Assumed trend to 2007	9.0%	9.0%	9.0%	9.0%
▶ 2007 expected per capita cost	\$ 9,565	\$ 9,565	\$ 4,058	\$ 4,058
▶ 2007 assumed per capita cost	8,972	8,972	3,815	3,815
Elizabethtown Dental				
▶ 2006 assumed per capita cost	\$ 353	\$ 353	\$ 0	\$ 0
▶ Assumed trend to 2007	9.0%	9.0%	9.0%	9.0%
▶ 2007 expected per capita cost	\$ 385	\$ 385	\$ 0	\$ 0
▶ 2007 assumed per capita cost	353	353	0	0

Demographic Assumptions

The cost of providing plan benefits depends on demographic factors such as retirement, mortality, turnover and plan participation. Demographic assumptions used in the valuation were selected to reflect the experience of the covered population and reasonable expectations. If actual experience is more favorable than assumed, plan costs will be lower. Alternatively, if actual experience is less favorable than assumed, future plan costs will be higher.

Assets

In the year ended December 31, 2006, the plan’s portfolio realized a 11.7% investment return (net of expenses and taxes), while the capital markets performed as follows:

	December 31, 2006
Large equities [S&P 500]	15.79%
Intermediate/small equities [Russell 2500]	16.17%
Non-U.S. equities [EAFE]	26.86%
Bonds [Lehman Brothers Aggregate]	4.33%
Citi 3 Month Treasury Bill	4.76%

Changes in Benefits Valued

Effective December 31, 2006, the assets and liabilities associated with the St. Louis Retiree Welfare Plan and the Elizabethtown Retiree Welfare Plan were transferred into the American Water Retiree Welfare Plan.

Legislative Changes

There have been no legislative changes since the prior year.

FAS 106 Postretirement Welfare Cost and Funded Position

Postretirement welfare cost is the amount recognized in American Water's financial statement as the cost of postretirement welfare plans and is determined in accordance with Financial Accounting Standard No. 106. The fiscal 2007 postretirement welfare cost for the plan is \$25,013,949, or \$6,079 per active participant.

Funded position, on a FAS 106 basis, is measured by comparing the fair value of assets (FV) with the accumulated postretirement benefit obligation (APBO). The APBO is the portion of the total present value of projected benefits allocated to prior years as of the measurement date.

The plan's funded percentage is 66.2% as of January 1, 2007, based on the fair value of assets of \$281,389,882 and an APBO of \$425,315,545.

Change in Postretirement Welfare Cost and Funded Position

The postretirement welfare cost decreased from \$25,580,244 in fiscal 2006 to \$25,013,949 in fiscal 2007 because:

- ▶ Expected changes based on prior year's assumptions, methods, plan provisions and contributions decreased the postretirement welfare cost \$1,522,900.
- ▶ Noninvestment experience including demographic and medical claims experience, increased the postretirement welfare cost \$2,107,217.
- ▶ The return on the fair value of plan assets in fiscal 2006 was 11.7%, which decreased the postretirement welfare cost \$1,357,118.
- ▶ Assumption changes increased the postretirement welfare cost \$120,678.
- ▶ The merger of the St. Louis Retiree Welfare Plan and the Elizabethtown Retiree Welfare Plan increased the postretirement welfare cost \$85,828.

The funded percentage increased from 57.6% to 66.2%.

Employer Contributions

Employer contributions are the amounts paid by American Water to provide for postretirement benefits, net of participant contributions. For 2006, the actual employer contributions of \$25,580,244 were equal to the estimated employer contributions of \$25,580,244.

American Water's funding policy is to contribute an amount equal to the postretirement welfare accounting cost not to exceed the maximum tax-deductible limit. American Water may change its contribution if appropriate to its tax and cash position and the plan's funded position. For 2007, the contribution under the funding policy is \$25,013,949. The maximum tax-deductible contribution limit under the Internal Revenue Code is estimated to be \$29,200,000. Estimated benefit payments for 2007 are \$17,713,439.

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Actuarial Certification, Reliances and Distribution

American Water retained Towers Perrin to perform a valuation of its postretirement welfare benefit plans for the purpose of determining (1) its postretirement welfare cost in accordance with FAS 106 and (2) the maximum tax-deductible contribution allowed by the Internal Revenue Code. This valuation has been conducted in accordance with generally accepted actuarial principles and practices.

The consulting actuaries are members of the Society of Actuaries and other professional actuarial organizations and meet their "General Qualification Standard for Public Statements of Actuarial Opinion" relating to the postretirement welfare plans.


In preparing the results presented in this report, we have relied upon information provided to us regarding plan provisions, plan participants, and plan assets. We have reviewed this information for overall reasonableness and consistency, but have neither audited nor independently verified this information. The accuracy of the results presented in this report is dependent upon the accuracy and completeness of the underlying information.

The actuarial assumptions and the accounting policies and methods employed in the development of the postretirement welfare cost have been selected by the plan sponsor, with the concurrence of Towers Perrin. FAS 106 requires that each significant assumption "individually represent the best estimate of a particular future event."

The actuarial assumptions and methods employed in the development of the contribution limits have been selected by Towers Perrin, with the concurrence of the plan sponsor. The Internal Revenue Code requires the use of assumptions each of which is reasonable (taking into account the experience of the plan and reasonable expectations) and which, in combination, offer the actuary's best estimate of anticipated experience under the plan.

The results shown in this report have been developed based on actuarial assumptions that are considered to be reasonable and within the "best-estimate range" as described by the Actuarial Standards of Practice. Other actuarial assumptions could also be considered to be reasonable and within the best-estimate range. Thus, reasonable results differing from those presented in this report could have been developed by selecting different points within the best-estimate ranges for various assumptions.

The information contained in this report was prepared for the internal use of American Water and its auditors in connection with our actuarial valuation of the postretirement welfare plan. It is neither intended nor necessarily suitable for other purposes. American Water may also distribute this actuarial valuation report to the appropriate authorities who have the legal right to require American Water to provide them with this report, in which case American Water will use best efforts to notify Towers Perrin in advance of this distribution. Further distribution to, or use by, other parties of all or part of this report is expressly prohibited without Towers Perrin's prior written consent.



Roy Costa, FSA



Alan Abrams, FSA

Towers Perrin

May 2007

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Asset Values

Asset Values for Calculating Postretirement Welfare Cost

Fair value, excluding contributions receivable:

▶ As of January 1, 2006	\$ 227,117,760
▶ Employer contributions	25,580,244
▶ Participant contributions	1,037,836
▶ Disbursements including expenses	(19,916,664)
▶ Investment return, net of taxes	26,920,008
▶ Merger of St. Louis and Elizabethtown	<u>20,650,698</u>
▶ As of January 1, 2007	\$ 281,389,882
▶ Rate of return ⁽¹⁾	11.7%

Market-related value:

▶ As of January 1, 2006	\$ 227,117,760
▶ As of January 1, 2007	281,389,882
▶ Rate of return ⁽¹⁾	11.7%

Asset Values for Calculating Employer Contributions

Actuarial value:

▶ As of January 1, 2006	\$ 227,117,760
▶ As of January 1, 2007	281,389,882
▶ Rate of return ⁽¹⁾	11.7%

(1) Investment return calculation does not reflect merger of St. Louis and Elizabethtown.

SI-2

Asset Values for Determining Employer Contributions — By Trust

	VEBA Bargaining Medical	VEBA Nonbargaining Medical	VEBA Life Insurance	VEBA Long Island Bargaining
Market value:				
▶ As of January 1, 2006	\$ 196,745,654	\$ 13,550,409	\$ 12,006,101	\$ 4,815,596
▶ Total contributions	6,654,521	19,413,559	550,000	-
▶ Disbursements	(10,007,631)	(8,515,150)	(1,393,883)	-
▶ Investment return, net of taxes	<u>24,565,871</u>	<u>450,137</u>	<u>1,232,963</u>	<u>671,038</u>
▶ As of January 1, 2007	\$ 217,958,415	\$ 24,898,955	\$ 12,395,181	\$ 5,486,634
▶ Rate of return	12.5%	2.4%	10.6%	13.9%
Actuarial value:				
▶ As of January 1, 2006	\$ 196,745,754	\$ 13,550,409	\$ 12,006,101	\$ 4,815,596
▶ As of January 1, 2007	217,958,415	24,898,955	12,395,181	5,486,634
▶ Rate of return	12.5%	2.4%	10.6%	13.9%
	VEBA Elizabethtown Bargaining	VEBA Elizabethtown Non-bargaining	VEBA St. Louis Bargaining	
Market value:				
▶ As of January 1, 2006	\$ 3,773,615	\$ 4,139,944	\$ 9,951,881	
▶ Total contributions	-	-	490,896	
▶ Disbursements	-	-	(69,480)	
▶ Investment return, net of taxes	<u>522,836</u>	<u>573,593</u>	<u>1,267,412</u>	
▶ As of January 1, 2007	\$ 4,296,451	\$ 4,713,537	\$ 11,640,709	
▶ Rate of return	13.9%	13.9%	12.5%	
Actuarial value:				
▶ As of January 1, 2006	\$ 3,773,615	\$ 4,139,944	\$ 9,951,881	
▶ As of January 1, 2007	4,296,451	4,713,537	11,640,709	
▶ Rate of return	13.9%	13.9%	12.5%	

Basic Results for Postretirement Welfare Cost

	January 1, 2007 ⁽¹⁾	January 1, 2006
Service Cost		
Medical	\$ 12,483,299	\$ 10,875,201
Life insurance	<u>192,105</u>	<u>147,461</u>
Total	\$ 12,675,404	\$ 11,022,662
Accumulated Postretirement Benefit Obligation [APBO]		
Medical:		
▶ Current retirees	\$ 168,105,288	\$ 157,577,921
▶ Other participants fully eligible for benefits	7,759,622	8,271,750
▶ Other active participants	<u>225,277,506</u>	<u>204,664,763</u>
▶ Total	\$ 401,142,416	\$ 370,514,434
Life insurance:		
▶ Current retirees	\$ 20,237,563	\$ 20,283,122
▶ Other participants fully eligible for benefits	351,209	254,202
▶ Other active participants	<u>3,584,357</u>	<u>3,001,935</u>
▶ Total	\$ 24,173,129	\$ 23,539,259
All benefits:		
▶ Current retirees	\$ 188,342,851	\$ 177,861,043
▶ Other participants fully eligible for benefits	8,110,831	8,525,952
▶ Other active participants	<u>228,861,863</u>	<u>207,666,698</u>
▶ Total	\$ 425,315,545	\$ 394,053,693
Assets		
Fair value [FV]	\$ 281,389,882	\$ 227,117,760
Unrecognized investment losses (gains)	<u>0</u>	<u>0</u>
Market-related value	\$ 281,389,882	\$ 227,117,760

(1) All values reflect the merger of the St. Louis Retiree Welfare Plan and the Elizabethtown Retiree Welfare Plan with the American Water Works Company Retiree Welfare Plan as of December 31, 2006.

