

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143
ATTORNEY GENERAL'S REQUEST FOR INFORMATION
Item 256 of 312

Witness: Michael A. Miller

256. Provide a complete copy of any and all actuarial reports prepared by or for the Company during the past three years concerning the cost of post retirement benefits other than pensions.

Response:

Please see the response to AGDR1#245 for the latest actuarial report. Please see the attached copies of the remaining actuarial reports requested.

For electronic version, refer to KAW_R_AGDR1#256_061807.pdf

American Water Works Company, Inc.
Retiree Welfare Plan

Actuarial Valuation Report

Postretirement Welfare Cost for Fiscal Year Ending December 31, 2006

Employer Contributions for Plan Year Beginning January 1, 2006

August 2006

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, 2006 and January 1, 2005.

	January 1, 2006	January 1, 2005
FAS 106 Postretirement Welfare Cost*		
Amount**	\$ 25,580,244	\$ 28,164,636
Per active participant	7,586	7,712
FAS 106 Funded Position*		
Accumulated postretirement benefit obligation [APBO]	\$ 394,053,693	\$ 369,207,137
Fair value of assets [FV]	227,117,760	202,028,141
APBO funded percentage [FV ÷ APBO]	57.6%	54.7%
Accrued Postretirement Benefit Cost	\$ 14,253,047	\$ 13,715,492
Employer Contributions		
Funding policy	\$ 25,580,244	\$ 28,164,636
Estimated maximum tax-deductible limit***	27,537,000	50,321,000****
Expected benefit payments and expenses, net of participant contributions	15,901,999	15,772,302

* 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.

** For purposes of determining the deferred portion of the tax provisions and the deferred tax asset, the annual postretirement welfare cost, ignoring the Medicare Part D subsidy, is \$35,137,725 for 2005 and \$32,969,872 for 2006.

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

**** Actual tax-deductible limit for 2005 tax year was \$49,400,000.

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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, 2005	December 31, 2004
30-year Treasury	4.54%	4.83%
Moody's Aaa	5.26%	5.43%
Moody's Aa	5.41%	5.66%

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, 2006	January 1, 2005
Discount rate for obligations	5.65%	6.00%
Rate of return on assets (pre-tax)	8.25%	8.75%
Assumed tax rate on investment income – VEBA*	38.00%	38.00%
Rate of return on assets (after-tax)	7.95%	8.40%

* Assumed to apply to 10% of assets expected to be invested in a taxable medical trust (for non-bargaining employees).

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:

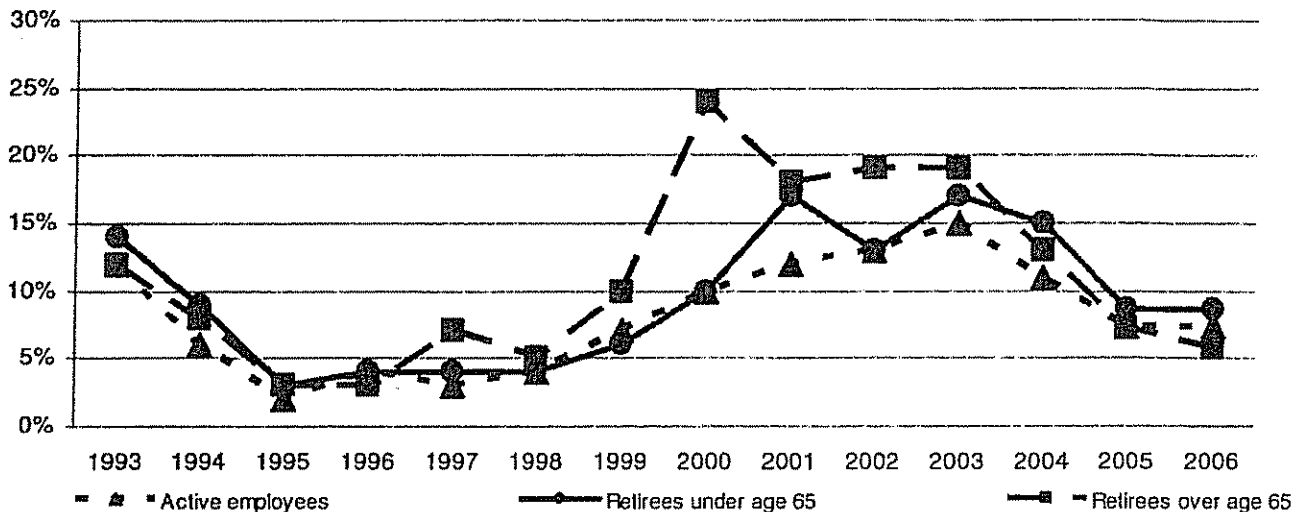
	January 1, 2006	January 1, 2005
Discount rate for normal cost and present value of projected benefits:		
▶ Bargaining medical and life insurance	8.25%	8.50%
▶ Non-bargaining medical	5.15%	5.25%

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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 2006 Health Care Cost Survey was:

	Pre-Medicare eligible Non-HMOs	Pre-Medicare eligible HMOs	Medicare eligible HMOs	Medicare eligible Non-HMOs
10 th percentile	(1)%	3%	(1)%	(13)%
50 th percentile	9%	10%	7%	4%
90 th percentile	18%	23%	19%	15%

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

	January 1, 2006		January 1, 2005	
	<i>Pre-Medicare Eligible</i>	<i>Medicare Eligible</i>	<i>Pre-Medicare Eligible</i>	<i>Medicare Eligible</i>
Health Care Cost Trend				
2005 trend	N/A	N/A	10.0%	10.0%
2006 trend	10.0%	10.0%	9.0%	9.0%
Ultimate trend	5.0%	5.0%	5.0%	5.0%
Year ultimate reached	2011	2011	2010	2010

The assumed health care cost trend was changed from a 2006 expected trend of 9.0% to 10.0%. The ultimate trend of 5.0% will now be attained in 2011 as compared to 2010 in the prior valuation.

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

The per capita costs used in the 2005 and 2006 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				
▶ 2005 assumed per capita cost	\$ 8,626	\$ 8,626	\$ 3,632	\$ 3,632
▶ Assumed trend to 2006	10.0%	10.0%	10.0%	10.0%
▶ 2006 expected per capita cost	\$ 9,489	\$ 9,489	\$ 3,995	\$ 3,995
▶ 2006 assumed per capita cost	9,212	9,212	3,819	3,819
Non-RWE Promise Participants				
▶ 2005 assumed per capita cost	\$ 8,626	\$ 8,626	\$ 3,632	\$ 3,632
▶ Assumed trend to 2006	10.0%	10.0%	10.0%	10.0%
▶ 2006 expected per capita cost	\$ 9,489	\$ 9,489	\$ 3,995	\$ 3,995
▶ 2006 assumed per capita cost	9,127	9,127	3,723	3,723

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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.

An experience study was performed in 2005. As a result, a number of demographic assumptions were changed, including mortality, retirement, termination and marriage assumptions. These changes in aggregate increased the 2006 accounting cost. These assumption changes are described in detail on page SI-18.

Assets

In the year ended December 31, 2005, the plan’s portfolio realized a 6.0% investment return (net of expenses and taxes), while the capital markets performed as follows:

	December 31, 2005
Large equities [S&P 500]	4.91%
Intermediate/small equities [Russell 2500]	8.11%
Non-U.S. equities [EAFE]	14.02%
Bonds [Lehman Brothers Aggregate]	2.43%
Citi 3 Month Treasury Bill	3.00%

Changes in Benefits Valued

All union employees described in this section are those covered under the National Benefits Bargaining effective January 1, 2006:

- ▶ The plan is closed for union employees hired on or after January 1, 2006
- ▶ Eligibility for benefits for union employees is changed to the earlier of age 55 and 20 years of service or age 65
- ▶ Pre-65 retirees, union and nonunion, will have a choice of the three AW medical plans available to active employees (including dental) and will pay the additional early retirement contribution plus 50% of the active contribution until they attain age 65.

-
- ▶ Post-65 retirees will be covered under the AW Medicare Plan with the new Prescription Drug benefit and will pay a monthly contribution of \$50 for single coverage, \$100 for retiree plus spouse coverage and \$125 for family coverage.
 - ▶ A \$500 annual contribution will be made to a VEBA for certain union employees. The cost of this benefit is not included in the FAS 106 liabilities or costs in this valuation report.
 - ▶ There are no changes to the benefits for employees and retirees covered by the RWE promise.

Legislative Changes

There have been no legislative changes since the prior year.

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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 2006 postretirement welfare cost for the plan is \$25,580,244, or \$7,586 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 57.6% as of January 1, 2006, based on the fair value of assets of \$227,117,760 and an APBO of \$394,053,693.

Change in Postretirement Welfare Cost and Funded Position

The postretirement welfare cost decreased from \$28,164,636 in fiscal 2005 to \$25,580,244 in fiscal 2006 because:

- ▶ Expected changes based on prior year's assumptions, methods, plan provisions and contributions decreased the postretirement welfare cost \$1,113,350.
- ▶ Noninvestment experience and the changes in the claims experience decreased the postretirement welfare cost \$3,962,506.
- ▶ The return on the fair value of plan assets in fiscal 2005 was 6.0%, which increased the postretirement welfare cost \$752,469.
- ▶ Assumption changes increased the postretirement welfare cost \$6,835,218.
- ▶ Plan changes decreased the postretirement welfare cost \$5,096,223.

The funded percentage increased from 54.7% to 57.6%.

Employer Contributions

Employer contributions are the amounts paid by American Water to provide for postretirement benefits, net of participant contributions. For 2005, the actual employer contributions of \$28,164,636 were equal to the estimated employer contributions of \$28,164,636.

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 2006, the contribution under the funding policy is \$25,580,244. The maximum tax-deductible contribution limit under the Internal Revenue Code is estimated to be \$27,537,000. Estimated benefit payments for 2006 are \$15,901,999.

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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.



Cynthia C. King, FSA, MAAA, EA

Towers Perrin

August 2006

Supplemental Information

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Asset Values

Asset Values for Calculating Postretirement Welfare Cost

Fair value, excluding contributions
receivable:

▶ As of January 1, 2005	\$ 202,028,141
▶ Employer contributions	28,164,636
▶ Participant contributions	1,597,044
▶ Disbursements including expenses	(17,231,273)
▶ Investment return, net of taxes	<u>12,559,212</u>
▶ As of January 1, 2006	\$ 227,117,760
▶ Rate of return	6.0%

Market-related value:

▶ As of January 1, 2005	\$ 202,028,141
▶ As of January 1, 2006	227,117,760
▶ Rate of return	6.0%

Asset Values for Calculating Employer Contributions

Actuarial value:

▶ As of January 1, 2005	\$ 202,028,141
▶ As of January 1, 2006	227,117,760
▶ Rate of return	6.0%

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Asset Values for Determining Employer Contributions — By Trust

	VEBA Bargaining Medical	VEBA Nonbargaining Medical	VEBA Life Insurance	VEBA Long Island
Market value:				
▶ As of January 1, 2005	\$ 170,943,346	\$ 15,319,210	\$ 11,324,497	\$ 4,441,088
▶ Total contributions	22,321,263	5,843,373	1,597,044	-
▶ Disbursements	(8,234,657)	(7,316,242)	(1,680,374)	-
▶ Investment return, net of taxes	<u>11,715,702</u>	<u>(295,932)</u>	<u>764,934</u>	<u>374,508</u>
▶ As of January 1, 2006	\$ 196,745,654	\$ 13,550,409	\$ 12,006,101	\$ 4,815,596
▶ Rate of return	6.6%	-2.0%	6.8%	8.4%
Actuarial value:				
▶ As of January 1, 2005	\$ 170,943,346	\$ 15,319,210	\$ 11,324,497	4,441,088
▶ As of January 1, 2006	196,745,654	13,550,409	12,006,101	4,815,596
▶ Rate of return	6.6%	-2.0%	6.8%	8.4%

Basic Results for Postretirement Welfare Cost

	January 1, 2006	January 1, 2005
Service Cost		
Medical	\$ 10,875,201	\$ 12,344,971
Life insurance	<u>147,461</u>	<u>174,522</u>
Total	\$ 11,022,662	\$ 12,519,493
Accumulated Postretirement Benefit Obligation [APBO]		
Medical:		
▶ Current retirees	\$ 157,577,921	\$ 136,024,448
▶ Other participants fully eligible for benefits	8,271,750	9,625,867
▶ Other active participants	<u>204,664,763</u>	<u>199,578,114</u>
▶ Total	\$ 370,514,434	\$ 345,228,429
Life insurance:		
▶ Current retirees	\$ 20,283,122	\$ 20,357,050
▶ Other participants fully eligible for benefits	254,202	322,008
▶ Other active participants	<u>3,001,935</u>	<u>3,299,650</u>
▶ Total	\$ 23,539,259	\$ 23,978,708
All benefits:		
▶ Current retirees	\$ 177,861,043	\$ 156,381,498
▶ Other participants fully eligible for benefits	8,525,952	9,947,875
▶ Other active participants	<u>207,666,698</u>	<u>202,877,764</u>
▶ Total	\$ 394,053,693	\$ 369,207,137
Assets		
Fair value [FV]	\$ 227,117,760	\$ 202,028,141
Unrecognized investment losses (gains)	<u>0</u>	<u>0</u>
Market-related value	\$ 227,117,760	\$ 202,028,141

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	January 1, 2006	January 1, 2005
Key Economic Assumptions		
Discount rate	5.65%	6.00%
Average compensation increase rate	4.25%	4.75%
Rate of return on assets, pre-tax	8.25%	8.75%
Assumed tax rate on VEBA assets*	38.00%	38.00%
Weighted average rate, after-tax	7.95%	8.40%
Health care cost trend rate, under age 65:		
▶ First year	10.00%	10.00%
▶ Ultimate	5.00%	5.00%
▶ Year ultimate reached	2011	2010
Health care cost trend rate, age 65 and over:		
▶ First year	10.00%	10.00%
▶ Ultimate	5.00%	5.00%
▶ Year ultimate reached	2011	2010

* Assumed to apply to 10% of assets expected to be invested in a taxable medical trust (for non-bargaining employees).