SI-4

	January 1, 2007	January 1, 2006
Key Economic Assumptions		
Discount rate	5.90%	5.65%
Average compensation increase rate	4.25%	4.25%
Rate of return on assets, pre-tax	8.00%	8.25%
Weighted average rate, after-tax	7.38%	7.95%
Health care cost trend rate, under age 65:		
▶ First year	9.00%	10.00%
▶ Ultimate	5.00%	5.00%
▶ Year ultimate reached	2011	2011
Health care cost trend rate, age 65 and over:		
▶ First year	9.00%	10.00%
▶ Ultimate	5.00%	5.00%
▶ Year ultimate reached	2011	2011

**Development of Prepaid (Accrued)
Postretirement Benefit Cost
as of December 31, 2006**

Prepaid (accrued) postretirement benefit cost as of December 31, 2005	\$ (14,253,047)
Changes during fiscal 2006:	
▶ Income (cost) recognized	(25,580,244)
▶ Employer contributions	25,580,244
▶ Adjustments	19,284
▶ Expected receipt of federal subsidy	(1,400,000)
▶ Plan mergers	<u>(14,142,666)</u>
Prepaid (accrued) postretirement benefit cost as of December 31, 2006	\$ (29,776,429)

January 1, 2007⁽¹⁾

January 1, 2006

Reconciliation of Funded Status

Funded status [FV – APBO]	\$ (143,925,663)	\$ (166,935,933)
Unrecognized transition obligation	24,844,509	22,570,042
Unrecognized net actuarial loss (gain)	89,300,442	130,112,844
Unrecognized prior service cost (credit)	<u>4,283</u>	<u>0</u>
Prepaid (accrued) postretirement benefit cost (before FAS 158)	\$ (29,776,429)	\$ (14,253,047)

**Effect of Change in Health Care
Cost Trend Rate**

One-percentage-point increase:

▶ Sum of service cost and interest cost	\$ 6,123,950	\$ 5,502,890
▶ APBO	56,262,511	52,956,949

One-percentage-point decrease:

▶ Sum of service cost and interest cost	(4,985,608)	(4,473,077)
▶ APBO	(46,710,243)	(43,900,141)

(1) All values reflect the merger of the St. Louis Retiree Welfare Plan and the Elizabethtown Retiree Welfare Plan with the American Water Retiree Welfare Plan as of December 31, 2006.

The results above do not reflect FAS 158.

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Postretirement Welfare Cost

	Fiscal 2007⁽²⁾	Fiscal 2006
Postretirement Welfare Cost⁽¹⁾		
Service cost	\$ 12,675,404	\$ 11,022,662
Interest cost	25,326,408	22,443,755
Expected return on assets	(21,065,260)	(18,473,681)
Amortization:		
▶ Unrecognized transition obligation	4,140,752	3,224,292
▶ Unrecognized net loss (gain)	3,936,111	7,363,216
▶ Unrecognized prior service cost (credit)	<u>534</u>	<u>0</u>
Postretirement welfare cost	\$ 25,013,949	\$ 25,580,244
Per active participant	\$ 6,079	\$ 7,586

Change in Postretirement Welfare Cost

Postretirement welfare cost for fiscal 2006	\$ 25,580,244
Change from fiscal 2006 to fiscal 2007:	
▶ Expected based on prior valuation	(1,522,900)
▶ Loss (gain) from noninvestment and claims experience	2,107,217
▶ Loss (gain) from asset experience	(1,357,118)
▶ Assumption changes	120,678
▶ Plan mergers	<u>85,828</u>
Postretirement welfare cost for fiscal 2007	\$ 25,013,949

(1) The cost before recognition of the federal subsidy as a result of the MMA is \$32,969,872 for fiscal 2006 and \$30,924,631 for fiscal 2007. See additional details on the following page.

(2) All values reflect the merger of the St. Louis Retiree Welfare Plan and the Elizabethtown Retiree Welfare Plan with the American Water Works Company Retiree Welfare Plan as of December 31, 2006.

Postretirement Welfare Basic Results and Cost Prior to Medicare Modernization Act

	January 1, 2007 ⁽¹⁾	January 1, 2006
Basic Results		
Service cost	\$ 13,942,556	\$ 12,303,381
APBO	471,486,486	447,385,215
Postretirement Welfare		
Service cost	\$ 13,942,556	\$ 12,303,381
Interest cost	28,125,255	25,529,346
Expected return on assets	(21,065,260)	(18,473,681)
Amortization:		
▶ Transition obligation	4,159,514	3,243,054
▶ Net loss (gain)	5,762,032	10,367,772
▶ Prior service cost (credit)	<u>534</u>	<u>0</u>
Postretirement welfare cost	\$ 30,924,631	\$ 32,969,872
Reconciliation of Funded Status		
Funded status [FV – APBO]	\$ (190,096,604)	\$ (220,267,455)
Unrecognized transition obligation	24,957,084	22,701,379
Unrecognized net actuarial loss (gain)	115,613,120	172,459,105
Unrecognized prior service cost (credit)	<u>4,283</u>	<u>0</u>
Prepaid (accrued) postretirement benefit cost (before FAS 158)	\$ (49,522,117)	\$ (25,106,971)

(1) All values reflect the merger of the St. Louis Retiree Welfare Plan and the Elizabethtown Retiree Welfare Plan with the American Water Works Company Retiree Welfare Plan as of December 31, 2006.

The results above do not reflect FAS 158.

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Information for the Deferred Tax Calculation

The following information is provided for purposes of determining the company's balance sheet adjustment to reflect the deferred tax asset associated with the postretirement welfare cost.

	Including MMA Subsidy	Excluding MMA Subsidy
Postretirement Welfare Cost		
2006	\$ 25,580,244	\$ 32,969,872
2007	25,013,949	30,924,631
Development of Prepaid (Accrued) Postretirement Benefit Cost		
Prepaid (accrued) postretirement benefit cost, beginning of year	\$ (14,253,047)	\$ (25,106,971)
Changes during fiscal 2006:		
▶ Postretirement welfare cost	(25,580,244)	(32,969,872)
▶ Employer contributions	25,580,244	25,580,244
▶ Adjustments	19,284	1,057,120
▶ Expected receipt of federal subsidy	(1,400,000)	0
▶ Plan mergers	<u>(14,142,666)</u>	<u>(18,082,638)</u>
Prepaid (accrued) postretirement benefit cost, end of year (before FAS 158)	\$ (29,776,429)	\$ (49,522,117)

**Actuarial Present Value of Benefit Obligation for SOP 92-6
(as amended by SOP 01-2)**

	December 31, 2006⁽¹⁾	December 31, 2005
Actuarial Present Value of Benefit Obligation⁽¹⁾		
Participants currently receiving benefits	\$ 208,788,769	\$ 205,814,316
Other fully eligible participants	8,991,317	9,843,610
Other participants	<u>253,706,400</u>	<u>231,727,289</u>
Total	\$ 471,486,486	\$ 447,385,215
Fair value of assets	281,389,882	227,117,760
Effect on obligation of one-percentage-point increase in health care cost trend rate	64,324,276	62,959,136
Change in Incurred but not reported (IBNR) Claims Reserve		
Balance as of December 31, 2005 ⁽²⁾	\$ 3,000,000	
▶ Claims reported and approved for payment	19,925,818	
▶ Claims paid	(19,225,818)	
▶ Reserve adjustment	<u>0</u>	
▶ Total change in reserve	<u>\$ 700,000</u>	
Balance as of December 31, 2006 ⁽²⁾	\$ 3,700,000	
Change in Postretirement Benefit Obligations		
Balance as of December 31, 2005 ⁽²⁾	\$ 444,385,215	
▶ Benefits earned	12,303,381	
▶ Benefits reclassified to amounts currently payable	(19,225,818)	
▶ Interest	25,529,346	
▶ Change in actuarial assumptions	(14,871,469)	
▶ Actuarial (gains) losses	(11,231,588)	
▶ Plan merger	<u>30,897,419</u>	
▶ Total change in reserve	<u>\$ 23,401,271</u>	
Balance as of December 31, 2006	\$ 467,786,486	

(1) All values reflect the merger of the St. Louis Retiree Welfare Plan and the Elizabethtown Retiree Welfare Plan with the American Water Works Company Retiree Welfare Plan as of December 31, 2006

(2) These results do not reflect the recognition for the federal subsidy as a result of the MMA. Balances are estimated to reflect the reserves associated with benefit payments for retirees.

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Total Obligation

Balance as of December 31, 2005	\$ 447,385,215
Increase (decrease) in reserve	<u>24,101,271</u>
Balance as of December 31, 2006 ⁽¹⁾	\$ 471,486,486

Change in Plan Assets

Fair value of plan assets as of December 31, 2005	\$ 227,117,760
▶ Actual return on plan assets	26,920,008
▶ Employer contributions	25,580,244
▶ Participant contributions	1,037,836
▶ Plan merger	20,650,698
▶ Disbursements	<u>(19,916,664)</u>
Fair value of plan assets as of December 31, 2006	\$ 281,389,882

The key actuarial assumptions used for SOP 01-2 calculations are the same as those used to determine the postretirement welfare cost and are shown in the Actuarial Assumptions and Methods section. All obligations shown are net of retiree contributions. In addition to deductibles and copayments, retirees currently pay approximately 12% of the estimated cost of providing benefits.

(1) This result does not reflect the recognition of the federal subsidy as a result of the MMA.

Basic Results for Employer Contributions⁽¹⁾

	January 1, 2007	January 1, 2006
Present Value of Projected Benefits⁽²⁾		
Medical — Bargaining	\$ 227,580,915	\$ 193,075,917
Medical — Non-bargaining	154,399,693	119,539,840
Life Insurance	18,468,487	18,064,822
Long Island — Bargaining	8,022,220	8,071,610
Elizabethtown — Bargaining	9,856,021	9,860,371
Elizabethtown — Non-bargaining	10,436,644	5,969,409
St. Louis — Bargaining	<u>9,244,354</u>	<u>12,885,239</u>
Total	\$ 438,008,334	\$ 367,467,208
Actuarial Value of Assets		
Medical — Bargaining	\$ 217,958,415	\$ 196,745,654
Medical — Non-bargaining	24,898,955	13,550,409
Life Insurance	12,395,181	12,006,101
Long Island — Bargaining	5,486,634	4,815,596
Elizabethtown — Bargaining	4,296,451	3,773,615
Elizabethtown — Non-Bargaining	4,713,537	4,139,944
St. Louis — Bargaining	<u>11,640,709</u>	<u>9,951,881</u>
Total	\$ 281,389,882	\$ 244,983,200

(1) These results do not reflect the recognition of the federal subsidy as a result of the MMA.

(2) 2006 values shown represent amounts used to estimate the 2006 maximum tax-deductible limit.
Actual maximum tax-deductible limit was determined as of the end of the year.

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January 1, 2007 **January 1, 2006**

Key Economic Assumptions

Discount rate for present value of projected benefits ⁽¹⁾	8.00%/3.87%	8.25%/5.15% ⁽²⁾
Health care cost trend rate ⁽³⁾		
▶ First year	9.00%	10.00%
▶ Ultimate	5.00%	5.00%
▶ Year ultimate reached	2011	2011

- (1) Interest rate for life insurance VEBA and for bargaining VEBA is 8.00%. The 3.87% interest rate for the non-bargaining Medical VEBA is net of applicable taxes.
- (2) Interest rates shown were the rates for the prior year 2006 maximum tax deductible limit estimates. Actual limit was calculated using 8.00% for life insurance VEBA and Bargaining VEBA.
- (3) Health care cost trend is only applied to the bargaining medical VEBAs, in accordance with provisions of the Internal Revenue Code.