**Development of Prepaid (Accrued)
Postretirement Benefit Cost
as of December 31, 2005**

Prepaid (accrued) postretirement benefit cost as of December 31, 2004		\$ (13,715,492)
Changes during fiscal 2005:		
▶ Income (cost) recognized		(28,164,636)
▶ Employer contributions		28,164,636
▶ Adjustments		<u>(537,555)</u>
Prepaid (accrued) postretirement benefit cost as of December 31, 2005		\$ (14,253,047)

January 1, 2006

January 1, 2005

Reconciliation of Funded Status

Funded status [FV – APBO]	\$ (166,935,933)	\$ (167,178,996)
Unrecognized transition obligation	22,570,042	44,768,602
Unrecognized net actuarial loss (gain)	130,112,844	107,034,912
Unrecognized prior service cost (credit)	<u>0</u>	<u>1,659,990</u>
Prepaid (accrued) postretirement benefit cost	\$ (14,253,047)	\$ (13,715,492)

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

One-percentage-point increase:

▶ Sum of service cost and interest cost	\$ 5,502,890	\$ 6,120,164
▶ APBO	52,956,949	52,009,511

One-percentage-point decrease:

▶ Sum of service cost and interest cost	(4,473,077)	(4,904,408)
▶ APBO	(43,900,141)	(42,601,355)

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Postretirement Welfare Cost

	Fiscal 2006	Fiscal 2005
Postretirement Welfare Cost*		
Service cost	\$ 11,022,662	\$ 12,519,493
Interest cost	22,443,755	22,437,321
Expected return on assets	(18,473,681)	(17,530,095)
Amortization:		
▶ Unrecognized transition obligation	3,224,292	5,596,076
▶ Unrecognized net loss (gain)	7,363,216	5,027,188
▶ Unrecognized prior service cost (credit)	<u>0</u>	<u>114,653</u>
Postretirement welfare cost	\$ 25,580,244	\$ 28,164,636
Per active participant	\$ 7,586	\$ 7,712

Change in Postretirement Welfare Cost

Postretirement welfare cost for fiscal 2005	\$ 28,164,636
Change from fiscal 2005 to fiscal 2004:	
▶ Expected based on prior valuation	(1,113,350)
▶ Loss (gain) from noninvestment and claims experience	(3,962,506)
▶ Loss (gain) from asset experience	752,469
▶ Assumption changes	6,835,218
▶ Plan changes	<u>(5,096,223)</u>
Postretirement welfare cost for fiscal 2006	\$ 25,580,244

* The cost before recognition of the federal subsidy as a result of the MMA is \$35,137,725 for fiscal 2005 and \$32,969,872 for fiscal 2006. See additional details on the following page.

Postretirement Welfare Basic Results and Cost Prior to Medicare Modernization Act

	January 1, 2006	January 1, 2005
Basic Results		
Service cost	\$ 12,303,381	\$ 13,986,241
APBO	447,385,215	415,266,138
Postretirement Welfare		
Service cost	\$ 12,303,381	\$ 13,986,241
Interest cost	25,529,346	25,288,866
Expected return on assets	(18,473,681)	(17,530,095)
Amortization:		
▶ Transition obligation	3,243,054	5,596,076
▶ Net loss (gain)	10,367,772	7,678,444
▶ Prior service cost (credit)	<u>0</u>	<u>118,193</u>
Postretirement welfare cost	\$ 32,969,872	\$ 35,137,725
Reconciliation of Funded Status		
Funded status [FV – APBO]	\$ (220,267,455)	\$ (213,237,997)
Unrecognized transition obligation	22,701,379	44,768,602
Unrecognized net actuarial loss (gain)	172,459,105	148,617,868
Unrecognized prior service cost (credit)	<u>0</u>	<u>1,717,645</u>
Prepaid (accrued) postretirement benefit cost	\$ (25,106,971)	\$ (18,133,882)

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Information for the Deferred Tax Calculation

The following information is provided for purposes of determining the deferred portion of the tax provision and the deferred tax asset associated with the postretirement welfare cost.

	Including MMA Subsidy	Excluding MMA Subsidy
Postretirement Welfare Cost		
2005	\$ 28,164,636	\$ 35,137,725
2006	25,580,244	32,969,872
Development of Prepaid (Accrued) Postretirement Benefit Cost		
Prepaid (accrued) postretirement benefit cost, beginning of year	\$ (13,715,492)	\$ (18,133,882)
Changes during fiscal 2005:		
▶ Postretirement welfare cost	(28,164,636)	(35,137,725)
▶ Employer contributions	28,164,636	28,164,636
▶ Adjustments	<u>(537,555)</u>	<u>0</u>
Prepaid (accrued) postretirement benefit cost, end of year	\$ (14,253,047)	\$ (25,106,971)

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

	December 31, 2005	December 31, 2004
Actuarial Present Value of Benefit Obligation*		
Participants currently receiving benefits	\$ 205,814,316	\$ 177,228,645
Other fully eligible participants	9,843,610	11,393,688
Other participants	<u>231,727,289</u>	<u>226,643,805</u>
Total	\$ 447,385,215	\$ 415,266,138
Fair value of assets	227,117,760	202,028,141
Effect on obligation of one-percentage-point increase in health care cost trend rate	62,959,136	52,009,511
Change in Incurred but not reported (IBNR) Claims Reserve		
Balance as of December 31, 2004**	\$ 2,900,000	
▶ Claims reported and approved for payment	16,015,973	
▶ Claims paid	(15,915,973)	
▶ Reserve adjustment	<u>0</u>	
▶ Total change in reserve	<u>\$ 100,000</u>	
Balance as of December 31, 2005**	\$ 3,000,000	
Change in Postretirement Benefit Obligations		
Balance as of December 31, 2004**	\$ 412,366,138	
▶ Benefits earned	13,986,241	
▶ Benefits reclassified to amounts currently payable	(15,915,973)	
▶ Interest	25,288,866	
▶ Plan amendment effects	(18,070,599)	
▶ Change in actuarial assumptions	48,087,338	
▶ Actuarial (gains) losses	<u>(21,356,796)</u>	
▶ Total change in reserve	<u>\$ 32,019,077</u>	
Balance as of December 31, 2005	\$ 444,385,215	

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Total Obligation

Balance as of December 31, 2004	\$ 415,266,138
Increase (decrease) in reserve	<u>32,119,077</u>
Balance as of December 31, 2005*	\$ 447,385,215

Change in Plan Assets

Fair value of plan assets as of December 31, 2004	\$ 202,028,141
▶ Actual return on plan assets	12,559,212
▶ Employer contributions	28,164,636
▶ Participant contributions	1,597,044
▶ Plan merger	0
▶ Disbursements	<u>(17,231,273)**</u>
Fair value of plan assets as of December 31, 2005	\$ 227,117,760

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 6% of the estimated cost of providing benefits.

- * These results do not reflect the recognition of the federal subsidy as a result of the MMA
- ** These balances are estimated to reflect the reserves associated with benefit payments for retirees (and excluding any reserves for active employees' benefits).
- *** Benefit payments for the St. Louis plan were included in the AW plan's benefit payments.

Basic Results for Employer Contributions

	January 1, 2006	January 1, 2005
Present Value of Projected Benefits*		
Long Island — Bargaining	\$ 8,071,610	\$ 9,329,616
Medical — Bargaining	193,075,917	189,827,703
Medical — Non-bargaining	119,539,840	117,490,385
Life Insurance	<u>18,064,822</u>	<u>18,925,776</u>
Total	\$ 338,752,189	\$ 335,573,480
Assets		
Medical — Bargaining:		
▶ Fair value	\$ 196,745,654	\$ 170,943,346
▶ Employer contributions receivable	0	0
▶ Unrecognized investment losses (gains)	N/A	N/A
▶ Actuarial value [AV]	196,745,654	170,943,346
Medical — Non-bargaining:		
▶ Fair value	\$ 13,550,409	\$ 15,319,210
▶ Employer contributions receivable	0	0
▶ Unrecognized investment losses (gains)	N/A	N/A
▶ Actuarial value [AV]	13,550,409	15,319,210
Life Insurance:		
▶ Fair value	\$ 12,006,101	\$ 11,324,497
▶ Employer contributions receivable	0	0
▶ Unrecognized investment losses (gains)	N/A	N/A
▶ Actuarial value [AV]	12,006,101	11,324,497

* These results do not reflect the recognition of the federal subsidy as a result of the MMA.

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	January 1, 2006	January 1, 2005
Long Island — Bargaining:		
▶ Fair value	\$ 4,815,596	\$ 4,441,088
▶ Employer contributions receivable	0	0
▶ Unrecognized investment losses (gains)	N/A	N/A
▶ Actuarial value [AV]	4,815,596	4,441,088
Total:		
▶ Fair value	\$ 227,117,760	\$ 202,028,141
▶ Employer contributions receivable	0	0
▶ Unrecognized investment losses (gains)	N/A	N/A
▶ Actuarial value [AV]	227,117,760	202,028,141

Key Economic Assumptions

Discount rate for present value of projected benefits*	8.25%/5.15%	8.50%/5.25%
Assumed tax rate	38.00%	38.00%
Health care cost trend rate**		
▶ First year	10.0%	10.0%
▶ Ultimate	5.0%	5.0%
▶ Year ultimate reached	2011	2010

* Interest rate for life insurance VEBA and for bargaining medical VEBA is 8.25%. The 5.15% interest rate for the non-bargaining Medical VEBA is net of applicable taxes.

** Health care cost trend is only applied to the bargaining medical VEBAs (American Water and Long Island), in accordance with provisions of the Internal Revenue Code.

**Estimated Maximum Tax-Deductible Employer Contribution —
VEBA**

	Non-bargaining VEBA	Life Insurance VEBA
Estimated Maximum Tax-Deductible Employer Contribution		
Qualified direct costs*	\$ 8,817,000	\$ 1,322,000
Permitted addition to qualified asset account**	15,427,000	838,000
Estimated investment income***	(495,000)	(940,000)
Estimated participant contributions	<u>(650,000)</u>	<u>(44,000)</u>
Estimated maximum tax-deductible employer contribution limit	\$ 23,099,000	\$ 1,176,000

	Bargaining VEBA	Long Island VEBA
Estimated Maximum Tax-Deductible Employer Contribution		
Estimated present value of projected benefits at December 31, 2006	\$ 200,639,000	\$ 8,469,000
Estimated actuarial value of assets at December 31, 2006***	<u>(204,612,000)</u>	<u>(5,207,000)</u>
Unfunded present value (minimum of \$0)	\$ 0	\$ 3,262,000
Estimated maximum tax-deductible contribution	0	3,262,000

* The estimated amount of benefits and expenses paid from the trust in the current year

** Normal cost plus change in incurred-but-unpaid claims reserve

*** 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, 2006	January 1, 2005
Medical		
Gross disbursements	\$ 15,633,762	\$ 15,889,441
Participant contributions	<u>957,925</u>	<u>1,513,845</u>
Net disbursements	\$ 14,675,837	\$ 14,375,596
Life Insurance		
Gross disbursements	\$ 1,307,589	\$ 1,479,905
Participant contributions	<u>81,432</u>	<u>83,199</u>
Net disbursements	\$ 1,226,157	\$ 1,396,706
Total		
Gross disbursements	\$ 16,941,355	\$ 17,369,346
Participant contributions	<u>1,039,356</u>	<u>1,597,044</u>
Net disbursements	\$ 15,901,999	\$ 15,772,302

Actuarial Assumptions and Methods

	FAS 106 Cost	Employer Contributions
Economic Assumptions		
Discount rate:		
▶ Pre-tax	5.65%	N/A
▶ After-tax	N/A	8.25%/5.15%*
Return on plan assets, pre-tax	8.25%	
Effective tax rate on VEBA assets	38.00%	N/A
Weighted average rate of return, after-tax**	7.95%	N/A

* 5.15% interest rate is net of tax and is applicable to non-bargaining medical VEBA only.

** Assumes that 10% of assets will be invested in a taxable medical trust (for non-bargaining employees)

Medical Benefit Assumptions

Average per capita claims cost:*

Age	RWE Promise Participants	Non-RWE Promise Participants
30-39	\$ 4,433	\$ 4,432
40-44	5,341	5,339
45-49	5,832	5,831
50-54	6,720	6,718
55-59	8,008	8,006
60-64	10,201	10,198
65-69	3,415	3,317
70-74	3,814	3,703
75-79	4,053	3,935
80-84	4,138	4,018
85-89	4,303	4,178
>90	3,615	3,510

* 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):	10.00% in 2006 reducing to 5.00% in 2011 and after	Same*
Participant contribution trend rate	Same as applicable medical plan trend rate	Same*

* 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>2006</td> <td>10.00%</td> </tr> <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>	2006	10.00%	2007	9.00%	2008	8.00%	2009	7.00%	2010	6.00%	2011+	5.00%	
2006	10.00%													
2007	9.00%													
2008	8.00%													
2009	7.00%													
2010	6.00%													
2011+	5.00%													

Demographic and Other Assumptions

Mortality:

- ▶ **Healthy** RP2000 Composite Table (15 year phase-out)
- ▶ **Disabled** PBGC Disability Mortality Table

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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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 2002, 2003 and nine months of 2004. 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 6.00% to 5.65%.

The rate of return pre-tax changed from 8.75% to 8.25%. The resulting weighted average rate of return after-tax changed from 8.40% to 7.95%.
- Employer contributions The pre-tax discount rates were changed from 8.50% to 8.25%. The resulting after-tax discount rate changed from 5.25% to 5.15%.
- Postretirement welfare cost and employer contributions The mortality table used for healthy participants was updated to RP2000 composite (15 year phase-out).

The termination and retirement rates were updated to better reflect experience.

The marriage assumption changed from 90% of males and 60% of females to 80% of males and 50% of females.

The health care cost trend changed from 10.0% in 2005 to an ultimate of 5.0% in 2010 to 10.0% in 2006 to an ultimate of 5.0% in 2011.

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, 2005. 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, 2006	January 1, 2005
Active		
Number:		
▶ Fully eligible for benefits	68	84
▶ Other	<u>3,304</u>	<u>3,568</u>
▶ Total	3,372	3,652
Average age	46.8	46.7
Average past service	17.3	17.2
Average future service:		
▶ To full eligibility age	11.967	13.947
▶ To expected retirement	12.319	14.517
Currently Receiving Benefits		
Retired participants and surviving spouses:		
▶ Number:		
– Under age 65	533	398
– Age 65 and over	<u>1,639</u>	<u>1,397</u>
-- Total	2,172	1,795
▶ Average age	72.2	71.6
Dependents:		
▶ Number:		
– Under age 65	497	451
– Age 65 and over	<u>727</u>	<u>954</u>
-- Total	1,224	1,405
▶ Average age	68.0	69.8

Plan Provisions

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 (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	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).

- ▶ Disableds 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% <li style="padding-left: 20px;">Preferred brand: 20% Non-preferred brand: 20% ▪ Mail: Generic: \$14 <li style="padding-left: 20px;">Preferred brand: \$30 Non-preferred brand: \$70 	<ul style="list-style-type: none"> ▪ Preferred drug list ▪ Retail: Generic: 10% <li style="padding-left: 20px;">Preferred brand: 20% Non-preferred brand: 20% ▪ Mail: Generic: \$14 <li style="padding-left: 20px;">Preferred brand: \$30 Non-preferred brand: \$70 	<ul style="list-style-type: none"> ▪ Preferred drug list ▪ Retail: Generic: 10% <li style="padding-left: 20px;">Preferred brand: 20% Non-preferred brand: 20% ▪ Mail: Generic: \$14 <li style="padding-left: 20px;">Preferred brand: \$30 Non-preferred brand: \$70

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	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 expenses at 80% for brand name and 90% for generic.