Estimated Maximum Tax-Deductible Employer Contribution — VEBA

	Medical Non-bargaining VEBA	Life Insurance VEBA	Elizabethtown Non-bargaining VEBA
Estimated Maximum Tax-Deductible Employer Contribution			
Qualified direct costs ⁽¹⁾	\$ 9,003,000	\$ 1,286,000	\$ 690,000
Permitted addition to qualified asset account ⁽²⁾	5,872,000	778,000	258,000
Estimated investment income ⁽³⁾	(810,000)	(523,000)	(185,000)
Estimated participant contributions	<u>(792,000)</u>	<u>(74,000)</u>	<u>(149,000)</u>
Estimated maximum tax-deductible employer contribution limit	\$ 13,273,000	\$ 1,467,000	\$ 614,000

	Medical Bargaining VEBA	Long Island Bargaining VEBA	Elizabethtown Bargaining VEBA	St. Louis Bargaining VEBA
Estimated Maximum Tax-Deductible Employer Contribution				
Estimated present value of projected benefits at December 31, 2007	\$ 236,536,000	\$ 8,345,000	\$ 10,131,000	\$ 8,338,000
Estimated actuarial value of assets at December 31, 2007 ⁽³⁾	<u>(226,143,000)</u>	<u>(5,926,000)</u>	<u>(4,640,000)</u>	<u>(12,572,000)</u>
Unfunded present value (minimum of \$0)	\$ 10,393,000	\$ 2,419,000	\$ 5,491,000	\$ 0
Estimated maximum tax-deductible contribution	10,393,000	2,419,000	5,491,000	0

(1) The estimated amount of benefits and expenses paid from the trust in the current year

(2) Normal cost plus change in incurred-but-unpaid claims reserve

(3) Assumed results through the end of the year. If return is estimated to be less than \$0, it is set to \$0 for estimation purposes.

Notes:

— There is no minimum employer contribution to the trusts required by the IRS.

— Key employees and retirees who were key employees are not funded through the trusts and, therefore, are excluded from the calculations.

— To be tax-deductible in the indicated fiscal year, employer contributions must be made prior to the end of the fiscal year.

— The maximum tax-deductible contributions cannot be finalized until the end of the year.

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Expected Benefits and Administrative Expenses

	January 1, 2007 ⁽¹⁾	January 1, 2006
Medical		
Gross disbursements	\$ 19,045,314	\$ 15,633,762
Participant contributions	<u>2,668,027</u>	<u>957,925</u>
Net disbursements	\$ 16,377,287	\$ 14,675,837
Life Insurance		
Gross disbursements	\$ 1,409,779	\$ 1,307,589
Participant contributions	<u>73,627</u>	<u>81,432</u>
Net disbursements	\$ 1,336,152	\$ 1,226,157
Total		
Gross disbursements	\$ 20,455,092	\$ 16,941,355
Participant contributions	<u>2,741,654</u>	<u>1,039,356</u>
Net disbursements	\$ 17,713,439	\$ 15,901,999

(1) All values reflect the merger of the St. Louis Retiree Welfare Plan and the Elizabethtown Retiree Welfare Plan with the American Water Works Retiree Welfare Plan as of December 31, 2006.

Actuarial Assumptions and Methods

	FAS 106 Cost	Employer Contributions
Economic Assumptions		
Discount rate:		
▶ Pre-tax	5.90%	N/A
▶ After-tax	N/A	8.00%/3.87%
Return on plan assets, pre-tax	8.00%	
Effective tax rate on VEBA assets	38.00%	N/A
Weighted average rate of return, after-tax ⁽¹⁾	7.38%	N/A

(1) Rate is blended average of the expected return on Bargaining VEBAs (which are tax exempt) and the after-tax return on Non-Bargained VEBAs.

Medical Benefit Assumptions

Average per capita claims cost:⁽²⁾

Age	<i>RWE Promise Participants</i>	<i>Non-RWE Promise Participants</i>	<i>Elizabethtown Non-Bargaining Participants</i>	<i>Elizabethtown Bargaining Participants</i>	<i>Elizabethtown Dental Participants</i>	<i>St. Louis Participants</i>
<29	\$ 4,538	\$ 4,540	\$ 4,517	\$ 3,944	\$ 178	\$4,085
30-39	4,525	4,527	4,504	3,933	177	4,073
40-44	5,452	5,455	5,426	4,738	213	4,908
45-49	5,954	5,957	5,926	5,175	233	5,359
50-54	6,860	6,863	6,827	5,962	268	6,175
55-59	8,175	8,179	8,136	7,105	320	7,359
60-64	10,413	10,418	10,364	9,051	407	9,374
65-69	3,498	3,398	3,412	3,339	0	3,374
70-74	3,906	3,794	3,810	3,729	0	3,767
75-79	4,151	4,032	4,049	3,962	0	4,003
80-84	4,238	4,117	4,134	4,045	0	4,087
85-89	4,407	4,281	4,299	4,207	0	4,251
>90	3,702	3,597	3,611	3,534	0	3,571

(2) Includes cost for pre-65 dental coverage. Per capita costs for retirees 65 or older represent costs of Supplemental Plan net of Medicare benefits. Surviving dependent costs are assumed to equal retiree costs.

Administrative expenses included in per capita cost

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	Postretirement Welfare Cost	Employer Contributions
Health care cost trend rate (covered charges):	9.00% in 2007 reducing to 5.00% in 2011 and after	Same ⁽¹⁾
Participant contribution trend rate	Same as applicable medical plan trend rate	Same ⁽¹⁾

(1) For setting contributions to the non-bargaining medical VEBA, no trend is assumed for the per capita costs and the retiree cost-sharing amounts.

MMA Assumptions

Eligible medical plans	All plans	N/A										
Test for actuarial equivalence	Plan passes test for actuarial equivalence indefinitely on a net basis (after taking into account retiree contributions) for retirees and dependents. Surviving spouses, who pay for their full cost of coverage, are only eligible for the federal subsidy until 2008.	N/A										
Distribution of prescription drug claims to estimate Medicare Part D subsidy	Towers Perrin proprietary claims distribution table adjusted to reflect American Water prescription drug claims data	N/A										
Federal subsidy amounts	\$600 per retired participant per year beginning in 2006	N/A										
Federal subsidy trend	<table border="1"> <tbody> <tr> <td>2007</td> <td>9.00%</td> </tr> <tr> <td>2008</td> <td>8.00%</td> </tr> <tr> <td>2009</td> <td>7.00%</td> </tr> <tr> <td>2010</td> <td>6.00%</td> </tr> <tr> <td>2011+</td> <td>5.00%</td> </tr> </tbody> </table>	2007	9.00%	2008	8.00%	2009	7.00%	2010	6.00%	2011+	5.00%	
2007	9.00%											
2008	8.00%											
2009	7.00%											
2010	6.00%											
2011+	5.00%											

Demographic and Other Assumptions for American Water Participants

Mortality:

- ▶ Healthy Sex-distinct RP-2000 table projected to 2015 using scale AA with phase-out without any collar adjustment.
- ▶ Disabled Select and ultimate mortality rates from the PBGC disabled mortality for Social Security recipients

Termination

Rates varying by age and service

Representative rates:

Age	<u>Service</u>			
	0-4	5-9	10-14	Ultimate
25	0.100	0.090	0.080	0.060
35	0.070	0.065	0.060	0.040
40	0.065	0.055	0.050	0.040
45	0.060	0.050	0.040	0.030
55	0.000	0.000	0.000	0.000

Disability

50% of 1987 CGDT. Rates varying by age and gender

Representative rates:

Age	Male	Female
25	.0004	.0006
35	.0006	.0012
40	.0010	.0015
45	.0018	.0023
55	.0059	.0053

Retirement

Rates vary by age, average age 62.

Age	Rate	Age	Rate
55	0.10	61	0.10
56	0.07	62	0.60
57	0.07	63	0.40
58	0.07	64	0.40
59	0.10	65	0.45
60	0.10	66	1.00

Current Retirees

Future Retirees

Percent married

Based on valuation census data

80% of males; 50% of females

Spouses age

Based on valuation census data

Wife three years younger than husband

Participation

Based on valuation census data

100%

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Demographic and Other Assumptions for St. Louis Participants

Mortality:

- ▶ Healthy Sex-distinct RP-2000 table projected to 2015 using scale AA with phase-out without any collar adjustment.
- ▶ Disabled Select and ultimate mortality rates from the PBGC disabled mortality for Social Security recipients

Termination

Rates varying by age and service

Representative rates:

Age	<u>Service</u>			
	0-4	5-9	10-14	Ultimate
25	0.100	0.090	0.080	0.060
35	0.070	0.065	0.060	0.040
40	0.065	0.055	0.050	0.040
45	0.060	0.050	0.040	0.030
55	0.000	0.000	0.000	0.000

Disability

50% of 1955 UAW Disability Table. Rates varying by age and gender

Representative rates:

Age	Male	Female
25	.0003	.0005
35	.0005	.0008
40	.0007	.0010
45	.0010	.0015
55	.0036	.0049

Retirement

Rates vary by age,

Age	Rate	Age	Rate
55	.10	61	.10
56	.07	62	.60
57	.07	63	.40
58	.07	64	.40
59	.10	65	.45
60	.10	66	1.00

Current Retirees

Future Retirees

Percent married

Based on valuation census data

80% of males; 50% of females

Spouses age

Based on valuation census data

Wife three years younger than husband

Participation

Based on valuation census data

90% pre-65; 0% post-65

Demographic and Other Assumptions for Elizabethtown Participants

Mortality	Sex-distinct RP-2000 table projected to 2015 using scale AA with phase-out without any collar adjustment.					
Termination	Rates varying by age					
	Representative rates:					
	<i>Age</i>	<i>Rate</i>				
	25	0.053				
	30	0.051				
	35	0.047				
	40	0.042				
	45	0.035				
	55	0.000				
Retirement	Rates vary by age, average age 63.					
	<i>Age</i>	<i>Rate</i>	<i>Age</i>	<i>Rate</i>		
	55	.025	61	.075	67	.200
	56	.025	62	.350	68	.200
	57	.025	63	.300	69	.200
	58	.025	64	.200	70	1.00
	59	.025	65	.600		
	60	.075	66	.200		
	<i>Current Retirees</i>		<i>Future Retirees</i>			
Percent married	Based on valuation census data		80% of males; 50% of females			
Spouses age	Based on valuation census data		Wife three years younger than husband			
Participation	Based on valuation census data		90% pre-65; 70% post-65			

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Methods

Postretirement welfare cost:

- ▶ Service cost and APBO Projected unit credit actuarial cost method, allocated from the valuation date on or after date of hire to full eligibility date (age 62 or earlier retirement age)
- ▶ Market-related value of assets Fair value as reported by company
- ▶ Development of claims cost Average medical plan claims per person were developed based upon a review of actual claims experience for 2003, 2004 and nine months of 2005. The average claims costs were adjusted to reflect (i) medical trend (through the valuation date) and expenses, (ii) change from paid claims to incurred claims, (iii) differences in expected claims between the medical plans, (iv) plan design changes and (v) age-specific patterns expected based upon plan census information and standard claims distribution tables.