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 earliest 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.

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Changes in Benefits Valued

All union employees described in this section are those covered under the National Benefits Bargaining effective January 1, 2006:

- ▶ The plan is closed for union employees hired on or after January 1, 2006
- ▶ Eligibility for benefits for union employees is changed to the earlier of age 55 and 20 years of service or age 65
- ▶ Pre-65 retirees, union and nonunion, will have a choice of the three AW medical plans available to active employees (including dental) and will pay the additional early retirement contribution plus 50% of the active contribution until they attain age 65.
- ▶ Post-65 retirees will be covered under the AW Medicare Plan with the new Prescription Drug benefit and will pay a monthly contribution of \$50 for single coverage, \$100 for retiree plus spouse coverage and \$125 for family coverage.
- ▶ A \$500 annual contribution will be made to a VEBA for certain union employees. The cost of this benefit is not included in the FAS 106 liabilities or costs in this valuation report.
- ▶ There are no changes to the benefits for employees and retirees covered by the RWE promise.

American Water Works Company, Inc.
Retiree Welfare Plan

Actuarial Valuation Report

Postretirement Welfare Cost for Fiscal Year Ending December 31, 2005

Employer Contributions for Plan Year Beginning January 1, 2005

January 2006

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, 2005 and January 1, 2004, including the impact of the Medicare Prescription Drug Improvement and Modernization Act of 2003 (MMA) recognized as of January 1, 2004 under FSP 106-2.

	January 1, 2005	January 1, 2004
FAS 106 Postretirement Welfare Cost*		
Amount**	\$ 28,164,636	\$ 25,526,950
Per active participant	7,712	6,610
FAS 106 Funded Position*		
Accumulated postretirement benefit obligation [APBO]	\$ 369,207,137	\$ 318,502,043
Fair value of assets [FV]	202,028,141	171,174,365
APBO funded percentage [FV ÷ APBO]	54.7%	53.7%
Accrued Postretirement Benefit Cost	\$ 13,715,492	\$ 13,090,625
Employer Contributions		
Funding policy	\$ 28,164,636	\$ 25,526,950
Estimated maximum tax-deductible limit***	50,321,000	43,987,000****
Expected benefit payments and expenses, net of participant contributions	15,772,302	13,405,420

* All results are shown based on FAS 106 before application of purchase accounting due to the sale of American Water to RWE.

** For purposes of determining the deferred portion of the tax provisions and the deferred tax asset, the annual postretirement welfare cost, ignoring the Medicare Part D subsidy, is \$35,137,725 for 2005 and \$29,979,386 for 2004.

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

**** Actual tax-deductible limit for 2004 tax year was \$45,500,000.

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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, 2004	December 31, 2003
30-year Treasury	4.83%	5.07%
Moody's Aaa	5.43%	5.63%
Moody's Aa	5.66%	6.01%

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, 2005	January 1, 2004
Discount rate for obligations	6.00%	6.25%
Rate of return on assets (pre-tax)	8.75%	8.75%
Assumed tax rate on investment income – VEBA*	38.00%	38.00%
Rate of return on assets (after-tax)	8.40%	8.40%

* Assumed to apply to 10% of assets expected to be invested in a taxable medical trust (for non-bargaining employees).

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, 2005	January 1, 2004
Discount rate for normal cost and present value of projected benefits:		
▶ Bargaining medical and life insurance	8.50%	8.50%
▶ Non-bargaining medical	5.25%	5.25%

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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 reported trend in the 2005 survey is lower than 2004, as demonstrated in the graph below:



The survey results indicate that health care cost trends vary considerably among survey participants. The range of plan results reported in the 2005 Health Care Cost Survey was:

	Pre-Medicare Eligible Non-HMOs	Pre-Medicare Eligible HMOs	Medicare Eligible Non-HMOs	Medicare Eligible HMOs
10 th percentile	-1%	2%	0%	-13%
50 th percentile	9%	10%	8%	1%
90 th percentile	24%	23%	21%	16%

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

	January 1, 2005		January 1, 2004	
	<i>Pre-Medicare Eligible</i>	<i>Medicare Eligible</i>	<i>Pre-Medicare Eligible</i>	<i>Medicare Eligible</i>
Health Care Cost Trend				
2004 trend	N/A	N/A	10.0%	10.0%
2005 trend	10.0%	10.0%	9.0%	9.0%
Ultimate trend	5.0%	5.0%	5.0%	5.0%
Year ultimate reached	2010	2010	2009	2009

The assumed health care cost trend was changed from a 2005 expected trend of 9.0% to 10.0%. The ultimate trend of 5.0% will now be attained in 2010 as compared to 2009 in the prior valuation.

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

The per capita costs used in the 2004 and 2005 valuations are:

	<i>Pre-Medicare Eligible</i>		<i>Medicare Eligible</i>	
	<i>Retiree</i>	<i>Spouse</i>	<i>Retiree</i>	<i>Spouse</i>
▶ 2004 assumed per capita cost	\$ 7,634	\$ 7,634	\$ 3,288	\$ 3,288
▶ Assumed trend to 2005	10.0%	10.0%	10.0%	10.0%
▶ 2005 expected per capita cost	\$ 8,397	\$ 8,397	\$ 3,617	\$ 3,617
▶ 2005 assumed per capita cost	8,626	8,626	3,632	3,632

MS-6

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. The demographic assumptions have not changed since the prior valuation.

Assets

In the year ended December 31, 2004, the plan's portfolio realized an 8.8% investment return (net of expenses and taxes), while the capital markets performed as follows:

	December 31, 2004
Large equities [S&P 500]	10.88%
Intermediate/small equities [Russell 2500]	18.29%
Non-U.S. equities [EAFE]	20.70%
Bonds [Lehman Brothers Aggregate]	4.34%
Cash equivalents [Salomon Brothers 90-Day T-Bill]	1.24%

Changes in Benefits Valued

On May 1, 2004, the Long Island Water Corporation Retiree Welfare Plan was merged into the American Water Retiree Welfare Plan. This has been reflected in the 2005 valuation.

Legislative Changes

The Centers for Medicare & Medicaid Services (CMS) issued final regulations related to the MMA on January 21, 2005.

American Water has elected to continue to provide primary prescription drug benefits to Medicare eligible participants and to apply for federal subsidy payments under the MMA beginning January 1, 2006.

The final regulations provide details of the two-part test to determine the actuarial equivalence of employer-provided drug coverage, which is required to qualify for a federal subsidy:

- ▶ The first part of the test is a “gross value” test, under which the expected amount of the paid claims for Medicare beneficiaries in the employer’s plan must be at least equal to the expected amount of paid claims for the same beneficiaries under Part D standard coverage.
- ▶ The second part of the test is a “net value” test which reflects participant contributions and compares the net value of the employer’s contribution towards the cost of its retiree prescription drug plan with the net value of Part D standard coverage.

The final regulations clarify that employers will use the standards in the COBRA regulations to determine the number of group health plans offered.

In order to receive the federal subsidy, employers must file an annual application for each plan. The application for 2006 was due by October 31, 2005.

The final regulations also reiterate CMS’s intent to use its waiver authority to allow employer plan sponsors to negotiate special arrangements with qualified prescription drug plans (PDPs) to offer coverage to their retiree populations.

CMS also released final regulations on the Medicare Advantage program under Part C of Medicare.

MS-8

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 2005 postretirement welfare cost for the plan is \$28,164,636, or \$7,712 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 54.7% as of January 1, 2005, based on the fair value of assets of \$202,028,141 and an APBO of \$369,207,137.

Change in Postretirement Welfare Cost and Funded Position

The postretirement welfare cost increased from \$25,526,950 in fiscal 2004 to \$28,164,636 in fiscal 2005 because:

- ▶ Expected changes based on prior year's assumptions, methods, plan provisions and contributions decreased the postretirement welfare cost \$1,289,894.
- ▶ Noninvestment experience (particularly the reduction in the number of active participants) and the changes in the claims experience decreased the postretirement welfare cost \$913,889.
- ▶ The return on the fair value of plan assets in fiscal 2004 was 8.8%, which was very close to the assumed return. Overall, asset experience (including the investment return as well as actual contributions and benefits differing slightly from assumed levels) was slightly unfavorable and therefore, increased the postretirement welfare cost \$171,371.
- ▶ Assumption changes (decrease in discount rate; change in health care trend) increased the postretirement welfare cost \$4,118,460.
- ▶ The merger of the Long Island Retiree Welfare Plan increased the postretirement cost \$551,638.

The funded percentage increased from 53.7% to 54.7%.

Employer Contributions

Employer contributions are the amounts paid by American Water to provide for postretirement benefits, net of participant contributions. For 2004, the actual employer contributions of \$25,526,950 were equal to the estimated employer contributions of \$25,526,950.

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 2005, the contribution under the funding policy is \$28,164,636. The maximum tax-deductible contribution limit under the Internal Revenue Code is estimated to be \$50,321,000. Estimated benefit payments for 2005 are \$15,772,302.

MS-10

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.

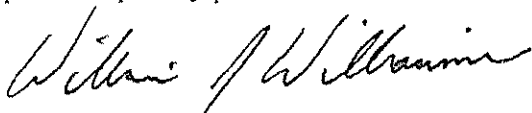
In preparing the results presented in this report, we have relied upon information provided to us regarding plan provisions, plan participants, and plan assets. We have reviewed this information for overall reasonableness and consistency, but have neither audited nor independently verified this information.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



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Towers Perrin
January 2006

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Asset Values

Asset Values for Calculating Postretirement Welfare Cost

Fair value, excluding contributions receivable:

▶ As of January 1, 2004	\$ 171,174,365*
▶ Employer contributions	25,526,950
▶ Participant contributions	1,421,903
▶ Disbursements including expenses	(15,652,387)
▶ Investment return, net of taxes	15,116,222
▶ Plan merger	<u>4,441,088</u>
▶ As of January 1, 2005	\$ 202,028,141
▶ Rate of return	8.8%

Market-related value:

▶ As of January 1, 2004	\$ 171,174,365*
▶ As of January 1, 2005	202,028,141
▶ Rate of return	8.8%

Asset Values for Calculating Employer Contributions

Actuarial value:

▶ As of January 1, 2004	\$ 171,174,365*
▶ As of January 1, 2005	202,028,141
▶ Rate of return	8.8%

* Includes a receivable of \$1,118,031 from the Citizens acquisition.

SI-2

Asset Values for Determining Employer Contributions — By Trust

	VEBA Bargaining Medical	VEBA Nonbargaining Medical	VEBA Life Insurance	VEBA Long Island
Market value:				
▶ As of January 1, 2004	\$ 144,767,415*	\$ 14,664,224*	\$ 11,742,726	\$ 3,855,878
▶ Total contributions	20,431,000	6,517,853	0	315,000
▶ Disbursements	(7,981,312)	(6,409,316)	(1,261,759)	(48,958)
▶ Investment return, net of taxes	13,726,243	546,449	843,530	319,168
▶ As of January 1, 2005	170,943,346	15,319,210	11,324,497	4,441,088
▶ Rate of return	9.5%	3.7%	7.2%	8.3%
Actuarial value:				
▶ As of January 1, 2004	\$ 144,767,415*	\$ 14,664,224*	\$ 11,742,726	3,855,878
▶ As of January 1, 2005	170,943,346	15,319,210	11,324,497	4,441,088
▶ Rate of return	9.5%	3.7%	7.2%	8.3%

* Includes Citizens acquisition.

Basic Results for Postretirement Welfare Cost

	January 1, 2005	January 1, 2004
Service Cost*		
Medical	\$ 12,344,971	\$ 11,015,912
Life insurance	<u>174,522</u>	<u>174,503</u>
Total	\$ 12,519,493	\$ 11,190,415
Accumulated Postretirement Benefit Obligation [APBO]*		
Medical:		
▶ Current retirees	\$ 136,024,448	\$ 114,926,336
▶ Other participants fully eligible for benefits	9,625,867	6,807,357
▶ Other active participants	<u>199,578,114</u>	<u>176,586,934</u>
▶ Total	\$ 345,228,429	\$ 298,320,627
Life insurance:		
▶ Current retirees	\$ 20,357,050	\$ 16,677,675
▶ Other participants fully eligible for benefits	322,008	272,301
▶ Other active participants	<u>3,299,650</u>	<u>3,231,440</u>
▶ Total	\$ 23,978,708	\$ 20,181,416
All benefits:		
▶ Current retirees	\$ 156,381,498	\$ 131,604,011
▶ Other participants fully eligible for benefits	9,947,875	7,079,658
▶ Other active participants	<u>202,877,764</u>	<u>179,818,374</u>
▶ Total	\$ 369,207,137	\$ 318,502,043
Assets		
Fair value [FV]	\$ 202,028,141	\$ 171,174,365
Unrecognized investment losses (gains)	<u>0</u>	<u>0</u>
Market-related value	\$ 202,028,141	\$ 171,174,365

* Results as of January 1, 2005 and January 1, 2004 reflect the recognition of the federal subsidy as a result of the MMA

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	January 1, 2005	January 1, 2004
Key Economic Assumptions		
Discount rate	6.00%	6.25%
Average compensation increase rate	4.75%	4.75%
Rate of return on assets, pre-tax	8.75%	8.75%
Assumed tax rate on VEBA assets*	38.00%	38.00%
Weighted average rate, after-tax	8.40%	8.40%
Health care cost trend rate, under age 65:		
▶ First year	10.00%	10.00%
▶ Ultimate	5.00%	5.00%
▶ Year ultimate reached	2010	2009
Health care cost trend rate, age 65 and over:		
▶ First year	10.00%	10.00%
▶ Ultimate	5.00%	5.00%
▶ Year ultimate reached	2010	2009

* Assumed to apply to 10% of assets expected to be invested in a taxable medical trust (for non-bargaining employees).