Employer contributions:

- ▶ Normal cost and present value of projected benefits Aggregate cost method for non-bargaining medical and life insurance VEBAs. For bargaining medical VEBA, the account limit is set equal to the present value of all future benefits.
- ▶ Actuarial value of assets Fair value as reported by the trustee
- ▶ Development of claims cost Same as for postretirement welfare cost

Benefits Not Valued

- Postretirement welfare cost None
- Contributions Benefits for key employees and life insurance benefits in excess of DEFRA limits (generally \$50,000) were not valued.

Change in Methods and Assumptions Since Prior Valuation

- Postretirement welfare cost The discount rate for benefit obligations changed from 5.65% to 5.90%.

Expected return on assets for the bargained VEBA changed from 8.25% to 8.00%. The expected return on assets for the Non-Bargained VEBA changed from 5.15% to 3.87%. The resulting weighted average rate of return after-tax changed from 7.95% to 7.38%.
- Employer contributions The pre-tax discount rates were changed from 8.25% to 8.00%. The corresponding after-tax discount rate changed from 5.15% to 3.87%.

Data Sources

Towers Perrin used asset data supplied by the trustee. The company furnished the claims cost data, as well as the accrued postretirement benefits cost as of December 31, 2006. Data were reviewed for reasonableness and consistency, but no audit was performed. We are not aware of any errors or omissions in the data that would have a significant effect on the results of our calculations.

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Participant Data

	January 1, 2007 ⁽¹⁾	January 1, 2006
Active		
Number:		
▶ Fully eligible for benefits	105	68
▶ Other	<u>4,010</u>	<u>3,304</u>
▶ Total	4,115	3,372
Average age	46.5	46.8
Average past service	16.8	17.3
Average future service:		
▶ To full eligibility age	11.243	11.967
▶ To expected retirement	11.805	12.319
Currently Receiving Benefits		
Retired participants and surviving spouses:		
▶ Number:		
– Under age 65	554	533
– Age 65 and over	<u>1,948</u>	<u>1,639</u>
– Total	2,502	2,172
▶ Average age	72.7	72.2
Dependents:		
▶ Number:		
– Under age 65	528	497
– Age 65 and over	<u>824</u>	<u>727</u>
– Total	1,352	1,224
▶ Average age	68.1	68.0

(1) All values reflect the merger of the St. Louis Retiree Welfare Plan and the Elizabethtown Retiree Welfare Plan with the American Water Works Company Pension Plan as of December 31, 2006.

Plan Provisions for Employees of the American Water Works Company, Inc.

Medical and Dental Benefits

Eligibility	<p>Pension retirement or long-term disability.</p> <p><u>Nonunion</u>: Pension requirement: the first day of any month on which the employee elects to retire provided that:</p> <ul style="list-style-type: none">(a) the employee has attained age 55, and(b) the sum of the individual's age and years of service totals at least 70. <p>Non-bargaining employees hired on or after January 1, 2002 are not eligible for these benefits.</p> <p><u>Union (as of January 1, 2006)</u>: The first day of any month in which the employee elects to retire provided that:</p> <ul style="list-style-type: none">(a) the employee has attained age 55 and 20 years of service, or(b) the employee has attained age 65.
Dependent eligibility	<p>Spouse and unmarried children under age 19 or a full-time student under age 23.</p>
Survivor eligibility	<p>Eligibility can continue for provided that the survivor pays the full premium for coverage.</p> <p>Effective January 1, 2008: Surviving spouses will be covered pre-65 provided they pay full premium coverage</p>
LTD requirement	<p>10 years of service and on Social Security disability.</p>

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Retiree contributions
(medical):

- ▶ Retirees (except at Northwest Indiana, St. Louis and Long Island)

- Basic Under Age 65: None for retirements prior to 1/1/96. The following schedule applies to those who retire on or after 1/1/96:

<u>Retirement Date</u>	<u>Monthly Contribution</u>		
	<u>Retiree</u>	<u>Dependent</u>	<u>Family</u>
1/1/1996	\$0.00	\$10.00	\$10.00
1/1/2001	5.00	5.00	10.00
1/1/2002	7.50	12.50	20.00
1/1/2003	9.00	13.50	22.50
1/1/2004	10.00	15.00	25.00
1/1/2005	11.00	16.50	27.50

Effective January 1, 2006: Retiree pays 50% of active contribution (Annual active contributions for 2006: \$581 for standard plan, \$444 for Premium Plan and \$780 for EPO/HMO plan).

Age 65 and Over: None for retirements prior to 1/1/2000. The following schedule of monthly contributions applies to those who retire on or after January 1, 2000.

<u>Retirement Date</u>	<u>Monthly Contribution</u>		
	<u>Retiree</u>	<u>Dependent</u>	<u>Family</u>
1/1/2000	\$ 5.00	\$ 5.00	\$10.00
1/1/2001	10.00	10.00	20.00
1/1/2002	10.00	10.00	20.00
1/1/2003	10.00	10.00	20.00
1/1/2004	10.00	10.00	20.00
1/1/2005	10.00	10.00	20.00
1/1/2006 and beyond	50.00	50.00	125.00

– Additional

Nonunion: Under Age 65: For retirements on or after 8/1/93, an additional contribution is required based on age at retirement. This contribution applies from retirement to age 65.

<u>Age at retirement</u>	<u>Monthly Contribution</u>		
	<u>Retiree</u>	<u>Dependent</u>	<u>Family</u>
55	\$100	\$0	\$100
56	90	0	90
57	80	0	80
58	70	0	70
59	60	0	60
60	50	0	50
61	50	0	50
62 and later	0	0	0

Union: For retirement on or after January 1, 2006, retirees are required to pay the above monthly surcharge plus 50% of the active monthly contribution each year.

Age 65 and Over: None.

- ▶ Surviving dependents
Pays 100% of a budgeted premium. Premiums for 2006 are as follows:
Under Age 65: \$435 per month.
Age 65 and Over: \$331 per month (Premium PPO).
- ▶ Disabled
Disabled employees pay the dependent coverage charge in effect at the time of disability. This charge is not expected to increase from that point.
- ▶ Northwest Indiana Retirees
Pay 100% of the cost of the plan for pre-65 benefits. Various contribution levels for post-65 benefits
- ▶ St. Louis Retirees who retire after January 1, 1993
Participant contributions are based on age plus service as of January 1, 1993.
- ▶ Long Island Nonunion Retirees who retire before July 1, 2001 and Long Island Union Retirees who retire before May 1, 2004
No participant contributions required.

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- ▶ **AW Protected Retirees** Any AW retirees as of January 10, 2003 and any AW active participant who is eligible for retiree welfare benefits as of January 10, 2003 (age 55 with 70 points), will pay the contributions in effect at that time (i.e., 2003 contribution schedule).

Pre-65 benefits:

	Standard PPO	Premium PPO	HMO/EPO
Medical (In-network)			
▪ Annual Deductible (single/family)	▪ \$1,000/\$3,000	▪ None	▪ None
▪ Coinsurance	▪ 80%	▪ 90%	▪ 100%
▪ Out-of-Pocket Maximum (excluding deductible) (single/family)	▪ \$3,500/\$10,500	▪ \$1,000/\$3,000	▪ None
▪ Lifetime maximum benefit	▪ Unlimited	▪ Unlimited	▪ Unlimited
▪ Office Visits (primary care physician and specialist)	▪ 80% after deductible	▪ \$15 copay	▪ \$15 copay
▪ Hospital inpatient services	▪ 80% after deductible	▪ 90%	▪ 100% after \$100 copay per admit
▪ Hospital outpatient surgery	▪ 80% after deductible	▪ 100%	▪ 100%
▪ Prescription Drugs (participant coinsurance)	<ul style="list-style-type: none"> ▪ Preferred drug list ▪ Retail: Generic: 10% Preferred brand: 20% Non-preferred brand: 20% ▪ Mail: Generic: \$14 Preferred brand: \$30 Non-preferred brand: \$70 	<ul style="list-style-type: none"> ▪ Preferred drug list ▪ Retail: Generic: 10% Preferred brand: 20% Non-preferred brand: 20% ▪ Mail: Generic: \$14 Preferred brand: \$30 Non-preferred brand: \$70 	<ul style="list-style-type: none"> ▪ Preferred drug list ▪ Retail: Generic: 10% Preferred brand: 20% Non-preferred brand: 20% ▪ Mail: Generic: \$14 Preferred brand: \$30 Non-preferred brand: \$70

	Standard PPO	Premium PPO	HMO/EPO
Medical (Out-of-network)			
▪ Annual Deductible (single/family)	▪ \$1,500 /\$4,500	▪ \$200/\$600	▪ N/A
▪ Coinsurance	▪ 60%	▪ 70%	▪ N/A
▪ Out-of-Pocket Maximum (excluding deductible) (single/family)	▪ \$4,000/\$12,000	▪ \$3,000 per person	▪ N/A
▪ Lifetime maximum benefit	▪ Unlimited	▪ Unlimited	▪ N/A
▪ Office Visits (primary care physician and specialist)	▪ 60% after deductible	▪ 70% after deductible	▪ N/A
▪ Hospital inpatient services	▪ 60% after deductible	▪ \$250 copay per admit and 70% after deductible	▪ N/A
▪ Hospital outpatient surgery	▪ 60% after deductible	▪ 70% after deductible	▪ N/A
▪ Prescription Drugs (participant coinsurance)	<ul style="list-style-type: none"> ▪ Preferred drug list ▪ Retail: Generic: 10% Preferred brand: 20% Non-preferred brand: 20% ▪ Mail: Generic: \$14 Preferred brand: \$30 Non-preferred brand: \$70 	<ul style="list-style-type: none"> ▪ Preferred drug list ▪ Retail: Generic: 10% Preferred brand: 20% Non-preferred brand: 20% ▪ Mail: Generic: \$14 Preferred brand: \$30 Non-preferred brand: \$70 	▪ N/A

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Dental			
Deductible (single/family)	\$100/\$200	\$50/\$100	\$50/\$100
Preventive Care	80% covered expenses after deductible	100% covered expenses with no deductible	100% covered expenses with no deductible
Basic services/Major Services	Covered at 50% after deductible/50% after deductible	Covered at 80% after deductible/50% after deductible	Covered at 80% after deductible/50% after deductible
Calendar year maximum	\$1,000	\$1,000	\$1,000
Orthodontia	Not covered	\$1,500 lifetime max; pays 50% of covered expenses after deductible (covers dependents only)	\$1,500 lifetime max; pays 50% of covered expenses after deductible (covers dependents only)

Post-65 benefits

Medicare Supplement Comprehensive Plan coordinated with Medicare on a modified exclusion basis. Specifically, it will cover the following:

- Medicare Part A deductible.
- 80% of reasonable and customary medical/surgical charges not covered by Medicare Part B including, but not limited to, the following:
 - Part B deductibles and coinsurance
 - Outpatient hospital expenses
 - Inpatient hospital expenses not covered by Medicare.
 - Covered surgical expenses

Prescription drugs are covered through a card plan, which pays drug expenses at 90% for generic drugs and 80% for brand name drugs when purchased at a retail location. For mail-order prescriptions, the participants pay a \$5 copay for generic drugs and \$15 for brand name drugs.

A separate annual \$150 single/\$300 family deductible applies before the plan will coordinate with Medicare.

Effective December 31, 2001, Medicare HMO options are no longer offered at designated locations to retirees residing in Pennsylvania and New Jersey.

Life Insurance Benefits (Basic, Optional and Supplemental)

Eligibility:

- ▶ Basic Same as medical plan.
- ▶ Optional Available only to participants who chose coverage prior to January 1, 1996; otherwise same as medical plan.
- ▶ Supplemental Available only to certain executives, otherwise same as medical plan. American Water retirees prior to January 1, 1997 retain their prior plan provisions.

Dependent eligibility None.

Retiree contributions:

- ▶ Basic None.
- ▶ Optional \$8.40 per month per \$1,000.
- ▶ Supplemental \$6.00 per month per \$1,000.

Benefits:

- ▶ Basic
 - For retirements prior to 2003:
1x salary (excluding overtime) at retirement (rounded up to the next higher \$1,000) to maximum of \$50,000. Except for disabled employees, reduced 10% per year, beginning at earlier of first anniversary of retirement or age 66, to a minimum of 50% after 5 years.
 - For retirements after 2002: \$10,000.
- ▶ Optional .5 x or 1x salary scheduled amount at retirement to maximum of \$40,000. Except for disabled employees, reduced 10% per year, beginning at earliest of first anniversary of retirement or age 66, to a minimum of 50% after 5 years.
- ▶ Supplemental Up to 2x salary at retirement to maximum of \$80,000. Except for disabled employees, reduced 10% per year, beginning at earliest of first anniversary of retirement or age 66, to a minimum of 50% after 5 years.

Plan Provisions for Employees of the Elizabeth Water Company

Union

Eligibility Age 55 and 10 years of service.

Medical Plan

Coverage duration:

- ▶ Retiree Lifetime
- ▶ Spouse The earlier of lifetime or two years after the death of the retiree.

Medicare Part B Reimbursement

For union participants retiring prior to April 1, 2006, E-Town Water Co. provides a Medicare Part B reimbursement for all retirees and their participating spouses upon attaining age 65. Retirees receive reimbursements for their lifetime; Spouse reimbursements cease two years after the death of the retiree.

For union participants retiring on or after April 1, 2006, E-Town Water Co. provides a Medicare Part B reimbursement up to a maximum for \$1,320 per year, for all retirees and their participating spouses upon attaining age 65. Retirees receive reimbursements for their lifetime; spouse reimbursements cease two years after the death of the retiree.

Dental

For union participants retiring on or after April 1, 2006, E-Town Water Co. will provide dental coverage for all retirees and their covered spouses until they attain age 65.

Medical

The retiree welfare plan is closed for union employees hired on or after April 1, 2006. Employees hired prior to April 1, 2006 have the following plan structure.

Union Pre-65			Union Post-65	
Group	Plan	Employee Contributions	Plan	Employee Contributions
Retirees after 4/1/2006	Choice of three AW medical plans	0% of medical and dental cost 100% of Rx cost	AW Medicare Plan (non RWE promise)	50% of total cost (changes every year)
2004 through 2006	Etown PPO No dental	30% of total cost (changes every year)	AW Medicare Plan (non RWE promise)	65% of total cost (changes every year)
1994 through 2003	Etown PPO No dental	45% of total cost (changes every year)	AW Medicare Plan (non RWE promise)	75% of total cost (changes every year)
Pre-1994	No one in this group		AW Medicare Plan (non RWE promise)	\$74.56 single \$168.96 married (if spouse over 65) This does not change

Life Insurance Plan

Amount \$10,000; current retirees have varying amounts.
Duration of coverage Lifetime

Salaried

Eligibility Age 55 and 10 years of service.

Medical Plan

Coverage duration:

- ▶ Retiree Lifetime
- ▶ Spouse Lifetime

SI-32

Medicare Part B Reimbursement For salaried participants retiring prior to January 1, 2006, Etown Water Co. provides a Medicare Part B reimbursement for all retirees and their participating spouses upon attaining age 65. Retirees and spouses receive reimbursements for their lifetime.

For nonunion participants retiring on or after January 1, 2006, Etown Water Co. will not provide a Medicare Part B reimbursement.

Dental For salaried participants retiring on or after January 1, 2006, Etown Water Co. will cover 70% of dental coverage for all retirees and their spouses until they attain age 65.

Medical The retiree welfare plan is closed for salaried participants hired on or after January 1, 2006. Employees hired prior to January 1, 2006 have the following plan structure.

Nonunion Pre-65			Nonunion Post-65	
Group	Plan	Employee Contributions	Plan	Employee Contributions
Retirees after 12/31/2005	Choice of three AW medical plans including dental & vision	30% of total cost	AW Medicare Plan (non RWE promise)	50% of total cost
2004 through 2005	AW Premium PPO (no dental, no vision)	30% of total cost	AW Medicare Plan (non RWE promise)	65% of total cost
1994 through 2003	AW Premium PPO (no dental, no vision)	25% of total cost	AW Medicare Plan (non RWE promise)	25% of total cost
Pre-1994	No one in this group		AW Medicare Plan (non RWE promise)	\$74.56 single \$168.96 married (if spouse over 65) This does not change

Life Insurance Plan

Amount \$10,000
Duration of coverage Lifetime

Plan Provisions for Employees of the St. Louis Water Company

The actuarial valuation reflects the benefit and contribution provisions summarized below with respect to future retirees, except as noted. As a result, this summary only includes the benefits for bargaining employees. Current retirees and their spouses were assumed to continue under the provisions currently in effect, which may differ from those described below.

Postretirement Medical Plan

Eligibility for Benefits

Normal Retirement (Age/Service)	65/0; benefits prorated if less than 15 years of service at retirement
Early Retirement (Age/Service)	60/20 for clerical union and 60/25 for physical union
Disability (Age/Service)	50/0; benefits prorated if less than 15 years of service at disability Disabled individuals are covered by the active plan until retirement
Preretirement Death (Age/Service)	0/20 (no service requirement for clerical union); spouse must be age 55 (62 for clerical union) at participant's death

Medical Benefits

For dates of retirement prior to January 1, 1993, St. Louis offers Plan 109T on a noncontributory basis.

Plan 109T: Medicare Supplement with \$100 deductible, 80% coinsurance and \$1,000 out of pocket maximum. Prescription drugs are covered the same as other medical expenses.

SI-34

For dates of retirement on or after January 1, 1993, the following plan design is offered:

Pre-65 benefits:

	Standard PPO	Premium PPO	HMO/EPO
Medical (In-network)			
▪ Annual Deductible (single/family)	▪ \$1,000/\$3,000	▪ None	▪ None
▪ Coinsurance	▪ 80%	▪ 90%	▪ 100%
▪ Out-of-Pocket Maximum (excluding deductible) (single/family)	▪ \$3,500/\$10,500	▪ \$1,000/\$3,000	▪ None
▪ Lifetime maximum benefit	▪ Unlimited	▪ Unlimited	▪ Unlimited
▪ Office Visits (primary care physician and specialist)	▪ 80% after deductible	▪ \$15 copay	▪ \$15 copay
▪ Hospital inpatient services	▪ 80% after deductible	▪ 90%	▪ 100% after \$100 copay per admit
▪ Hospital outpatient surgery	▪ 80% after deductible	▪ 100%	▪ 100%
▪ Prescription Drugs (participant coinsurance)	<ul style="list-style-type: none"> ▪ Preferred drug list ▪ Retail: Generic: 10% Preferred brand: 20% Non-preferred brand: 20% ▪ Mail: Generic: \$14 Preferred brand: \$30 Non-preferred brand: \$70 	<ul style="list-style-type: none"> ▪ Preferred drug list ▪ Retail: Generic: 10% Preferred brand: 20% Non-preferred brand: 20% ▪ Mail: Generic: \$14 Preferred brand: \$30 Non-preferred brand: \$70 	<ul style="list-style-type: none"> ▪ Preferred drug list ▪ Retail: Generic: 10% Preferred brand: 20% Non-preferred brand: 20% ▪ Mail: Generic: \$14 Preferred brand: \$30 Non-preferred brand: \$70
Medical (Out-of-network)			
▪ Annual Deductible (single/family)	▪ \$1,500 /\$4,500	▪ \$200/\$600	▪ N/A
▪ Coinsurance	▪ 60%	▪ 70%	▪ N/A

	Standard PPO	Premium PPO	HMO/EPO
▪ Out-of-Pocket Maximum (excluding deductible) (single/family)	▪ \$4,000/\$12,000	▪ \$3,000 per person	▪ N/A
▪ Lifetime maximum benefit	▪ Unlimited	▪ Unlimited	▪ N/A
▪ Office Visits (primary care physician and specialist)	▪ 60% after deductible	▪ 70% after deductible	▪ N/A
▪ Hospital inpatient services	▪ 60% after deductible	▪ \$250 copay per admit and 70% after deductible	▪ N/A
▪ Hospital outpatient surgery	▪ 60% after deductible	▪ 70% after deductible	▪ N/A
▪ Prescription Drugs (participant coinsurance)	<ul style="list-style-type: none"> ▪ Preferred drug list ▪ Retail: Generic: 10% <li style="padding-left: 20px;">Preferred brand: 20% <li style="padding-left: 20px;">Non-preferred brand: 20% ▪ Mail: Generic: \$14 <li style="padding-left: 20px;">Preferred brand: \$30 <li style="padding-left: 20px;">Non-preferred brand: \$70 	<ul style="list-style-type: none"> ▪ Preferred drug list ▪ Retail: Generic: 10% <li style="padding-left: 20px;">Preferred brand: 20% <li style="padding-left: 20px;">Non-preferred brand: 20% ▪ Mail: Generic: \$14 <li style="padding-left: 20px;">Preferred brand: \$30 <li style="padding-left: 20px;">Non-preferred brand: \$70 	▪ N/A

Post-65 benefits

Medicare Supplement Comprehensive Plan coordinated with Medicare on a modified exclusion basis. Specifically, it will cover the following:

- Medicare Part A deductible.
- 80% of reasonable and customary medical/surgical charges not covered by Medicare Part B including, but not limited to, the following:
 - Part B deductibles and coinsurance
 - Outpatient hospital expenses
 - Inpatient hospital expenses not covered by Medicare.
 - Covered surgical expenses

Prescription drugs are covered through a card plan, which pays drug expenses at 90% for generic drugs and 80% for brand name drugs when purchased at a retail location. For mail-order prescriptions, the participants pay a \$5 copay for generic drugs and \$15 for brand name drugs.

A separate annual \$150 single/\$300 family deductible applies before the plan will coordinate with Medicare.