**Development of Prepaid (Accrued)
Postretirement Benefit Cost
as of December 31, 2004**

Prepaid (accrued) postretirement benefit cost as of December 31, 2003		\$ (13,090,625)
Changes during fiscal 2004:		
▶ Income (cost) recognized		(25,526,950)
▶ Employer contributions		25,526,950
▶ Plan merger		<u>(624,867)</u>
Prepaid (accrued) postretirement benefit cost as of December 31, 2004		\$ (13,715,492)

January 1, 2005

January 1, 2004

Reconciliation of Funded Status

Funded status [FV – APBO]	\$ (167,178,996)	\$ (147,327,678)
Unrecognized transition obligation	44,768,602	49,045,901
Unrecognized net actuarial loss (gain)	107,034,912	84,181,454
Unrecognized prior service cost (credit)	<u>1,659,990</u>	<u>1,009,698</u>
Prepaid (accrued) postretirement benefit cost	\$ (13,715,492)	\$ (13,090,625)

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

One-percentage-point increase:		
▶ Sum of service cost and interest cost	\$ 6,120,164	\$ 5,610,772
▶ APBO	52,009,511	44,271,935
One-percentage-point decrease:		
▶ Sum of service cost and interest cost	(4,904,408)	(4,496,254)
▶ APBO	(42,601,355)	(36,261,750)

SI-6

Postretirement Welfare Cost

	Fiscal 2005*	Fiscal 2004*
Postretirement Welfare Cost		
Service cost	\$ 12,519,493	\$ 11,190,415
Interest cost	22,437,321	20,193,208
Expected return on assets	(17,530,095)	(14,922,573)
Amortization:		
▶ Unrecognized transition obligation	5,596,076	5,449,545
▶ Unrecognized net loss (gain)	5,027,188	3,545,958
▶ Unrecognized prior service cost (credit)	<u>114,653</u>	<u>70,397</u>
Postretirement welfare cost	\$ 28,164,636	\$ 25,526,950
Per active participant	\$ 7,712	\$ 6,610

Change in Postretirement Welfare Cost

Postretirement welfare cost for fiscal 2004	\$ 25,526,950
Change from fiscal 2004 to fiscal 2003:	
▶ Expected based on prior valuation	(1,289,894)
▶ Loss (gain) from noninvestment and claims experience	(913,889)
▶ Loss (gain) from asset experience	171,371
▶ Assumption changes	4,118,460
▶ Plan changes	0
▶ Plan merger	<u>551,638</u>
Postretirement welfare cost for fiscal 2005	\$ 28,164,636

* Reflects adoption of the MMA retrospectively for a full year in 2004. The cost before recognition of the federal subsidy as a result of the MMA is \$29,979,386 for fiscal 2004 and \$35,137,725 for fiscal 2005. See additional details on the following page.

Postretirement Welfare Basic Results and Cost Prior to Medicare Modernization Act

	January 1, 2005	January 1, 2004
Basic Results		
Service cost	\$ 13,986,241	\$ 12,190,415
APBO	415,266,138	347,502,043
Postretirement Welfare		
Service cost	\$ 13,986,241	\$ 12,190,415
Interest cost	25,288,866	22,068,208
Expected return on assets	(17,530,095)	(15,113,669)
Amortization:		
▶ Transition obligation	5,596,076	5,449,545
▶ Net loss (gain)	7,678,444	5,314,490
▶ Prior service cost (credit)	<u>118,193</u>	<u>70,397</u>
Postretirement welfare cost	\$ 35,137,725	\$ 29,979,386
Reconciliation of Funded Status		
Funded status [FV – APBO]	\$ (213,237,997)	\$ (176,327,678)
Unrecognized transition obligation	44,768,602	49,045,901
Unrecognized net actuarial loss (gain)	148,617,868	113,181,454
Unrecognized prior service cost (credit)	<u>1,717,645</u>	<u>1,009,698</u>
Prepaid (accrued) postretirement benefit cost	\$ (18,133,882)	\$ (13,090,625)

SI-8

Information for the Deferred Tax Calculation

The following information is provided for purposes of determining the deferred portion of the tax provision and the deferred tax asset associated with the postretirement welfare cost.

	Including MMA Subsidy	Excluding MMA Subsidy
Postretirement Welfare Cost		
2004	\$ 25,526,950	\$ 29,979,386
2005	28,164,636	35,137,725
Development of Prepaid (Accrued) Postretirement Benefit Cost		
Prepaid (accrued) postretirement benefit cost, beginning of year	\$ (13,090,625)	\$ (13,090,625)
Changes during fiscal 2004:		
▶ Postretirement welfare cost	(25,526,950)	(29,979,386)
▶ Employer contributions	25,526,950	25,526,950
▶ Plan merger	<u>(624,867)</u>	<u>(739,821)</u>
Prepaid (accrued) postretirement benefit cost, end of year	\$ (13,715,492)	\$ (18,133,882)

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

	December 31, 2004	December 31, 2003
Actuarial Present Value of Benefit Obligation*		
Participants currently receiving benefits	\$ 177,228,645	\$ 145,604,011
Other fully eligible participants	11,393,688	7,647,855
Other participants	<u>226,643,805</u>	<u>194,250,177</u>
Total	\$ 415,266,138	\$ 347,502,043
Fair value of assets	202,028,141	171,174,365
Effect on obligation of one-percentage-point increase in health care cost trend rate	52,009,511	48,302,949
Change in Incurred but not reported (IBNR) Claims Reserve		
Balance as of December 31, 2003**	\$ 2,200,000	
▶ Claims reported and approved for payment	16,352,387	
▶ Claims paid	(15,652,387)	
▶ Reserve adjustment	<u>0</u>	
▶ Total change in reserve	<u>\$ 700,000</u>	
Balance as of December 31, 2004**	\$ 2,900,000	
Change in Postretirement Benefit Obligations		
Balance as of December 31, 2003	\$ 345,302,043	
▶ Benefits earned	11,190,415	
▶ Benefits reclassified to amounts currently payable	(15,652,387)	
▶ Interest	20,193,208	
▶ Plan amendment effects	0	
▶ Change in actuarial assumptions	30,462,299	
▶ Actuarial (gains) losses	11,695,810	
▶ Plan merger	<u>9,174,750</u>	
▶ Total change in reserve	<u>\$ 67,064,095</u>	
Balance as of December 31, 2004*	\$ 412,366,138	

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Total Obligation

Balance as of December 31, 2003	\$ 347,502,043
Increase (decrease) in reserve	<u>67,764,095</u>
Balance as of December 31, 2004*	\$ 415,266,138

Change in Plan Assets

Fair value of plan assets as of December 31, 2003	\$ 171,174,365
▶ Actual return on plan assets	15,116,222
▶ Employer contributions	25,526,950
▶ Participant contributions	1,421,903
▶ Plan merger	4,441,088
▶ Disbursements	<u>(15,652,387)</u>
Fair value of plan assets as of December 31, 2004	\$ 202,028,141

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 9% of the estimated cost of providing benefits.

* These results do not reflect the recognition of the federal subsidy as a result of the MMA

** These balances are estimated to reflect the reserves associated with benefit payments for retirees (and excluding any reserves for active employees' benefits)

Basic Results for Employer Contributions

	January 1, 2005	January 1, 2004
Present Value of Projected Benefits*		
Medical — Bargaining	\$ 189,827,703	\$ 168,564,937
Medical — Non-bargaining	117,490,385	107,714,616
Life Insurance	18,925,776	16,714,372
Long Island — Bargaining	<u>9,329,616</u>	<u>N/A</u>
Total	\$ 335,573,480	\$ 292,993,925
Assets		
Medical — Bargaining:		
▶ Fair value	\$ 170,943,346	\$ 144,767,415
▶ Employer contributions receivable	0	0
▶ Unrecognized investment losses (gains)	N/A	N/A
▶ Actuarial value [AV]	170,943,346	144,767,415
Medical — Non-bargaining:		
▶ Fair value	\$ 15,319,210	\$ 14,664,224
▶ Employer contributions receivable	0	0
▶ Unrecognized investment losses (gains)	N/A	N/A
▶ Actuarial value [AV]	15,319,210	14,664,224
Life Insurance:		
▶ Fair value	\$ 11,324,497	\$ 11,742,726
▶ Employer contributions receivable	0	0
▶ Unrecognized investment losses (gains)	N/A	N/A
▶ Actuarial value [AV]	11,324,497	11,742,726

* These results do not reflect the recognition of the federal subsidy as a result of the MMA.

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	January 1, 2005	January 1, 2004
Long Island — Bargaining:		
▶ Fair value	\$ 4,441,088	N/A
▶ Employer contributions receivable	0	N/A
▶ Unrecognized investment losses (gains)	N/A	N/A
▶ Actuarial value [AV]	4,441,088	N/A
Total:		
▶ Fair value	\$ 202,028,141	\$ 171,174,365
▶ Employer contributions receivable	0	0
▶ Unrecognized investment losses (gains)	N/A	N/A
▶ Actuarial value [AV]	202,028,141	171,174,365
Key Economic Assumptions		
Discount rate for present value of projected benefits*	8.50%/5.25%	8.50%/5.25%
Assumed tax rate	38.00%	38.00%
Health care cost trend rate**		
▶ First year	10.0%	10.0%
▶ Ultimate	5.0%	5.0%
▶ Year ultimate reached	2010	2009

* Interest rate for life insurance VEBA and for bargaining medical VEBA is 8.5%. The 5.25% interest rate for the non-bargaining Medical VEBA is net of applicable taxes.

** Health care cost trend is only applied to the bargaining medical VEBAs (American Water and Long Island), in accordance with provisions of the Internal Revenue Code.

Estimated Maximum Tax-Deductible Employer Contribution —
VEBA

	Non-bargaining VEBA	Life Insurance VEBA
Estimated Maximum Tax-Deductible Employer Contribution		
Qualified direct costs*	\$ 7,883,000	\$ 1,468,000
Permitted addition to qualified asset account**	13,995,000	899,000
Estimated investment income***	0	(116,000)
Estimated participant contributions	<u>(744,000)</u>	<u>(83,000)</u>
Estimated maximum tax-deductible employer contribution limit	\$ 21,134,000	\$ 2,168,000
	Bargaining VEBA	Long Island VEBA
Estimated Maximum Tax-Deductible Employer Contribution		
Estimated present value of projected benefits at December 31, 2005	\$ 197,905,000	\$ 9,814,000
Estimated actuarial value of assets at December 31, 2005***	<u>(175,886,000)</u>	<u>(4,814,000)</u>
Unfunded present value (minimum of \$0)	\$ 22,019,000	\$ 5,000,000
Estimated maximum tax-deductible contribution	22,019,000	5,000,000

* The estimated amount of benefits and expenses paid from the trust in the current year

** Normal cost plus change in incurred-but-unpaid claims reserve

*** Actual investment results through August plus 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.

SI-14

Expected Benefits and Administrative Expenses

	January 1, 2005	January 1, 2004
Medical		
Gross disbursements	\$ 15,889,441	\$ 13,535,954
Participant contributions	<u>1,513,845</u>	<u>1,341,996</u>
Net disbursements	\$ 14,375,596	\$ 12,193,958
Life Insurance		
Gross disbursements	\$ 1,479,905	\$ 1,291,369
Participant contributions	<u>83,199</u>	<u>79,907</u>
Net disbursements	\$ 1,396,706	\$ 1,211,462
Total		
Gross disbursements	\$ 17,369,346	\$ 14,827,323
Participant contributions	<u>1,597,044</u>	<u>1,421,903</u>
Net disbursements	\$ 15,772,302	\$ 13,405,420

Actuarial Assumptions and Methods

	FAS 106 Cost	Employer Contributions
Economic Assumptions		
Discount rate:		
▶ Pre-tax	6.00%	N/A
▶ After-tax	N/A	8.5%/5.25%*
Return on plan assets, pre-tax	8.75%	
Effective tax rate on VEBA assets	38.00%	N/A
Weighted average rate of return, after-tax**	8.40%	N/A

* 5.25% interest rate is net of tax and is applicable to non-bargaining medical VEBA only.

** Assumes that 10% of assets will be invested in a taxable medical trust (for non-bargaining employees)

Medical Benefit Assumptions

Average per capita claims cost:*

<i>Age</i>	<i>Retiree & Dependent</i>
40-44	\$ 5,023
45-49	5,581
50-54	6,450
55-59	7,733
60-64	9,600
65-69	3,156
70-74	3,528
75-79	3,851
80-84	4,074
≥85	4,230

* 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. Former PG&W employees are valued using the same average per capita claims costs as other American Water retirees.

Administrative expenses included in per capita cost

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	Postretirement Welfare Cost	Employer Contributions
Health care cost trend rate (covered charges):	10.00% in 2005 reducing 1.00% per year for five years, reaching 5.00% in 2010 and after	Same*
Participant contribution trend rate	Same as applicable medical plan trend rate	Same*

* 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 not 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	2006 9.00% 2007 8.00% 2008 7.00% 2009 6.00% 2010+ 5.00%	

Demographic and Other Assumptions

Mortality:

- ▶ Healthy 1983 Group Annuity Mortality Table (male and female)
- ▶ Disabled PBGC Disability Mortality Table

Termination

Rates varying by age

Representative rates:

Age	Rate
25	.060
35	.030
40	.020
45	.015
55	.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	Age	Rate
55	.05	61	.04	67	.30
56	.02	62	.60	68	.30
57	.02	63	.40	69	.10
58	.02	64	.40	70	1.00
59	.02	65	.80		
60	.05	66	.10		

Current Retirees

Future Retirees

Percent married

Based on valuation census data

90% of males; 60% 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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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 2002, 2003 and nine months of 2004. 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 6.25% to 6.00%; the health care cost trend changed from 10.0% in 2004 to an ultimate of 5.0% in 2009 to 10.0% in 2005 to an ultimate of 5.0% in 2010.
- Employer contributions The health care cost trend changed for the Bargained Medical VEBA.

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, 2004. 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, 2005	January 1, 2004
Active		
Number:		
▶ Fully eligible for benefits	84	100
▶ Other	<u>3,568</u>	<u>3,762</u>
▶ Total	3,652	3,862
Average age	46.7	46.4
Average past service	17.2	16.8
Average future service:		
▶ To full eligibility age	13.947	14.343
▶ To expected retirement	14.517	14.758
Currently Receiving Benefits		
Retired participants and surviving spouses:		
▶ Number:		
– Under age 65	398	414
– Age 65 and over	<u>1,397</u>	<u>1,438</u>
– Total	1,795	1,852
▶ Average age	71.6	72.1
Dependents:		
▶ Number:		
– Under age 65	451	426
– Age 65 and over	<u>954</u>	<u>837</u>
– Total	1,405	1,263
▶ Average age	69.8	69.2

Plan Provisions

Medical and Dental Benefits

- Eligibility** Pension retirement or long-term disability.
Pension requirement: the first day of any month on which the employee elects to retire provided that:
- (a) the employee has attained age 55, and
 - (b) the sum of the individual's age and years of service totals at least 70.
- Non-bargaining employees hired on or after January 1, 2002 are not eligible for these benefits.
- Dependent eligibility** Spouse and unmarried children under age 19 or a full-time student under age 23.
- Survivor eligibility** Eligibility can continue for life provided that the survivor pays the full premium for coverage.
- LTD requirement** 10 years of service and on Social Security disability.
- 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:

<i>Retirement Date</i>	<i>Monthly Contribution</i>		
	<i>Retiree</i>	<i>Dependent</i>	<i>Family</i>
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

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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

– Additional

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

Age 65 and Over: None.

▶ Surviving dependents

Pays 100% of a budgeted premium. Premiums for 2005 are as follows:

Under Age 65: \$405.00 per month.

Age 65 and Over: \$304.00 per month.

▶ Disableds

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 retiree before May 1, 2004 No participant contributions required.

- ▶ 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:

▶ Medical

	<u>AW PPO</u>		
	<u>Out-of-Area Comprehensive Medical Plan</u>	<u>In-Network</u>	<u>Out-of- Network</u>
Annual Deductible (single/family)	\$150/300	None	\$200/600
Out-of-Pocket Limit (single/family)	\$1,000/3,000	\$1,000/3,000	\$3,000 per person
Lifetime Maximum	Unlimited	Unlimited	Unlimited
Office Visits	80% after ded.	100% after \$15 copay	70%
Specialist Visits	80% after ded.	100% after \$15 copay	70%
Hospital Inpatient	80% after ded.	90%	70% after ded.; \$250 per adm.
Hospital Outpatient	80% after ded.	100%	70% after ded.
Prescription Drugs	Retail (30-day supply): 90% generic/80% brand name Mail: \$5 generic/\$15 brand name		

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As of July 1, 2001, the Comprehensive Plan for all current and future pre-65 retirees is, in general, no longer available. All pre-65 retirees are covered under the Managed Choice Plan unless they reside out of the service area. If they reside out of the service area, they are covered under the out-of-area comprehensive option.

► Dental Plan
(pre-65 only)

Deductible (single/family)	\$50/100
Preventive	100%, no ded.
Restorative and Major	80% after ded.
Calendar Year Maximum	\$1,000
Orthodontia*	50% after ded.

* \$1,500 lifetime maximum

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 expenses at 80% for brand name and 90% for generic.

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 earliest 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.

Changes in Benefits Valued

On May 1, 2004, the Long Island Water Corporation Retiree Welfare Plan was merged into the American Water Retiree Welfare Plan. This has been reflected in the 2005 valuation.

American Water Works Company, Inc.
Retiree Welfare Plan

Actuarial Valuation Report

Postretirement Welfare Cost for Fiscal Year Ending December 31, 2004

Employer Contributions for Plan Year Beginning January 1, 2004

March 2005

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, 2004 and January 1, 2003.

	January 1, 2004	January 1, 2003
FAS 106 Postretirement Welfare Cost*		
Amount	\$ 25,526,950**	\$ 24,314,174
Per active participant	6,610	6,226
FAS 106 Funded Position*		
Accumulated postretirement benefit obligation [APBO]	\$ 318,502,043**	\$ 270,629,183
Fair value of assets [FV]	171,174,365	132,108,702
APBO funded percentage [FV ÷ APBO]	53.7%	48.8%
Accrued Postretirement Benefit Cost	\$ 13,090,625	\$ 13,090,625
Employer Contributions		
Funding policy	\$ 25,526,950	\$ 24,314,174
Estimated maximum tax-deductible limit***	43,987,000	39,391,000****
Expected benefit payments and expenses, net of participant contributions	13,405,420	11,655,579

* All results are shown based on FAS 106 before application of purchase accounting due to the sale of American Water to RWE.

** The FAS 106 cost reflects recognition of the federal subsidy anticipated in 2006 and beyond as a result of the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (MMA). FSP 106-2, which provides accounting guidance for the MMA, was adopted by American Water on a retrospective basis for a full year of 2004. For purposes of determining the deferred tax asset, the 2004 FAS 106 cost, ignoring the Medicare Part D subsidy, is \$29,979,386.

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

**** Actual tax-deductible limit for 2003 tax year was \$31,900,000.

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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, 2003	December 31, 2002
30-year Treasury	5.07%	4.76%
Moody's Aaa	5.63%	6.09%
Moody's Aa	6.01%	6.52%

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, 2004	January 1, 2003
Discount rate for obligations	6.25%	6.75%
Rate of return on assets (pre-tax)	8.75%	8.75%
Assumed tax rate on investment income – VEBA*	38.00%	38.00%
Rate of return on assets (after-tax)	8.40%	8.40%

* Assumed to apply to 10% of assets expected to be invested in a taxable medical trust (for non-bargaining employees).

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, 2004	January 1, 2003
Discount rate for normal cost and present value of projected benefits:		
‣ Bargaining medical and life insurance	8.50%	8.50%
‣ Non-bargaining medical	5.25%	5.25%

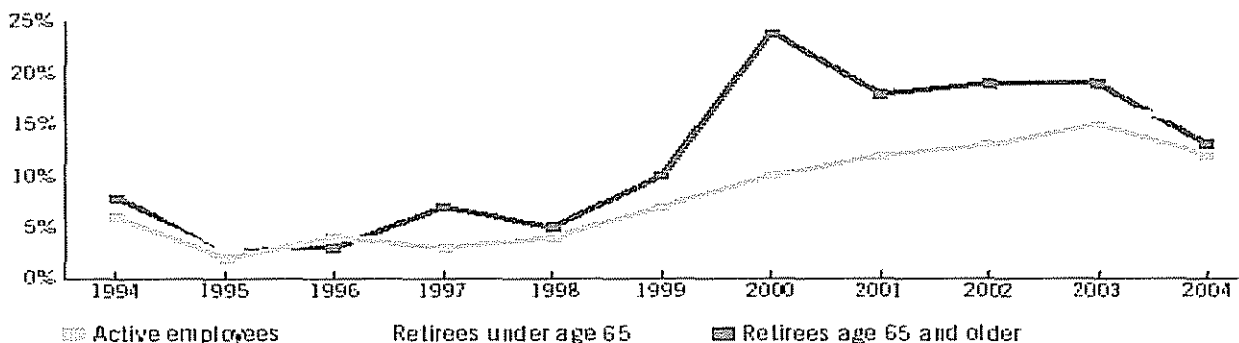
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Health Care Cost Assumptions

Health care cost trend rates are the assumed rate 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 reported trend in 2004 is lower than 2003, as demonstrated in the graph below:

Average Cost Increases: 1994-2004



The survey results indicate that health care cost trends vary considerably among survey participants. The range of plan results reported in the 2004 Health Care Cost Survey was:

	Pre-Medicare eligible with HMOs	Pre-Medicare eligible without HMOs	Medicare eligible with HMOs	Medicare eligible without HMOs
10 th percentile	3%	1%	0%	0%
50 th percentile	12%	12%	12%	12%
90 th percentile	27%	25%	25%	25%

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

	January 1, 2004		January 1, 2003	
	<i>Under age 65</i>	<i>Age 65 and over</i>	<i>Under age 65</i>	<i>Age 65 and over</i>
Health Care Cost Trend				
2003 trend	N/A	N/A	9.0%	9.0%
2004 trend	10.0%	10.0%	8.0%	8.0%
Ultimate trend	5.0%	5.0%	5.0%	5.0%
Year ultimate reached	2009	2009	2007	2007

The assumed health care cost trend was changed from a 2004 expected trend of 8.0% to 10.0%. The ultimate trend of 5.0% will now be attained in 2009 as compared to 2007 in the prior valuation.

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

The per capita costs used in the 2003 and 2004 valuations are:

	<i>Under age 65</i>		<i>Age 65 and over</i>	
	<i>Retiree</i>	<i>Spouse</i>	<i>Retiree</i>	<i>Spouse</i>
Managed Choice Plan:				
▶ 2003 assumed per capita cost	\$ 6,972	\$ 6,972	\$ 2,847	\$ 2,847
▶ Assumed trend to 2004	9.0%	9.0%	9.0%	9.0%
▶ 2004 expected per capita cost	\$ 7,599	\$ 7,599	\$ 3,103	\$ 3,103
▶ 2004 assumed per capita cost	7,634	7,634	3,288	3,288

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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. The demographic assumptions have not changed since the prior valuation.

Assets

In the year ended December 31, 2003, the plan’s portfolio realized a 14.7% investment return (net of expenses and taxes), while the capital markets performed as follows:

	December 31, 2003
Large equities [S&P 500]	28.69%
Intermediate/small equities [Russell 2500]	45.51%
Non-U.S. equities [EAFE]	39.17%
Bonds [Lehman Brothers Aggregate]	4.10%
Cash equivalents [Salomon Brothers 90-Day T-Bill]	1.07%

Changes in Benefits Valued

There was a plan change effective January 10, 2003 due to the RWE Promise that was reflected as of January 10, 2004. The RWE Promise preserves the 2003 plan design and contribution levels for all retirees as of January 1, 2003, and for active employees eligible to retiree (i.e., age 55 and age plus service is at least 70) as of January 10, 2003. In addition, the valuation results reflect anticipated Medicare Part D subsidy payments. All other benefits valued are the same as the prior year.

Impact of MMA on Financial Results

On December 8, 2003, the Medicare Prescription Drug Improvement and Modernization Act of 2003 (MMA) was signed into law. FSP 106 – 2 was issued on May 19, 2004 and provides guidance on accounting for the MMA.

- ▶ AW elected to adopt FSP 106-2 on a retrospective basis, effective January 1, 2004.
- ▶ AW management has represented to Towers Perrin that it anticipated that the MMA will have a significant impact on its financial statements.
- ▶ It is anticipated that AW's prescription drug benefits for Medicare eligible retirees qualify for federal subsidy payments, beginning in 2006 and continuing indefinitely for the majority of retirees.
- ▶ Medicare Part D is not expected to materially change rates of participation in AW's post-retirement welfare plans.
- ▶ Please refer to the Supplemental Information section of this report for details of the financial impact of the MMA.

Legislative Changes

The Medicare Prescription Drug, Improvement and Modernization Act of 2003 established a voluntary prescription drug benefit under a new "Part D" of the Social Security Act, with benefits beginning January 1, 2006. Medicare offers the following benefits to Part D enrollees:

- ▶ 75% of eligible charges between \$250 and \$2,250 per person per year
Part D enrollees will be responsible for the first \$250 deductible
- ▶ 95% of eligible charges above \$5,100 per person per year
Part D enrollees will be responsible for \$3,600 in out-of-pocket expenses before this catastrophic coverage will begin

Additionally, Medicare will require Part D enrollees to contribute an estimated \$420 per person per year to obtain coverage. After 2006, this contribution, the deductible and the out-of-pocket catastrophic limit will change over time according to the change in Medicare per capita prescription drug costs.

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For employer plans that coordinate with Medicare on a secondary basis, claims paid by the employer plan are not counted toward satisfying Medicare's \$3,600 out-of-pocket catastrophic coverage limit. Part D enrollees must meet this limit before Medicare's 95% catastrophic coverage begins. Thus, although an employer's plan may be secondary to Medicare Part D, the typical employer plan will pick up a significant portion of the cost of high cost claimants.

Additionally, the Act provides for the government to pay a special subsidy equal to 28% of a retiree's covered prescription drug expenses between \$250 and \$5,000 (adjusted annually by the percentage increase in Medicare per capita prescription drug costs), to employers who sponsor retiree prescription drug plans, provided certain conditions are met. One of those conditions is that the employer's plan must provide benefits that are actuarially equivalent to those provided by Medicare Part D. Another condition is the government subsidy will be paid only with respect to plan participants who are entitled to enroll in Part D but elect not to do so. That is, an employer does not receive a subsidy for prescription drug benefits provided to a retiree who is covered by the employer's plan and who is also enrolled in Medicare Part D.

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 2004 postretirement welfare cost for the plan is \$25,526,950, or \$6,610 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 53.7% as of January 1, 2004, based on the fair value of assets of \$171,174,365 and an APBO of \$318,502,043.

Change in Postretirement Welfare Cost and Funded Position

The postretirement welfare cost increased from \$24,314,174 in fiscal 2003 to \$25,526,950 in fiscal 2004 because:

- ▶ Expected changes based on prior year's assumptions, methods, plan provisions and contributions decreased the postretirement welfare cost \$776,481.
- ▶ Noninvestment experience and the changes in the claims experience increased the postretirement welfare cost \$2,225,501.
- ▶ The return on the fair value of plan assets was 14.7% in fiscal 2003, which decreased the postretirement welfare cost \$1,941,987.
- ▶ Assumption changes (decrease in discount rate; change in health care trend) increased the postretirement welfare cost \$5,957,819.
- ▶ The plan changes to freeze the 2003 contribution schedules for those eligible increased the postretirement welfare cost \$200,360.
- ▶ Adoption of FSP 106-2 as of January 1, 2004 affected postretirement welfare cost as follows:
 - ▶ Anticipated federal subsidy payments for providing actuarially equivalent prescription drug benefits to non-Part D enrollees reduced 2004 cost by \$4,452,436. This report has not been tax-effected.
 - ▶ Anticipated federal subsidy was reflected as actuarial gains retroactively to January 1, 2004.

The funded percentage increased from 48.8% to 53.7% primarily due to the effect of the MMA.

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Employer Contributions

Employer contributions are the amounts paid by American Water to provide for postretirement benefits, net of participant contributions. For 2003, employer contributions of \$24,314,174 were equal to expected contributions of \$24,314,174.

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 2004, the contribution under the funding policy is \$25,526,950. The maximum tax-deductible contribution limit under the Internal Revenue Code is estimated to be \$43,987,000. Estimated benefit payments for 2004 are \$13,405,420.

Actuarial Certification, Reliances and Distribution

American Water retained Towers Perrin to perform a valuation of its postretirement welfare benefit plan 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 the "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. While the scope of our engagement did not call for us to perform an audit or independent verification of this information, we have reviewed this information for reasonableness but have not audited it. 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."

We have relied upon American Water's representations regarding intended actions to interact with Medicare Part D after January 1, 2006.

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 are reasonable actuarial results. However, a different set of results could also be considered reasonable actuarial results, since the Actuarial Standards of Practice describe a "best-estimate range" for each assumption, rather than a single best-estimate value. 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.



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Towers Perrin

March 2005

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Asset Values

Asset Values for Calculating Postretirement Welfare Cost

Fair value, excluding contributions receivable:

▶ As of January 1, 2003	\$ 132,108,702*
▶ Employer contributions	24,314,174
▶ Participant contributions	1,280,787
▶ Disbursements including expenses	(12,688,589)
▶ Investment return, net of taxes	<u>26,159,291</u>
▶ As of January 1, 2004	\$ 171,174,365*
▶ Rate of return	14.7%

Market-related value:

▶ As of January 1, 2003	\$ 132,108,702*
▶ As of January 1, 2004	171,174,365*
▶ Rate of return	14.7%

Asset Values for Calculating Employer Contributions

Actuarial value:

▶ As of January 1, 2003	\$ 132,108,702*
▶ As of January 1, 2004	171,174,365*
▶ Rate of return	14.7%

* Includes a receivable of \$1,118,031 from the Citizens acquisition.

SI-2

Asset Values for Determining Employer Contributions — By Trust

	VEBA Bargaining Medical	VEBA Nonbargaining Medical	VEBA Life Insurance
Market value:			
▶ As of January 1, 2003	\$ 112,670,889*	\$ 9,158,842*	\$ 10,278,971
▶ Total contributions	14,000,000	10,794,961	800,000
▶ Disbursements	(6,149,464)	(5,350,666)	(1,188,459)
▶ Investment return, net of taxes	24,245,990	61,087	1,852,214
▶ As of January 1, 2004	144,767,415	14,664,224	11,742,726
▶ Rate of return	19.7%	0.7%	17.3%
Actuarial value:			
▶ As of January 1, 2003	\$ 112,670,889*	\$ 9,158,842*	\$ 10,278,971
▶ As of January 1, 2004	144,767,415*	14,664,224*	11,742,726
▶ Rate of return	19.7%	0.7%	17.3%

* Includes Citizens acquisition.