Monthly retiree contributions

Retirement prior to 1993: \$0

Retirement in 1993 or later: Retirees and spouses contribute the difference between the total cost and the portion paid by the company as defined in the coverage phase-out chart

Spouse coverage after retiree's death

Only if retiree completed 20 years of service at retirement and spouse age 55 (62 for clerical union) at retiree's death

Coverage phase-out

Company pays 100% for those retiring prior to 1993 and 80% for those retiring during 1993. For retirements after 1993, company contribution based on following schedule:

<u>Age + Service</u> <u>1/1/93</u>	<u>Company</u> <u>Percentage</u>
90	70%
89	68
88	66
87	64
86	62
85	60
84	58
83	56
82	54
81	52
80	50
79	49
78	48
77	47
76	46
75	45
74	43
73	41
72	39
71	37
70	35
69	34
68	33
67	32
66	31
65	30
64	26
63	22
62	19
61	17
60	15
Under 60 or hired after 1992	0

SI-38

Medicare Part B supplements Retirement prior to 1993: \$20 per month per retiree or spouse if company insurance coordinates with Medicare Part B
Retirement in 1993 or later: none

Postretirement Life Insurance Plan

Eligibility for Benefits

Normal Retirement (Age/Service) 65/0; benefits prorated if less than 15 years at retirement
Early Retirement (Age/Service) 60/30 for non-union, 60/20 for clerical union and 60/25 for physical union
Disability (Age/Service) 50/0; benefits prorated if less than 15 years at retirement
Disabled individuals are covered by the active plan until retirement

Death Benefits

Clerical union 1.15 times pay at retirement, maximum of \$50,000, decreasing by 10% per year to 50%
Physical union 50% of active life insurance benefit (\$16,000) at retirement. This amount decreases 10% per year to 25% of active life insurance benefit

Changes in Death Benefits None

Changes in Benefits Valued

On December 31, 2006, the St. Louis County Water Company Retiree Welfare Plan and the Elizabethtown Retiree Welfare Plan were merged into the American Water Retiree Welfare Plan. This has been reflected in the 2007 valuation.

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143**

**COMMISSION STAFF'S SECOND SET
OF INFORMATION REQUESTS**

Item 29 of 80

Witness: Michael Miller

29. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 77 of 118.
- a. Provide the Towers Perrin report supporting the pension projections for the years 2007 through 2011.
 - b. State the number of active participants for each company listed.
 - c. Explain why the evaluation earnings ratio is the appropriate allocation method for pension costs.

Response:

- a. Please see the letter of August 18, 2006 attached to the response to KAW_R_PSCDR2#28_061807.
- b. Please see the attached schedule.
- c. Pension cost is determined for the American Water Pension Plan in total, with such total cost determined under FAS 87. The total pension cost is then allocated to KAWC based on the ratio of "valuation earning" of KAWC employees to the total of "valuation earnings" of all employees that participate in the American Water Pension Plan. "Valuation earnings" are those earnings used in developing valuation results and, for that purpose are defined as rate of pay, plus an assumed AIP amount equal to 100% of target AIP for all eligible participants, and assumed load of 3% overtime for eligible participants.

KAWC believes this allocation methodology is reasonable and in keeping with the Statement of Policy requirement to use FAS 87 to account for these benefits for the following reasons:

1. Since the allocation for KAWC's portion of the plan is not explicitly addressed by FAS 87, KAWC believes the allocation method should be reasonable and not generate unnecessary cost or effort which would be passed on to customers. A so-called "stand-alone" valuation for each subsidiary portion of these plans would be impractical because it would

require the separate tracking of contributions, asset gains and losses, liability, etc. which is not addressed in FAS 87.

2. The administrative cost savings realized due to American Water's maintenance of one pension plan for all subsidiaries is passed along to customers in the form of lower administrative fees. Introducing a more complex method to allocate pension costs would eliminate these administrative fee savings.
3. In allocating these costs, American Water's actuaries have used a method that is generally accepted as a reasonable method for allocating costs to a subgroup participating in a pension plan.
4. Many employees of AWW work for multiple subsidiaries over the course of their careers. The evaluation earnings for each subsidiary assures that the pension costs are properly allocated to each subsidiary based on the years and salary that apply to each employees work for a particular subsidiary.

For the electronic version, refer to KAW_R_PSCDR2#29_061807.pdf

American Water
Allocation of 01/01/2007 FAS 87 Cost

Pension Plan: Annual Valuation
using data collected as of July 1, 2006

<u>COMPANY</u>	<u>July 1, 2006 Company Code</u>	<u>July 1, 2006 Locality Code</u>	<u>Number of Active Participants</u>	<u>Valuation Earnings</u>	<u>Allocation Percentage *</u>	<u>Allocated Pension Cost</u>
AMERICAN WATER WORKS COMPANY	2	N/A	2	139.114	0 05%	19.484
AMERICAN WATER SERVICES (AAET, L.P.)	99001	N/A	2	108.140	0 04%	15.587
AMERICAN WATER SERVICES (Corp)	99002	N/A	1	152.440	0 05%	19.484
AWW SERVICE COMPANY						
Voorhees	3	1	108	12,050,641	4 18%	1,628.892
Belleville. IL Lab (R)	3	2	31	1,639.092	0 57%	222.122
Richmond. IN Data Center (H)	3	3	0	0	0 00%	0
Western (L)	3	6	56	5,581.486	1 94%	755.993
Hershey, PA Data Center (W)	3	7	0	0	0 00%	0
Haddon Heights IS	3	9	0	0	0 00%	0
Northeast Region	3	10	38	4,497.679	1 56%	607.912
Southeast Region	3	11	118	10,442.961	3 63%	1,414.564
Indiana Region	3	12	0	0	0 00%	0
Illinois Region	3	13	156	12,604.485	4 38%	1,706.829
Alton. IL Call Center	3	14	347	11,457.533	3 98%	1,550,954
Shared Services	3	15	115	7,549.286	2 62%	1,020.980
Pensacola Call Center	3	16	126	3,819.955	1 33%	518.284
ITS	3	17	112	9,205.962	3 20%	1,246.998
Procurement/Supply Chain	3	19	<u>27</u>	<u>2,097,655</u>	<u>0.73%</u>	<u>284,471</u>
Total AWW Service Company			1234	80,946.736	28 12%	10,957.999
NORTHEAST REGION						
NEW JERSEY - AM	18	N/A	393	23,114,127	8 02%	3,125.289
LONG ISLAND	38	N/A	79	5,123.437	1 78%	693.643
ELIZABETHTOWN	NA	N/A	<u>316</u>	<u>22,483,287</u>	<u>7.81%</u>	<u>3,043,455</u>
Total Northeast Region			788	50,720.851	17 61%	6,862.387
SOUTHEAST REGION						
KENTUCKY - AM	12	N/A	115	5,322.159	1 85%	720.921
VIRGINIA - AM - EASTERN DISTRICT	42	700	7	336.157	0 12%	46.762
PENNSYLVANIA - AM	24	N/A	806	41,953.942	14 55%	5,669,943
MARYLAND - AM	13	N/A	7	337,470	0 10%	38,969
TENNESSEE - AM	26	N/A	91	4,740,141	1 65%	642.984
VIRGINIA - AM	27	N/A	67	3,357.411	1 17%	455.934
WEST VIRGINIA - AM	28	N/A	<u>278</u>	<u>14,512,281</u>	<u>5.04%</u>	<u>1,964,022</u>
Total Southeast Region			1,371	70,559.562	24 48%	9,539.535
CENTRAL REGION						
ILLINOIS - AM	9	N/A	362	18,163.541	6 31%	2,458.925
INDIANA - AM	10	N/A	264	12,671.871	4 40%	1,714.623
IOWA - AM	11	N/A	56	2,846.047	0 99%	385.790
MISSOURI - AM	17	N/A	522	26,350.864	9 15%	3,565.636
OHIO - AM	22	N/A	83	4,065.427	1 41%	549.459
MICHIGAN - AM	16	N/A	<u>7</u>	<u>327,2140</u>	<u>11 %</u>	<u>42,866</u>
Total Central Region			1,294	64,424.953	22 37%	8,717.299
WEST REGION						
CALIFORNIA - AM	5	N/A	190	11,992.009	4 16%	1,621.098
NEW MEXICO - AM	19	N/A	23	1,078.275	0 37%	144.184
ARIZONA - AM	23	N/A	125	6,498.935	2 26%	880.693
HAWAII	30	N/A	16	932.303	0 32%	124.700
TEXAS	50	N/A	<u>15</u>	<u>475,8940</u>	<u>17 %</u>	<u>66,247</u>
Total West Region			369	\$20,977.417	7 28%	2,836.922
TOTAL SYSTEM			5,061	\$288,029,223	100 00%	\$38,968,697
						\$38,968,697

* The allocation percentage for each company is equal to the ratio of valuation earnings for that company to total valuation earnings for the entire American system

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143**

**COMMISSION STAFF'S SECOND SET
OF INFORMATION REQUESTS**

Item 30 of 80

Witness: Michael Miller

30. In Case No. 2004-00103, Kentucky-American's total forecasted rate case cost was \$622,409. In that case the Commission found that, "[i]n the next rate application, Kentucky-American should demonstrate fully its efforts to contain these expenses." In the current case, Kentucky-American's forecasted rate case costs are \$700,000,¹ a \$77,501 or a 12.46 percent increase. Describe Kentucky-American's efforts to contain rate case expenses.

Response:

While the Company forecasted \$622,409 of rate case expense for the previous rate case, the actual cost was \$1,081,591. The Company has absorbed that increase as the increased rate case expense has not been recovered in rates. The Company has included \$700,000 in its filing for rate case expense, a significant reduction from the actual cost to process the previous rate case.

The Company's filing in this case includes a new operation (Owenton) that added to the work of filing the case. The case includes a cost of service study to support the requested approval of STP and a depreciation study to address depreciation rates which is necessary given the time from the last depreciation study, both of which have added to the cost to process this case over the previous case. There are outside expert witnesses for cost of capital, management fees, cost of service, depreciation rates and weather normalization, all of which are necessary given the Commission's past regulation of the Company.

Given the number of issues likely in this case and the additional items mentioned above, the Company believes it has in fact demonstrated that it has attempted to contain the cost of processing this case.

It is the complexity of the issues, the number of interveners, the level of discovery and the presence (or absence) of a settlement that ultimately drives the cost to process a rate case. The discovery to this point in the case has been significant. The issues that develop as the case progresses could impact the cost of the case. The Company is always willing to hold discussions in an attempt to reach reasonable settlement of a rate case which if successful could impact the cost to process the case.

¹ This amount does not include the \$35,000 estimated cost of the depreciation study.

For electronic version, refer to [KAW_R_PSCDR2#30_061807.pdf](#)

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143**

**COMMISSION STAFF'S SECOND SET
OF INFORMATION REQUESTS**

Item 31 of 80

Witness: Sheila Miller/Michael Miller

31. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 82 of 118.
- a. Provide all documents that Kentucky-American relies for its projected 5 percent premium increases in 2007 and 2008 for each insurance other than group coverage listed on the schedule.
 - b. Provide the actual 2007 premium amounts for each insurance other than group coverage listed on the schedule.
 - c. State the workers' compensation capitalization rate and explain why it differs from the capitalization rate used for other payroll related costs.