Basic Results for Postretirement Welfare Cost

	January 1, 2004*	January 1, 2003
Service Cost		
Medical	\$ 11,015,912	\$ 8,972,268
Life insurance	<u>174,503</u>	<u>155,923</u>
Total	\$ 11,190,415	\$ 9,128,191
Accumulated Postretirement Benefit Obligation [APBO]		
Medical:		
▶ Current retirees	\$ 114,926,336	\$ 102,481,162
▶ Other participants fully eligible for benefits	6,807,357	5,491,308
▶ Other active participants	<u>176,586,934</u>	<u>144,405,680</u>
▶ Total	\$ 298,320,627	\$ 252,378,150
Life insurance:		
▶ Current retirees	\$ 16,677,675	\$ 15,191,125
▶ Other participants fully eligible for benefits	272,301	237,005
▶ Other active participants	<u>3,231,440</u>	<u>2,822,903</u>
▶ Total	\$ 20,181,416	\$ 18,251,033
All benefits:		
▶ Current retirees	\$ 131,604,011	\$ 117,672,287
▶ Other participants fully eligible for benefits	7,079,658	5,728,313
▶ Other active participants	<u>179,818,374</u>	<u>147,228,583</u>
▶ Total	\$ 318,502,043	\$ 270,629,183
Assets		
Fair value [FV]	\$ 171,174,365	\$ 132,108,702
Unrecognized investment losses (gains)	<u>0</u>	<u>0</u>
Market-related value	\$ 171,174,365	\$ 132,108,702

* Results as of January 1, 2004 reflect the recognition of the federal subsidy as a result of the MMA

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	January 1, 2004	January 1, 2003
Key Economic Assumptions		
Discount rate	6.25%	6.75%
Average compensation increase rate	4.75%	4.75%
Rate of return on assets, pre-tax	8.75%	8.75%
Assumed tax rate on VEBA assets*	38.00%	38.00%
Weighted average rate, after-tax	8.40%	8.40%
Health care cost trend rate, under age 65:		
▶ First year	10.00%	9.00%
▶ Ultimate	5.00%	5.00%
▶ Year ultimate reached	2009	2007
Health care cost trend rate, age 65 and over:		
▶ First year	10.00%	9.00%
▶ Ultimate	5.00%	5.00%
▶ Year ultimate reached	2009	2007

* Assumed to apply to 10% of assets expected to be invested in a taxable medical trust (for non-bargaining employees).

**Development of Prepaid (Accrued)
Postretirement Benefit Cost
as of December 31, 2003**

	Fiscal 2002
Prepaid (accrued) postretirement benefit cost as of December 31, 2002	\$ (13,090,625)
Changes during fiscal 2003:	
‣ Income (cost) recognized	(24,314,174)
‣ Employer contributions	<u>24,314,174</u>
Prepaid (accrued) postretirement benefit cost as of December 31, 2003	\$ (13,090,625)

	January 1, 2004	January 1, 2003
Reconciliation of Funded Status		
Funded status [FV – APBO]	\$ (147,327,678)	\$ (138,520,481)
Unrecognized transition obligation	49,045,901	54,495,446
Unrecognized net actuarial loss (gain)	84,181,454	70,934,410
Unrecognized prior service cost (credit)	<u>1,009,698</u>	<u>0</u>
Prepaid (accrued) postretirement benefit cost	\$ (13,090,625)	\$ (13,090,625)

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

One-percentage-point increase:		
‣ Sum of service cost and interest cost	\$ 5,610,772	\$ 4,767,438
‣ APBO	44,271,935	37,617,585
One-percentage-point decrease:		
‣ Sum of service cost and interest cost	(4,496,254)	(3,820,439)
‣ APBO	(36,261,750)	(30,811,381)

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Postretirement Welfare Cost

	Fiscal 2004*	Fiscal 2003
Postretirement Welfare Cost		
Service cost	\$ 11,190,415	\$ 9,128,191
Interest cost	20,193,208	18,496,670
Expected return on assets	(14,922,573)	(11,661,018)
Amortization:		
▶ Unrecognized transition obligation	5,449,545	5,449,545
▶ Unrecognized net loss (gain)	3,545,958	2,900,786
▶ Unrecognized prior service cost (credit)	<u>70,397</u>	<u>0</u>
Postretirement welfare cost	\$ 25,526,950	\$ 24,314,174
Per active participant	\$ 6,610	\$ 6,226

Change in Postretirement Welfare Cost

Postretirement welfare cost for fiscal 2003	\$ 24,314,174
Change from fiscal 2003 to fiscal 2002:	
▶ Expected based on prior valuation	(776,481)
▶ Loss (gain) from noninvestment and claims experience	2,225,501
▶ Loss (gain) from asset experience	(1,941,987)
▶ Assumption changes	5,957,819
▶ Plan changes	200,360
▶ Effect of MMA	<u>(4,452,436)</u>
Postretirement welfare cost for fiscal 2004	\$ 25,526,950

* Reflects adoption of the MMA retrospectively for a full year in 2004. The cost before recognition of the federal subsidy as a result of the MMA is \$29,979,386. See additional details on the following page.

Postretirement Welfare Basic Results and Cost Prior to Medicare Modernization Act

Basic Results

Service cost	\$ 12,190,415
APBO	347,502,043

Postretirement Welfare

Service cost	\$ 12,190,415
Interest cost	22,068,208
Expected return on assets	(15,113,669)
Amortization:	
‣ Transition obligation	5,449,545
‣ Net loss (gain)	5,314,490
‣ Prior service cost (credit)	<u>70,397</u>
Postretirement welfare cost	\$ 29,979,386

Reconciliation of Funded Status

Funded status [FV – APBO]	\$ (176,327,678)
Unrecognized transition obligation	49,045,901
Unrecognized net actuarial loss (gain)	113,181,454
Unrecognized prior service cost (credit)	<u>1,009,698</u>
Prepaid (accrued) postretirement benefit cost	\$ (13,090,625)

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

	December 31, 2003	December 31, 2002
Actuarial Present Value of Benefit Obligation*		
Participants currently receiving benefits	\$ 145,604,011	\$ 117,672,287
Other fully eligible participants	7,647,855	5,728,313
Other participants	<u>194,250,177</u>	<u>147,228,583</u>
Total	\$ 347,502,043	\$ 270,629,183
Fair value of assets	171,174,365	132,108,702
Effect on obligation of one-percentage-point increase in health care cost trend rate	48,302,949	37,617,585
Change in Incurred but not reported (IBNR) Claims Reserve		
Balance as of December 31, 2002**	\$ 1,500,000	
▶ Claims reported and approved for payment	12,693,567	
▶ Claims paid	(11,993,567)	
▶ Reserve adjustment	<u>0</u>	
▶ Total change in reserve	<u>\$ 700,000</u>	
Balance as of December 31, 2003**	\$ 2,200,000	
Change in Postretirement Benefit Obligations		
Balance as of December 31, 2002	\$ 269,129,183	
▶ Benefits earned	9,128,191	
▶ Benefits reclassified to amounts currently payable	(11,993,567)	
▶ Interest	18,496,670	
▶ Plan amendment effects	1,009,698	
▶ Change in actuarial assumptions	45,021,218	
▶ Actuarial (gains) losses	<u>14,510,650</u>	
▶ Total change in reserve	<u>\$ 76,172,860</u>	
Balance as of December 31, 2003*	\$ 345,302,043	

Total Obligation

Balance as of December 31, 2002	\$ 270,629,183
Increase (decrease) in reserve	<u>76,872,860</u>
Balance as of December 31, 2003*	\$ 347,502,043

Change in Plan Assets

Fair value of plan assets as of December 31, 2002	\$ 132,108,702
▶ Actual return on plan assets	26,159,291
▶ Employer contributions	24,314,174
▶ Participant contributions	1,280,787
▶ Disbursements	<u>(12,688,589)</u>
Fair value of plan assets as of December 31, 2003	\$ 171,174,365

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 10% of the estimated cost of providing benefits.

* These results do not reflect the recognition of the federal subsidy as a result of the MMA

** These balances are estimated to reflect the reserves associated with benefit payments for retirees (and excluding any reserves for active employees' benefits)

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Basic Results for Employer Contributions

	January 1, 2004	January 1, 2003
Present Value of Projected Benefits*		
Medical — Bargaining	\$ 168,564,937	\$ 137,208,540
Medical — Non-bargaining	107,714,616	95,492,578
Life Insurance	<u>16,714,372</u>	<u>16,241,630</u>
Total	\$ 292,993,925	\$ 248,942,748
Assets		
Medical — Bargaining:		
▶ Fair value	\$ 144,767,415	\$ 112,670,889
▶ Employer contributions receivable	0	0
▶ Unrecognized investment losses (gains)	N/A	N/A
▶ Actuarial value [AV]	144,767,415	112,670,889
Medical — Non-bargaining:		
▶ Fair value	\$ 14,664,224	\$ 9,158,842
▶ Employer contributions receivable	0	0
▶ Unrecognized investment losses (gains)	N/A	N/A
▶ Actuarial value [AV]	14,664,224	9,158,842
Life Insurance:		
▶ Fair value	\$ 11,742,726	\$ 10,278,971
▶ Employer contributions receivable	0	0
▶ Unrecognized investment losses (gains)	N/A	N/A
▶ Actuarial value [AV]	11,742,726	10,278,971
Total:		
▶ Fair value	\$ 171,174,365	\$ 132,108,702
▶ Employer contributions receivable	0	0
▶ Unrecognized investment losses (gains)	N/A	N/A
▶ Actuarial value [AV]	171,174,365	132,108,702

* These results do not reflect the recognition of the federal subsidy as a result of the MMA.

Key Economic Assumptions

Discount rate for present value of projected benefits*	8.50/5.25%
Assumed tax rate	38.00%
Average salary increase rate	4.75%
Health care cost trend rate**	
▶ First year	10.0%
▶ Ultimate	5.0%
▶ Year ultimate reached	2009

* Interest rate for life insurance VEBA and for bargaining medical VEBA is 8.5%. The 5.25% interest rate for the non-bargaining Medical VEBA is net of applicable taxes.

** Health care cost trend is only applied to the bargaining medical VEBA, in accordance with provisions of the Internal Revenue Code.

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**Estimated Maximum Tax-Deductible Employer Contribution —
VEBA**

	Non-bargaining VEBA	Life Insurance VEBA
Estimated Maximum Tax-Deductible Employer Contribution		
Qualified direct costs*	\$ 6,854,000	\$ 1,306,000
Permitted addition to qualified asset account**	12,609,000	612,000
Estimated investment income***	(528,000)	(1,095,000)
Estimated participant contributions	<u>(594,000)</u>	<u>(78,000)</u>
Estimated maximum tax-deductible employer contribution limit	\$ 18,341,000	\$ 745,000

Estimated Maximum Tax-Deductible Employer Contribution — Bargaining VEBA

Estimated present value of projected benefits at December 31, 2004	\$ 175,885,000
Estimated actuarial value of assets at December 31, 2004***	<u>(150,984,000)</u>
Unfunded present value (minimum of \$0)	\$ 24,901,000
Estimated maximum tax-deductible contribution	\$ 24,901,000

* The estimated amount of benefits and expenses paid from the trust in the current year

** Normal cost plus change in incurred-but-unpaid claims reserve

*** Actual investment results through March plus assumed results through the end of the year.

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.

Expected Benefits and Administrative Expenses

	January 1, 2004	January 1, 2003
Medical		
Gross disbursements	\$ 13,535,954	\$ 11,702,036
Participant contributions	<u>1,341,996</u>	<u>1,202,421</u>
Net disbursements	\$ 12,193,958	\$ 10,499,615
Life insurance		
Gross disbursements	1,291,369	\$ 1,234,331
Participant contributions	<u>79,907</u>	<u>78,367</u>
Net disbursements	\$ 1,211,462	\$ 1,155,964
Total		
Gross disbursements	\$ 14,827,323	\$ 12,936,367
Participant contributions	<u>1,421,903</u>	<u>1,280,788</u>
Net disbursements	\$ 13,405,420	\$ 11,655,579

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Actuarial Assumptions and Methods

	FAS 106 Cost	Employer Contributions
Economic Assumptions		
Discount rate:		
▶ Pre-tax	6.25%	N/A
▶ After-tax	N/A	8.5%/5.25%*
Return on plan assets, pre-tax	8.75%	
Effective tax rate on VEBA assets	38.00%	N/A
Weighted average rate of return, after-tax**	8.40%	N/A

* 5.25% interest rate is net of tax and is applicable to non-bargaining medical VEBA only.

** Assumes that 10% of assets will be invested in a taxable medical trust (for non-bargaining employees)

Medical Benefit Assumptions

Average per capita claims cost:*

<i>Age</i>	<i>Retiree & Dependent</i>
40-44	\$ 4,377
45-49	4,946
50-54	5,734
55-59	6,916
60-64	8,360
65-69	2,786
70-74	3,118
75-79	3,493
80-84	3,825
≥85	3,964

* 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. Former PG&W employees are valued using the same average per capita claims costs as other American Water retirees.

Administrative expenses Included in per capita costs

	Postretirement Welfare Cost	Employer Contributions
Health care cost trend rate (covered charges):		
▶ Medical costs under age 65	10.00% in 2004 reducing 1.00% per year for five years, reaching 5.00% in 2009 and after	Same*
▶ Medical costs age 65 and over	Same as under age 65	Same*
Medical plan trend rate:		
▶ Benefit costs under age 65	10.00% in 2004 reducing 1.00% per year for five years, reaching 5.00% in 2009 and after	Same*
▶ Benefit costs age 65 and over	Same as under age 65	Same*
Participant contribution trend rate	Same as applicable medical plan trend rate	Same*

* 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 not eligible for the federal subsidy.	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	\$580 per retired participant per year beginning in 2006	N/A
Federal subsidy trend	2006 8.00% 2007 7.00% 2008 6.00% 2009+ 5.00%	

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Demographic and Other Assumptions

Mortality:

- Healthy 1983 Group Annuity Mortality Table (male and female)
- Disabled PBGC Disability Mortality Table

Termination

Rates varying by age

Representative rates:

<i>Age</i>	<i>Rate</i>
25	.060
35	.030
40	.020
45	.015
55	.000

Disability

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

Representative rates:

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

Retirement

Rates vary by age, average age 62.

<i>Age</i>	<i>Rate</i>	<i>Age</i>	<i>Rate</i>	<i>Age</i>	<i>Rate</i>
55	.05	61	.04	67	.30
56	.02	62	.60	68	.30
57	.02	63	.40	69	.10
58	.02	64	.40	70	1.00
59	.02	65	.80		
60	.05	66	.10		

Current Retirees

Future Retirees

Percent married

Based on valuation census data

90% of males; 60% of females

Spouses age

Based on valuation census data

Wife three years younger than husband

Participation

Based on valuation census data

100%

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 2000, 2001, 2002 and ten months of 2003. 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 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 The discount rate for benefit obligations changed from 6.75% to 6.25%; the health care cost trend changed from 9.0% in 2003 to an ultimate of 5.0% in 2007 to 10.0% in 2004 to an ultimate of 5.0% in 2009.

American Water elected to adopt FSP 106-2 on a retroactive basis for a full year in 2004. The change in APBO due to retroactive adoption of FSP 106-2 was reflected as an unrecognized gain.
- Employer contributions The health care cost trend changed for the Bargained Medical VEBA.

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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, 2003. 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.

Participant Data

	January 1, 2004	January 1, 2003
Active		
Number:		
▶ Fully eligible for benefits	100	67
▶ Other	<u>3,762</u>	<u>3,838</u>
▶ Total	3,862	3,905
Average age	46.4	46.1
Average past service	16.8	16.6
Average future service:		
▶ To full eligibility age	14.343	14.667
▶ To expected retirement	14.758	15.124
Currently Receiving Benefits		
Retired participants and surviving spouses:		
▶ Number:		
– Under age 65	414	382
– Age 65 and over	<u>1,438</u>	<u>1,440</u>
– Total	1,852	1,822
▶ Average age	72.1	71.7
Dependents:		
▶ Number:		
– Under age 65	426	351
– Age 65 and over	<u>837</u>	<u>857</u>
– Total	1,263	1,208
▶ Average age	69.2	70.3

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Plan Provisions

Medical and Dental Benefits

Eligibility	<p>Pension retirement or long-term disability.</p> <p>Pension requirement: the first day of any month on which the employee elects to retire provided that:</p> <p>(a) the employee has attained age 55, and</p> <p>(b) the sum of the individual's age and years of service totals at least 70.</p> <p>Non-bargaining employees hired on or after January 1, 2002 are not eligible for these benefits.</p>
Dependent eligibility	Spouse and unmarried children under age 19 or a full-time student under age 23.
Survivor eligibility	Eligibility can continue for life provided that the survivor pays the full premium for coverage.
LTD requirement	10 years of service and on Social Security disability.
Retiree contributions (medical):	
<ul style="list-style-type: none"> ▸ Retirees (except at Northwest Indiana, St. Louis and Long Island) <ul style="list-style-type: none"> – Basic 	<p><u>Under Age 65</u>: None for retirements prior to 1/1/96. The following schedule applies to those who retire on or after 1/1/96:</p>

<u>Retirement Date</u>	<u>Monthly Contribution</u>	
	<u>Retiree</u>	<u>Dependent</u>
1/1/1996	\$0.00	\$10.00
1/1/2001	5.00	10.00
1/1/2002	7.50	20.00
1/1/2003	9.00	22.50
1/1/2004	10.00	25.00

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>
1/1/2000	\$ 5.00	\$10.00
1/1/2001	10.00	20.00
1/1/2002	10.00	20.00
1/1/2003	10.00	20.00
1/1/2004	10.00	20.00

– Additional

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>
55	\$100	\$100
56	90	90
57	80	80
58	70	70
59	60	60
60	50	50
61	50	50
62 and later	0	0

Age 65 and Over: None.

- ▶ Surviving dependents
Pays 100% of a budgeted premium. Premiums for 2004 are as follows:
Under Age 65: \$353.00 per month.
Age 65 and Over: \$296.00 per month.
- ▶ Disableds
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
Assumed to pay half of the cost of the plan.
- ▶ St. Louis Retirees who retire after July 1, 2001
Participant contributions based on age plus service as of January 1, 1993.

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- ▶ Long Island Retirees who retire after July 1, 2001 No participant contributions required.
- ▶ A W Protected Retirees Any A W retirees as of January 10, 2003 and any A W 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:

- ▶ Medical

	<i>Out-of-Area Comprehensive Medical Plan</i>	<u>Managed Choice</u>	
		<i>In-Network</i>	<i>Out-of- Network</i>
Annual Deductible (single/family)	\$150/300	None	\$200/600
Out-of-Pocket Limit (single/family)	\$1,000/3,000	\$1,000/3,000	\$3,000 per person
Lifetime Maximum	Unlimited	Unlimited	Unlimited
Office Visits	80% after ded.	100% after \$15 copay	70%
Specialist Visits	80% after ded.	100% after \$15 copay	70%
Hospital Inpatient	80% after ded.	90%	70% after ded.; \$250 per adm.
Hospital Outpatient	80% after ded.	100%	70% after ded.
Prescription Drugs	Retail (30-day supply): 90% generic/80% brand name Mail: \$5 generic/\$15 brand name		

As of July 1, 2001, the Comprehensive Plan for all current and future pre-65 retirees is, in general, no longer available. All pre-65 retirees are covered under the Managed Choice Plan unless they reside out of the service area. If they reside out of the service area, they are covered under the out-of-area comprehensive option.

▶ Dental Plan (pre-65 only)	Deductible (single/family)	\$50/100
	Preventive	100%, no ded.
	Restorative and Major	80% after ded.
	Calendar Year Maximum	\$1,000
	Orthodontia*	50% after ded.

* \$1,500 lifetime maximum

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 expenses at 80% for brand name and 90% for generic.

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.

SI-24

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 earliest 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.

Changes in Benefits Valued

There was a plan change effective January 10, 2003 due to the RWE promise that was reflected as of January 1, 2004. The RWE Promise preserves the 2003 plan design and contribution levels for all retirees as of January 10, 2003, and for active employees eligible to retire (i.e., age 55 and age plus service is at least 70) as of January 10, 2003. The valuation results for FAS 106 accounting purposes reflect anticipated Medicare Part D subsidy payments. All other benefits valued are the same as the prior year.

Future Changes in Plan Provisions

On May 1, 2004, the Long Island Water Corporation Retiree Welfare Plan was merged into the American Water Retiree Welfare Plan. This has not been reflected in the 2004 valuation. It will be reflected in the 2005 valuation.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143
ATTORNEY GENERAL'S REQUEST FOR INFORMATION
Item 257 of 312

Witness: Michael Miller

257. Post Retirement benefits other than pensions (OPEB's).
- a. Please provide complete workpapers showing the derivation of OPEB expense for 2005, 2006, 2007 base year and 2008 test year.
 - b. Please show all assumptions and the basis of all calculations.

Response:

Please see the responses to PSCDR2#27, PSCDR2#28 and AGDR1#256.

For electronic version, refer to KAW_R_AGDR1#257_061807.pdf

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143
ATTORNEY GENERAL'S REQUEST FOR INFORMATION
Item 258 of 312

Witness: Sheila Miller

258. List expense amounts for workers compensation insurance and claims for each year 2004, 2005, 2006 and 2007 to date. Indicate in which expense accounts these items are recorded.

Response:

Workers compensation expense is charged to account 558000.16

Actual expense:

2004 - \$72,306

2005 - \$119,386

2006 - \$113,815

YTD May 2007 - \$60,687

Claims for 2004 – 2007 to date are included in attached file. Names have been redacted in the interest of confidentiality.

For electronic version, refer to KAW_R_AGDR1#258_061807.pdf



Detail Loss Report Losses From 01/01/2004 To 12/31/2007

Claimant	File	State	Prefix	Claim #	Accident Date	Notice Date	Close Date	Claim	Medical	Expense	Total
Accident Year: 2004											
[REDACTED]		KY	CB	AAQ8264	Status: Closed	12/28/2004	INC	\$15,220.00	\$15,751.00	\$3,095.00	\$34,066.00
IE WAS STEPPED ON A PIECE OF PIPE WHILE CLIMBING DOWN STEPS IN VAULT, LOST BALANCE AND FELL AND BROKE RIGHT WRIST											
[REDACTED]		KY	CB	AAQ4460	Status: Closed	11/08/2004	INC	\$0.00	\$3,689.00	\$996.00	\$4,685.00
IE WAS READING METERS AND SLIPPED AND FELL ONTO A STUMP WHILE WALKING A STEEP AND WET EMBANKMENT. IE HAS A CONTUSION TO A LOWER RIGHT LEG.											
[REDACTED]		KY	CM	AFP8475	Status: Closed	07/16/2005	O/S	\$0.00	\$0.00	\$0.00	\$0.00
IE HURT RIGHT SHOULDER WHILE LIFTING TRASH PUMP ONTO TRUCK.											
[REDACTED]		KY	CB	AAQ6714	Status: Closed	12/06/2004	INC	\$0.00	\$1,485.00	\$358.00	\$1,843.00
IW LOST FOOTING ON TOP STEP WHILE WALKING DOWN STEPS AND FELL INJURING HER LEFT ARM, LEFT CLAVICLE, BACK, HIP AND LEFT TEMPLE ON FOREHEAD.											
[REDACTED]		KY	CM	AAQ2638	Status: Closed	10/13/2004	INC	\$0.00	\$1,744.00	\$53.00	\$1,797.00
IW IS EXPERIENCING PAIN IN WRIST, HANDS, NECK AND BACK WHILE PERFORMING JOB DUTIES											
[REDACTED]		KY	CB	AAQ0526	Status: Closed	09/22/2004	INC	\$0.00	\$1,259.00	\$537.00	\$1,796.00
IE DRIVER STATED THAT OV DRIVER HAD HEAD BOWED DOWN WHILE TRAVELING IN OPPOSITE DIRECTION, LOOKED UP, AND STRUCK REAR QTR PANEL OF IV CAUSING LOWER BACK PAIN TO IE.											
[REDACTED]		KY	CB	AAQ0526	Status: Closed	09/24/2004	PD	\$0.00	\$1,258.91	\$536.58	\$1,795.49
IE DRIVER STATED THAT OV DRIVER HAD HEAD BOWED DOWN WHILE TRAVELING IN OPPOSITE DIRECTION, LOOKED UP, AND STRUCK REAR QTR PANEL OF IV CAUSING LOWER BACK PAIN TO IE.											
[REDACTED]		KY	CB	AAQ0526	Status: Closed	02/16/2006	O/S	\$0.00	\$0.00	\$0.00	\$0.00

AMERICAN WATERWORKS SERVICE CO

Detail Loss Report		Losses From 01/01/2004 To 12/31/2007									
Claimant	File	State	Prefix	Claim #	Accident Date	Notice Date	Close Date	Claim	Medical	Expense	Total

Accident Year: 2004											
[REDACTED]		KY	CM	APP5827	Status: Closed	04/16/2004	INC	\$0.00	\$1,218.00	\$245.00	\$1,463.00
IW INJURED (TWISTED) LEFT KNEE, LEFT ANKLE AND RIGHT SHOULDER BY CLIMBING OVER FENCE TO READ METER, JUMPED FROM FENCE AND LANDED ON TREE STUMP, STEPPED IN HOLE W/LEFT FOOT, FELL, INJD RIGHT SHOULDER											
[REDACTED]		KY	CM	AIF8485	Status: Closed	01/28/2004	INC	\$0.00	\$1,340.00	\$8.00	\$1,348.00
IE WAS WALKING ON THE SNOW-COVERED SIDEWALK TO READ METERS. IE SLIPPED, TRIED TO REGAIN BALANCE, FELL ON RT SIDE INJURING GROIN.											
[REDACTED]		KY	CM	AAQ6143	Status: Closed	12/01/2004	INC	\$0.00	\$885.00	\$25.00	\$910.00
IE IN JURY RT WRIST WHILE USING KEY OPEN WATER METER BOX -LITTLE SWELLING TO WRIST. NUT ON TIGHT ON THE WATER BOX											
[REDACTED]		KY	CM	ADA4881	Status: Closed	07/14/2004	INC	\$0.00	\$838.00	\$10.00	\$848.00
IE STUCK A NAIL IN HIS LT FOOT WALKING IN LOWER STOCKYARD - PUNCTURE TO LT FOOT											
[REDACTED]		KY	CM	AAQ4707	Status: Closed	07/26/2004	PD	\$0.00	\$838.29	\$9.60	\$847.89
HANDLING A VIAL, OPENING A VIAL, THE VIAL SLIPPED CUTTING THE EE'S KNUCKLE ON THE RT. INDEX FINGER.											
[REDACTED]		KY	CM	APP3899	Status: Closed	03/28/2007	O/S	\$0.00	\$0.00	\$0.00	\$0.00
CALLER STATES IE OPERATING VALVE IN STREET (THAT WAS DIFFICULT TO TURN); HAD PAIN IN RT SIDE - CRACKED RIB ON RT SIDE											
[REDACTED]		KY	CM	AAQ7659	Status: Closed	06/29/2004	O/S	\$0.00	\$0.00	\$0.00	\$0.00
IW S TRUCK TRUCK-MOUNTED VICE & CUT LT INDEX FINGER.											
					Status: Closed	12/09/2004	INC	\$0.00	\$461.00	\$46.00	\$507.00
					Status: Closed	12/20/2004	PD	\$0.00	\$460.54	\$45.81	\$506.35
					Status: Closed	03/22/2005	O/S	\$0.00	\$0.00	\$0.00	\$0.00

AMERICAN WATERWORKS SERVICE CO

Detail Loss Report

Losses From 01/01/2004 To 12/31/2007

Accident Date
Notice Date
Close Date

File
State Prefix
Claim #

Claimant

Total

Expense

Medical

Claim

Accident Year: 2004

Claimant	File	State	Prefix	Claim #	Accident Date	Notice Date	Close Date	Status	Medical	Expense	Claim	Total
[REDACTED]	KY	CM		AFP3480	03/23/2004	INC	03/23/2004	Closed	\$446.00	\$24.00	\$0.00	\$470.00
[REDACTED]					03/25/2004	PD	03/25/2004	Closed	\$446.24	\$23.63	\$0.00	\$469.87
[REDACTED]	KY	CM		ADA7390	08/19/2004	INC	08/19/2004	Closed	\$207.00	\$0.00	\$0.00	\$207.00
[REDACTED]					08/20/2004	PD	08/20/2004	Closed	\$207.06	\$0.00	\$0.00	\$207.06
[REDACTED]	KY	CM		AFP2417	03/10/2004	INC	03/10/2004	Closed	\$129.00	\$0.00	\$0.00	\$129.00
[REDACTED]					03/12/2004	PD	03/12/2004	Closed	\$128.51	\$0.00	\$0.00	\$128.51
[REDACTED]	KY	CB		AIF8214	01/14/2004	INC	01/14/2004	Closed	\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED]					01/28/2004	PD	01/28/2004	Closed	\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED]	KY	CB		AAQ6527	09/13/2004	INC	09/13/2004	Closed	\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED]					09/24/2004	PD	09/24/2004	Closed	\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED]					10/29/2004	O/S	10/29/2004	Closed	\$0.00	\$0.00	\$0.00	\$0.00
Subtotals for Accident Year: 2004									\$33,746.00	\$5,827.00	\$15,220.00	\$54,793.00
									\$33,743.63	\$5,826.52	\$15,220.09	\$54,790.24
									\$0.00	\$0.00	\$0.00	\$0.00
Claim Count: 18												