Response:

- a. The attached indicates the increase in insurance other than group ranges from 3% to 10%. Based on this forecast the Company believed the use of an overall increase of 5% was justified and conservative.
- b. The premium amounts are on W/P3 page 84 of 118.
- c. The worker's compensation capitalization is determined by applying the effective rate for workers compensation to the capital labor costs to determine the deduction in arriving at workers compensation expense applicable to O&M expense. The O & M labor amounts shown on working paper KAW_R_PSCDR1#1a_052107 were incorrect. The O&M labor reflected total labor. This error resulted in the capitalization rate for workers compensation being understated (13.70%). The Company is providing the correction to the working paper as an attachment to this response and will reflect this change in the update to its filing to correct for several mathematical errors. The revised workers compensation effective rate is be 2.50% rather than 2.07%. This results in a reduction of the worker's compensation expense of \$7,150 and results in a capitalization rate of 18.24%.

For the electronic version, refer to KAW_R_PSCDR2#31_061807.pdf

American Water Works Company, Inc. Summary of Percentage Changes

<u>Coverage</u>	Budget Year	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
<i>Property Insurance *</i>		\$8,285,000	1.150	1.100	1.000	1.000
<i>Workers Compensation</i>		1.030	1.030	1.030	1.050	1.050
<i>Assessments</i>		1.030	1.030	1.030	1.050	1.050
<i>Loss</i>		1.030	1.050	1.050	1.075	1.075
<i>General Liability</i>		1.050	1.050	1.050	1.100	1.100
<i>Auto Liability</i>		1.050	1.100	1.100	1.100	1.100
<i>Umbrella/Excess Liability *</i>		1.500	1.100	1.100	1.125	1.125
<i>Executive Risk Coverages</i>		1.150	1.100	1.100	1.100	1.100
<i>Directors & Officers Liability *</i>		\$1,375,000	1.100	1.100	1.100	1.100
<i>Errors & Omissions Liability *</i>		\$325,000	1.100	1.100	1.100	1.100
<i>Marsh Consultation Fee</i>		1.030	1.030	1.030	1.030	1.030

KENTUCKY-AMERICAN WATER COMPANY
FOR THE TWELVE MONTHS ENDED: NOVEMBER 30, 2001
INSURANCE OTHER THAN GROUP
LINE 17, 168A
CASE NO: 2007-00143

ACCOUNT	Increase projected for Years: 2007 and 2008												TOTAL	
	Dec-2007	Jan-2008	Feb-2008	Mar-2008	Apr-2008	May-2008	Jun-2008	Jul-2008	Aug-2008	Sep-2008	Oct-2008	Nov-2008		
120119	\$ 6,989	\$ 9,083	\$ 9,083	\$ 9,083	\$ 9,083	\$ 9,083	\$ 9,083	\$ 9,083	\$ 9,083	\$ 9,083	\$ 9,083	\$ 9,083	\$ 9,083	\$ 108,902
	240	243	243	243	243	243	243	243	243	243	243	243	243	2,913
	58	59	59	59	59	59	59	59	59	59	59	59	59	707
	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	35	35	35	35	35	35	35	35	35	35	35	35	35	420
	23	23	23	23	23	23	23	23	23	23	23	23	23	276
	338	342	342	342	342	342	342	342	342	342	342	342	342	4,100
	121	122	122	122	122	122	122	122	122	122	122	122	122	1,463
	631	638	638	638	638	638	638	638	638	638	638	638	638	7,649
	64	65	65	65	65	65	65	65	65	65	65	65	65	779
	370	374	374	374	374	374	374	374	374	374	374	374	374	4,484
559000.16	\$ 10,869	\$ 10,984	\$ 10,984	\$ 10,984	\$ 10,984	\$ 10,984	\$ 10,984	\$ 10,984	\$ 10,984	\$ 10,984	\$ 10,984	\$ 10,984	\$ 10,984	\$ 131,693
	138	138	138	138	138	138	138	138	138	138	138	138	138	1,656
	\$ 11,007	\$ 11,122	\$ 11,122	\$ 11,122	\$ 11,122	\$ 11,122	\$ 11,122	\$ 11,122	\$ 11,122	\$ 11,122	\$ 11,122	\$ 11,122	\$ 11,122	\$ 133,349
	0.0250	0.0250	0.0250	0.0250	0.0250	0.0250	0.0250	0.0250	0.0250	0.0250	0.0250	0.0250	0.0250	0.0250
	489,910	528,494	485,541	480,989	517,125	513,413	490,270	538,199	487,183	520,265	533,278	481,364	481,364	6,066,030
	107,923	116,935	107,796	107,623	115,790	114,594	110,613	120,783	109,456	116,002	119,872	106,016	106,016	1,353,403
	\$ 597,833	\$ 645,429	\$ 593,337	\$ 588,612	\$ 632,915	\$ 628,007	\$ 600,883	\$ 658,982	\$ 596,639	\$ 636,267	\$ 653,150	\$ 587,380	\$ 587,380	\$ 7,419,433
558000.16	\$ 15,104	\$ 15,262	\$ 15,262	\$ 15,262	\$ 15,262	\$ 15,262	\$ 15,262	\$ 15,262	\$ 15,262	\$ 15,262	\$ 15,262	\$ 15,262	\$ 15,262	\$ 182,986
	205	205	205	205	205	205	205	205	205	205	205	205	205	2,460
	\$ 15,309	\$ 15,467	\$ 15,467	\$ 15,467	\$ 15,467	\$ 15,467	\$ 15,467	\$ 15,467	\$ 15,467	\$ 15,467	\$ 15,467	\$ 15,467	\$ 15,467	\$ 185,446
	\$ (2,698)	\$ (2,923)	\$ (2,695)	\$ (2,691)	\$ (2,895)	\$ (2,865)	\$ (2,765)	\$ (3,020)	\$ (2,736)	\$ (2,900)	\$ (2,997)	\$ (2,650)	\$ (2,650)	\$ (33,835)
	\$ (2,698)	\$ (2,923)	\$ (2,695)	\$ (2,691)	\$ (2,895)	\$ (2,865)	\$ (2,765)	\$ (3,020)	\$ (2,736)	\$ (2,900)	\$ (2,997)	\$ (2,650)	\$ (2,650)	\$ (33,835)
	\$ 12,611	\$ 12,544	\$ 12,772	\$ 12,776	\$ 12,572	\$ 12,602	\$ 12,702	\$ 12,447	\$ 12,731	\$ 12,567	\$ 12,470	\$ 12,817	\$ 12,817	\$ 151,611
557000.16	\$ 20,013	\$ 20,223	\$ 20,223	\$ 20,223	\$ 20,223	\$ 20,223	\$ 20,223	\$ 20,223	\$ 20,223	\$ 20,223	\$ 20,223	\$ 20,223	\$ 20,223	\$ 242,466
	8,892	8,985	8,985	8,985	8,985	8,985	8,985	8,985	8,985	8,985	8,985	8,985	8,985	107,727
	445	445	445	445	445	445	445	445	445	445	445	445	445	5,340
	\$ 29,350	\$ 29,653	\$ 29,653	\$ 29,653	\$ 29,653	\$ 29,653	\$ 29,653	\$ 29,653	\$ 29,653	\$ 29,653	\$ 29,653	\$ 29,653	\$ 29,653	\$ 355,533
	1,974	1,974	1,974	1,974	1,974	1,974	1,974	1,974	1,974	1,974	1,974	1,974	1,974	23,688
	\$ 31,324	\$ 31,627	\$ 31,627	\$ 31,627	\$ 31,627	\$ 31,627	\$ 31,627	\$ 31,627	\$ 31,627	\$ 31,627	\$ 31,627	\$ 31,627	\$ 31,627	\$ 379,221
	\$ 54,942	\$ 55,293	\$ 55,521	\$ 55,525	\$ 55,321	\$ 55,351	\$ 55,451	\$ 55,196	\$ 55,480	\$ 55,316	\$ 55,219	\$ 55,666	\$ 55,666	\$ 664,181

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Witness: Michael Miller

32. Refer to Application, Exhibit 37, Schedule H. Kentucky-American states uncollectibles as .880760 percent. In Cases No. 2000-00120¹ and No. 2004-00103, the Commission employed a percentage of .45620 and .50683, respectively. The uncollectible rate in the current case is nearly double that employed in Case No. 2000-00120 to establish general service rates.
- a. State the reasons for the increase in uncollectibles.
 - b. Explain why it is appropriate and reasonable for the Commission to use an uncollectibles rate in this case that is significantly higher than those used to review prior Kentucky-American rate applications.

Response:

The Company made an error in arriving at the 88.076% ratio referenced above, as well in the revenue at present rates utilized in arriving at the going-level uncollectible expense used in this rate case filing as provided electronically as KAW_R_PSCDR1#1a_WP3_052107_page 86 or 118. Attached is the revised working paper that correctly calculates uncollectible expense at going-level. This change is being made to the updated filing which the Company will make to reflect mathematical errors.

- a. There is any number of reasons for the increase in uncollectible expense. With the move to the Call Center there has been a more active and uniform collections process. As indicated in the response to CACDR1#5 the number of shut-off for non-pay for 2005 doubled from the levels in 2003 and 2004 the periods prior to full integration to the Call Center. The increase in shut-offs results in an increase in final bills and an increase in charged-off accounts. The Company believes the current collections procedures more accurately reflect the accounts receivable and reserve for uncollectible accounts than was occurring prior to movement to the Call Center and the initiation of a more active and uniform collections process. There have been changes in the demographics of the customer base as the Central Division continues to grow at a strong pace and the Northern Division service areas were added that have contributed to change. The Company's revenue has continued to be more heavily influence by residential customers due to normal

¹ Case No. 2000-00120, Application of Kentucky-American Water Company to Increase Its Rates (Ky. PSC Nov. 27, 2000).

growth and new service area and the uncollectible accounts relate primarily to the residential class. As residential revenue increases as a percentage of the total revenue is logical that the percentage of charge-off will increase in relation to the total revenue. The general economic climate at any given period for the area also impacts the collections efforts.

- b. The Commission should set just and reasonable rates on the likely cost of service elements for the period when those rates are to be in effect. The Company has continued to place significant emphasis on collecting amounts to which it is due for the service provided. The actual uncollectible expenses for 2004-2006 accurately reflects the status of those significant collections efforts and provides a reasonable basis for the expense level on which to set the rates in this case, particularly when a three-year average is used which would smooth the impact of weather or changes in the economic climate. The Company believes it has placed significant emphasis on collections and the uncollectible expense requested in this case is reasonable and reflects the status of the payment history of the customer base.

For the electronic version, refer to KAW_R_PSCDR2#32_061807.pdf

Kentucky-American Water Company							
Forecasted Uncollectibles Expense							
CASE NO: 2007-00143							
Historical Information							
	Billed Revenues						
	Lexington	Elk Lake	Tri Village	Owenton	Total	Net charge-offs	
2004	39,772,371		830,893	-	40,603,264	376,473.37	0.93%
2005	47,061,606		919,435	1,760	47,982,801	398,108.09	0.83%
2006	46,986,741	-	970,979	711,093	48,668,813	384,317.63	0.79%
							2.55%
							0.85%
Historical Information Lexington							
2004	39,772,371						
2005	47,061,606						
2006	46,986,741						
Historical Information Tri Village							
2004			830,893				
2005			919,435				
2006			970,979				
Historical Information Elk Lake							
2001							
2002							
2003							
Historical information Owenton							
2004							
2005				1,760			
2006				711,093			
Forecasted Information Dec 07 Nov 08 at present rates							
Lexington	46,934,435	398,942					
Tri Village	1,156,141	9,827					
Elk Lake	93,638	796					
Owenton	605,551	5,147					
	48,789,765	414,712					
Uncollectibles	414,713						
	0.850000%	Three year average					

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Witness: Michael A. Miller

33. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 86 of 118.
- a. Reconcile the uncollectibles of \$503,725 to the \$495,095 shown in Kentucky-American's Application at Exhibit 37, Schedule B-5.2, page 5 of 6.
 - b. Reconcile the forecasted revenue of \$57,192,280 to the revenues stated in Kentucky-American's Application at Exhibit 37, Schedule C-2, page 1 of 5.

Response:

a.	Uncollectibles W/P3 pg 86 of 118	\$503,725
	Tri Village posted to acct 905100	<u>8,620</u>
	Exhibit 37, Schedule B-5.2, pg 5 of 6	\$495,105

Tri Village was posted to account 905100 (miscellaneous expense) rather than 904000 (uncollectibles) on Schedule D and did not post to Schedule B-5.2 on the uncollectibles line.

- b. The Company mistakenly utilized the \$57,192,280 revenue referenced above in calculating the uncollectible expense. It should have utilized the billed tariff revenues at present rates of \$48,789,765 per Exhibit 37, Schedule C-2, page 1 of 5. Please see the schedule attached to the response to KAW_PSCDR2#32_061807.pdf for the correction to the uncollectible account expense.

For electronic version, refer to KAW_R_PSCDR2#33_061807.pdf

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Witness: Michael A. Miller

34. Provide for each AWWC subsidiary that provides water service the amount of its uncollectibles and its total water sales, and its uncollectibles stated as a percentage of total water sales for the calendar year ended 2006.

Response:

Company	Uncollectible Expense	Water Sale Revenues	% Expense to Revenues
Bluefield Valley	\$286.32	\$268,392.12	0.11%
California American	\$459,233.85	\$121,080,982.16	0.38%
Illinois American	\$2,074,393.15	\$162,803,058.53	1.27%
Indiana American	\$2,855,697.22	\$143,159,133.72	1.99%
Iowa American	\$283,755.47	\$24,095,050.78	1.18%
Kentucky American	\$405,811.26	\$48,777,821.24	0.83%
Maryland American	\$8,691.81	\$3,389,347.01	0.26%
Michigan American	\$3,176.26	\$1,368,224.37	0.23%
Missouri American	\$2,219,815.68	\$172,294,744.27	1.29%
New Jersey American	\$1,449,427.49	\$273,624,272.33	0.53%
New Mexico American	\$220,036.89	\$9,006,411.81	2.44%
Ohio American	\$688,425.48	\$26,398,603.90	2.61%
Arizona American	\$252,893.49	\$44,006,284.82	0.57%
Pennsylvania American	\$7,540,088.71	\$411,167,419.83	1.83%
Tennessee American	\$567,720.94	\$33,978,866.08	1.67%
Virginia American	\$269,780.45	\$38,997,991.11	0.69%
West Virginia American	\$1,541,173.62	\$103,892,132.63	1.48%
Hawaii American	\$187,511.42	\$8,489,235.41	2.21%
Long Island Water	\$235,349.40	\$41,688,944.58	0.56%
United Virginia	\$5,883.97	\$1,108,736.46	0.53%
Texas American	\$149,307.87	\$2,057,553.52	7.26%

For electronic version, refer to KAW_R_PSCDR2#34_061807.pdf

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Witness: Nick Rowe

35. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, page 95 of 118. Kentucky-American includes in its general office forecast, dues and membership costs of \$25,323. For each dues or membership included in the forecast, identify the organization or group to which Kentucky-American will pay the dues or membership fee and the employee(s) for whom the fee is being paid.

Response:

The actual amount included in general office forecast for dues and membership costs is \$25,964. The cost referenced above is that cost only allocated to Lexington District. See the attached for the total dues and memberships cost of \$25,964.

For electronic version, refer to KAW_R_PSCDR2#35_061807.pdf

Kentucky American Water
Dues/Membership Deduct
PSC2 Q35.

BU	Acct	Sub	Organization	Name	Total
120105	575280	16	Lafayette Club	Nick Rowe	2,124.00
120114	575280	16	5 PE registrations, 6 AWWA, 3 ASCE membersships	Engineering	3,800.00
120118	575280	16	Society for HR	Donna Braxton	240.00
120119	575280	16	Diversity Inc.	Donna Braxton	100.00
120119	575280	16	NSC (National Safety Conference)	Frank Ross	600.00
120122	575280	16	Rotary Club	Dillard Griffin	300.00
120201	575280	16	BGCCPA AUDOBON AWWA	Dillard Griffin	665.00
120217	575280	16	WW RECERT	David Shehee	50.00
120121	575320	16	Commerce Lexington	KAWC	3,090.00
120121	575340	16	Jessamine Co. Chamber	KAWC	309.00
120121	575340	16	Woodford Co. Chamber	KAWC	1,133.00
120121	575340	16	Bourbon Co. Chamber	KAWC	515.00
120121	575340	16	Harrison Co. Chamber	KAWC	360.50
120121	575340	16	Scott Co. Chamber	KAWC	515.00
120121	575340	16	Clark Co. Chamber	KAWC	484.10
120121	575340	16	Owen Co. Chamber	KAWC	515.00
120121	575340	16	Bluegrass Tomorrow	KAWC	1,030.00
120121	575340	16	Better Business Bureau	KAWC	643.75
120121	575340	16	Home Builders Association	KAWC	463.50
120121	575340	16	Kentucky Chamber of Commerce	KAWC	1,751.00
120121	575340	16	Kentucky World Trade Center	KAWC	695.25
120121	575342	16	Lexington Apartment Assn	KAWC	334.75
120121	575342	16	Lexington-Bluegrass Assn of Realtors	KAWC	309.00
120121	575342	16	Scott Co. Home Builders Assn.	KAWC	267.80
120121	575342	16	AWWA Partnership for Safe Water	KAWC	1,236.00
120121	575342	16	Blue Grass Trust	KAWC	1,030.00
120121	575342	16	Downtown Lexington Corporation	KAWC	824.00
120121	575342	16	Kentucky Historical Society	KAWC	257.50
120121	575342	16	Fraternal Order of Police	KAWC	1,030.00
120121	575350	16	PRSA Dues - Local (Lancho & Swope)	Susan Lancho/Valeria Swope	103.00
120121	575350	16	PRSA Dues - National (Lancho & Swope)	Susan Lancho/Valeria Swope	463.50
120121	575350	16	ARMA Dues - (Ballard)	Pat Ballard	185.40
120121	575350	16	AWWA - Section - SL & VS	Susan Lancho/Valeria Swope	309.00
120121	575350	16	Lex Forum (Lancho)	Susan Lancho	231.75
			Total		<u>25,965.80</u>

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Witness: Nick Rowe/Sheila Miller

36. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P3, pages 97 through 100 of 118.
- a. Explain "Other Welfare Operations."
 - b. Describe the expenses that are included in the account entitled "Employee Awards."
 - c. Describe the expenses that are included in the account entitled "Safety Incentive."
 - d. Describe each of the services forecasted for "Contract Services – Accounting" in the amount of \$72,000 and "Contract Services – Legal" in the amount of \$75,000.
 - e. Account No. 575130.16 – Brochures & Handouts totals \$52,955. At Exhibit 37, Schedule F, page 10 of its Application, however, Kentucky-American lists the amount for brochures & handouts as \$49,865. Reconcile this difference.
 - f. Explain the significance of the schedule entitled "Transportation Expense – Adjustment for Rate Case" and identify the account number and title in which the \$253,471 is reported.

Response:

- a. Other welfare operations include expenses for employee service awards, employee recognition events, and other expense related to employee health and attendance.
- b. Included in employee awards are expenses that specifically recognize years of service and retirement.
- c. Safety incentive expenses include recognition to employees for achieving or maintaining benchmarked safety criteria.
- d. Contract Services –Accounting: Annual audit fees from external auditors.
Contract Services –Legal: Professional legal services as needed to address various litigation.

- e. The difference is the result of inadvertently including on Schedule F some expenses that are not included in “brochures and handouts” and inadvertently excluding some budgeted brochures and handouts.

The total difference is \$3,090 and is comprised of the following:

Billing made easy brochure (February) not included - \$3,605

Earth day expense included on Schedule F in error – (\$1,030)

Conservation tips included on Schedule F in error – (\$3,090)

H2O – Help to Others brochure (September) not included - \$3,605

- f. The transportation expense – adjustment for rate case – calculates an average increase in gasoline prices based on future crude oil costs. The \$253,471 is the estimated expense based on actual 2006 prices to the ratio of customers in the forecast period. The estimated expense of \$253,471 is then multiplied by the average change in crude oil prices to arrive at an estimated increase in gasoline purchases for the forecasted period of \$9,226. The estimate of \$9,226 is included in account 550002.16 transportation expense. The \$253,471 was only used in the calculation.

For electronic version, refer to KAW_R_PSCDR2#36_061807.pdf

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Witness: Michael A. Miller/Sheila Miller

37. Refer to Kentucky-American's Application, Exhibit 37, Schedule F. For each forecasted amount listed in this Schedule, identify the account on page 7 of Exhibit 37, Schedule C, in which Kentucky-American has recorded the amount.

Response:

The forecasted social and service club dues listed on Schedule F-1 are applied to account 575340 on the miscellaneous line of Schedule C.

All charitable contributions listed on Schedule F-2.1 pages 1 thru 4 are charged below the line and are not included in any account on Exhibit 37, Schedule C.

The forecasted employee recognition events and service awards on Schedule F2.3 are applied to account 504610 on the miscellaneous line of Schedule C. All other items listed on Schedule F-2.3 page 1 of 1 are below the line items.

The forecasted advertising expenses listed on Schedule F-4 under the column Conservation Advertising are charged to account 568010 on the miscellaneous line on Schedule C. Under the Institutional Column the newspaper advertising is charged to account 575030 on the miscellaneous line of Schedule C. The direct mail and customer handouts are charged to account 575130 on the miscellaneous line of Schedule C. Regarding Institutional Advertising also see the response to PSC DR2 question 38.

The rate case expense on Schedule F-5 is charged to the deferred account and does not appear on Schedule C. The annual audit expense is charged to account 532000 on the miscellaneous line of Schedule C. The Other professional service fees is for legal expense and is charged to account 533000 on the miscellaneous line of Schedule C.

The forecasted amortization of the rate case expense shown on Schedule F-6 is charged to account 566100 on the regulatory expense line of Schedule C. The difference in the amount on Schedule C and Schedule F-6 is the amortization of the depreciation study which does not appear on Schedule F-6.

Schedule F-7 summarizes the donations which are charged below the line, the civic activities charged to account 575340, and the political activities which are also charged below the line.

For electronic version, refer to KAW_R_PSCDR2#37_061807.pdf