AMERICAN WATERWORKS SERVICE CO

Detail Loss Report		Losses From 01/01/2004 To 12/31/2007									
Claimant	File	State	Prefix	Claim #	Accident Date	Notice Date	Close Date	Claim	Medical	Expense	Total

<p>Accident Year: 2005</p> <p>EE INJURED R/SHOULDER WHILE TURNING VALVE, HAD PREVIOUS PROBLEMS WITH THAT SHOULDER DIAGNOSED WITH STRAIN TO SHOULDER.</p>	KY	CB	CU1974	CU1974	Status: Open	06/15/2005	INC	\$35,872.00	\$49,571.00	\$11,410.00	\$96,853.00
<p>IE STEPPED ACROSS A DITCH AFTER FLUSHING A FIRE HYDRANT AND IE TWISTED THE RT ANKLE</p>	KY	CB	CLN8408	CLN8408	Status: Open	04/27/2005	INC	\$10,125.00	\$29,859.00	\$6,462.00	\$46,446.00
<p>EE H JRT WRIST, SHOULDER AND ELBOW DUE TO REPETITIVE MOTION.</p>	KY	CB	CLN6478	CLN6478	Status: Closed	03/29/2005	INC	\$0.00	\$7,667.00	\$1,219.00	\$8,886.00
<p>EE R INJURED HIS LEFT KNEE BY TWISTING...HE WAS APPROACHED FROM BEHIND BY SOMEONE & SPOOKED</p>	KY	CB	CLN2673	CLN2673	Status: Closed	02/04/2005	INC	\$3,395.00	\$1,848.00	\$393.00	\$5,636.00
<p>EE HAS PAIN AND NUMBNESS IN LEFT WRIST AND HAND DUE TO REPETITIVE MOTION</p>	KY	CB	CLN9862	CLN9862	Status: Closed	04/01/2005	INC	\$27.00	\$4,110.00	\$482.00	\$4,619.00
<p>EE HAS REPETITIVE STRESS TO WRIST IN PERFORMING COMPUTER AND ADMINISTRATIVE DUTIES. POTENTIAL CARPAL TUNNEL.</p>	KY	CB	CU7804	CU7804	Status: Closed	08/19/2005	INC	\$0.00	\$3,713.00	\$459.00	\$4,172.00
<p>THE W'S RT ARM POPPED AND HE INJURED HIS RT ELBOW WHILE TURNING WITH A VALVE KEY.</p>	KY	CM	CLN7484	CLN7484	Status: Closed	04/21/2005	INC	\$0.00	\$593.00	\$0.00	\$593.00

AMERICAN WATERWORKS SERVICE CO

Detail Loss Report		Losses From 01/01/2004 To 12/31/2007									
Claimant	File	State	Prefix	Claim #	Accident Date	Notice Date	Close Date	Claim	Medical	Expense	Total

Accident Year: 2005											
[REDACTED]		KY	CM	CIJ6414	Status: Closed	08/05/2005	INC	\$0.00	\$392.00	\$74.00	\$466.00
EE V AS IN TRUCK COMPLETING PAPERWORK, UPON EXITING TRUCK, DOOR SLAMMED SHUT CRUSHING RT THUMB						08/08/2005	PD	\$0.00	\$391.61	\$73.68	\$465.29
[REDACTED]		KY	CM	CIJ5184	Status: Closed	11/08/2005	O/S	\$0.00	\$0.00	\$0.00	\$0.00
IW V AS BIT ON LT THIGH BY DOG CAUSING A LACERATION PUNCTURE WOUND						07/23/2005	INC	\$0.00	\$337.00	\$128.00	\$465.00
[REDACTED]						07/26/2005	PD	\$0.00	\$337.44	\$127.61	\$465.05
[REDACTED]		KY	CM	CIJ3454	Status: Closed	10/29/2005	O/S	\$0.00	\$0.00	\$0.00	\$0.00
IE WAS USING A SLUDGE HAMMER TO BREAK WATER MAIN BOX & PIECE OF DEBRIS HIT E ON RT LEG & HAS LACERATION						06/24/2005	INC	\$0.00	\$352.00	\$7.00	\$359.00
[REDACTED]						07/05/2005	PD	\$0.00	\$351.59	\$6.72	\$368.31
[REDACTED]		KY	CM	CIJ0943	Status: Closed	10/04/2005	O/S	\$0.00	\$0.00	\$0.00	\$0.00
EE INJURED RT FORE ARM WHILE LIFTING LID OF METER BOX.						06/06/2005	INC	\$0.00	\$300.00	\$25.00	\$325.00
[REDACTED]						06/06/2005	PD	\$0.00	\$300.41	\$24.53	\$324.94
[REDACTED]		KY	CM	CLN0462	Status: Closed	11/24/2005	O/S	\$0.00	\$0.00	\$0.00	\$0.00
EE INJURED R SHOULDER BY OPERATING VALVES AND USING SLEDGE HAMMER						01/14/2005	INC	\$0.00	\$289.00	\$0.00	\$289.00
[REDACTED]						01/24/2005	PD	\$0.00	\$289.34	\$0.00	\$289.34
[REDACTED]		KY	CB	CGH6825	Status: Closed	07/16/2005	O/S	\$0.00	\$0.00	\$0.00	\$0.00
WHILE GETTING OUT OF CAR, IW SLIPPED ON ICE IN COMAPNY PARKING LOT, FELL HIT KNEE AND ELBOW ON THE GROUND						12/09/2005	INC	\$0.00	\$243.00	\$3.00	\$246.00
[REDACTED]						12/13/2005	PD	\$0.00	\$243.42	\$2.89	\$246.31
[REDACTED]		KY	CM	CGH2523	Status: Closed	03/03/2006	O/S	\$0.00	\$0.00	\$0.00	\$0.00
IW S LIPPED IN HOLE AFTER RETRIEVING TOLES FROM TRUCK AND TWISTED RIGHT ANKLE AND KNEE						10/13/2005	INC	\$0.00	\$216.00	\$17.00	\$233.00
[REDACTED]						10/19/2005	PD	\$0.00	\$216.12	\$17.24	\$233.36
[REDACTED]						02/04/2006	O/S	\$0.00	\$0.00	\$0.00	\$0.00

AMERICAN WATERWORKS SERVICE CO

Detail Loss Report		Losses From 01/01/2004 To 12/31/2007									
Claimant	File	State	Prefix	Claim #	Accident Date	Notice Date	Close Date	Claim	Medical	Expense	Total

Accident Year: 2005											
[REDACTED]	[REDACTED]	KY	CB	CGH1002	Status: Closed	06/14/2005	INC	\$0.00	\$185.00	\$40.00	\$225.00
IW T JURY LEG WHILE CHANGING METER IN VOLT					09/30/2005	PD	\$0.00	\$0.00	\$184.93	\$39.71	\$224.64
[REDACTED]	[REDACTED]	KY	CM	CU7295	Status: Closed	03/11/2006	O/S	\$0.00	\$0.00	\$0.00	\$0.00
WHILE TRANSPORTING A CHEMICAL CALLED KOVACS, CHEMICAL SPILLED CAUSING EE T O BE EXPOSED TO FUMES AND HAD THROAT IRRITATION					08/12/2005	INC	\$0.00	\$0.00	\$195.00	\$3.00	\$198.00
[REDACTED]	[REDACTED]	KY	CM	CLN7253	Status: Closed	08/17/2005	PD	\$0.00	\$194.87	\$2.89	\$197.76
EE S LIPPED WHILE STANDING ON PLYWOOD, COLLECTING WATER SAMPLES AND FELL , INJURING R/ARM & HAND. EE WAS COLLECTING WATER SAMPLES AT THE REAR OF THE CHURCH.					11/16/2005	O/S	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED]	[REDACTED]	KY	CM	CGH1751	Status: Closed	10/06/2005	INC	\$0.00	\$182.00	\$3.00	\$185.00
DEB WAS FLEW INTO IE'S EYE WHILE IE WAS CHANGING A 2" METER.					10/10/2005	PD	\$0.00	\$0.00	\$182.06	\$2.99	\$185.04
[REDACTED]	[REDACTED]	KY	CM	CGH4378	Status: Closed	03/09/2006	O/S	\$0.00	\$0.00	\$0.00	\$0.00
IW V WAS READING A CUSTOMER METER OUTSIDE AND WAS BITTEN BY CUSTOMER'S DOG ON LT KNEE					11/08/2005	INC	\$0.00	\$0.00	\$127.00	\$3.00	\$130.00
[REDACTED]	[REDACTED]	KY	CB	CLN0952	Status: Closed	11/11/2005	PD	\$0.00	\$126.94	\$2.99	\$129.93
EE WAS DRIVING BACKHOE, STRUCK BY MOTOR VEHICLE, EE HAS CERVICAL AND THORACIC STRAIN					02/10/2006	O/S	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED]	[REDACTED]	KY	CM	CLN7552	Status: Closed	04/20/2005	INC	\$0.00	\$0.00	\$0.00	\$0.00
EE WAS INVOLVED IN A 3 CAR MOTOR VEH ACCIDENT, EE HAD NUMBNESS IN BOTH ARMS AND HANDS FOLLOWING THE ACCIDENT					04/22/2005	PD	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED]	[REDACTED]	KY	CM	CLN7552	Status: Closed	07/22/2005	O/S	\$0.00	\$0.00	\$0.00	\$0.00

AMERICAN WATERWORKS SERVICE CO

Detail Loss Report		Losses From 01/01/2004 To 12/31/2007									
Claimant	File	State	Prefix	Claim #	Accident Date	Notice Date	Close Date	Claim	Medical	Expense	Total
Accident Year: 2005 [REDACTED] EE WAS COMING INTO OFFICE FROM RAINY WEATHER, L/FOOT SLIPPED ON STEP WHICH CAUSED EE TO FALL ON WALKWAY ON STEPS THAT LED FROM WALKWAY TO 2ND FLOOR OF OFFICE. SWOLLEN L/KNEE & R/HAND.		KY	CM	CGH0714	Status: Closed 09/26/2005	INC		\$0.00	\$0.00	\$0.00	\$0.00
					09/27/2005	PD		\$0.00	\$0.00	\$0.00	\$0.00
					12/28/2005	O/S		\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED] TWAS NEC,K UPPER LEFT SHOULDER AND ARM PAIN WHILE WORKING AT WORK STATION POSSIBLY DUE TO REPETITIVE MOTION		KY	CB	CGH1997	Status: Closed 08/23/2005	INC		\$0.00	\$0.00	\$0.00	\$0.00
					10/12/2005	PD		\$0.00	\$0.00	\$0.00	\$0.00
					12/08/2005	O/S		\$0.00	\$0.00	\$0.00	\$0.00
Sub:otals for Accident Year: 2005								\$49,419.00	\$100,366.00	\$20,728.00	\$170,513.00
								\$26,719.57	\$65,307.38	\$15,304.23	\$107,331.18
								\$22,699.58	\$35,059.69	\$5,422.07	\$63,181.34

Claim Count: 23

AMERICAN WATERWORKS SERVICE CO

Detail Loss Report Losses From 01/01/2004 To 12/31/2007

Claimant	File	State	Prefix	Claim #	Accident Date	Notice Date	Close Date	Claim	Medical	Expense	Total
Accident Year: 2006											
[REDACTED]	KY CB	CDN7607			Status: Open						
HE INJURED A NERVE IN THE NECK WHILE TURNING WATER VALVES OFF					09/07/2006	INC		\$11,092.00	\$7,900.00	\$1,659.00	\$20,651.00
					09/14/2006	PD		\$11,091.42	\$1,511.73	\$432.60	\$13,035.75
					O/S			\$0.00	\$6,388.27	\$1,226.40	\$7,614.67
[REDACTED]	KY CB	CAW1951			Status: Open						
IW ALLEGES HE INJURED HIS RT KNEE WHILE TURNING A VALVE					09/10/2006	INC		\$1,072.00	\$1,900.00	\$285.00	\$3,257.00
					05/03/2007	PD		\$0.00	\$0.00	\$0.00	\$0.00
					O/S			\$1,072.00	\$1,900.00	\$285.00	\$3,257.00
[REDACTED]	KY CM	CDN1570			Status: Closed						
HE S' RAINED HIS BACK WHILE LIFTING METER TOP					06/23/2006	INC		\$0.00	\$1,781.00	\$111.00	\$1,892.00
					06/27/2006	PD		\$0.00	\$1,781.40	\$111.11	\$1,892.51
					09/26/2006	O/S		\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED]	KY CM	CCL4495			Status: Closed						
IW WAS TAKING SCRAP METAL TO BAKER IRON AND METAL WHILE WALKING AND OTHER HE UNLOADING METAL SWUNG A PIECE OF METAL AROUND HITTING IW IN THE MOUTH					12/29/2006	INC		\$0.00	\$1,449.00	\$0.00	\$1,449.00
					12/29/2006	PD		\$0.00	\$1,449.30	\$0.33	\$1,449.63
					05/15/2007	O/S		\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED]	KY CB	CEY3543			Status: Closed						
IW WAS TEAMED W/COWORKER ON VALVES. VALVE SEIZED & FORCED TO OPERATE VALVE. WHEN VALVE KEY BROKE IN HALF CAUSED RT ELBOW TO HYPEREXTEND.					03/07/2006	INC		\$0.00	\$1,189.00	\$204.00	\$1,393.00
					03/08/2006	PD		\$0.00	\$1,188.75	\$203.57	\$1,392.32
					03/07/2007	O/S		\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED]	KY CM	CEY1609			Status: Closed						
IW HYPEREXTENDED LT KNEE, WHILE LOCATING A MAIN, SLIPPED ON SLIPPERY SURFACE					02/06/2006	INC		\$0.00	\$1,264.00	\$8.00	\$1,272.00
					02/13/2006	PD		\$0.00	\$1,263.89	\$7.91	\$1,271.80
					05/16/2006	O/S		\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED]	KY CM	CDN1910			Status: Closed						
IW HIT HIS FINGER ON TOP OF A METER LID WHILE PICKING UP TOOLS AFTER READING THE METER. IW'S FINGER IS SWOLLEN.					06/26/2006	INC		\$0.00	\$552.00	\$23.00	\$575.00
					06/30/2006	PD		\$0.00	\$552.19	\$23.49	\$575.68
					09/29/2006	O/S		\$0.00	\$0.00	\$0.00	\$0.00

AMERICAN WATERWORKS SERVICE CO

Detail Loss Report Losses From 01/01/2004 To 12/31/2007

Claimant	File	State	Prefix	Claim #	Accident Date	Notice Date	Close Date	Claim	Medical	Expense	Total
██████████ Accident Year: 2006		KY	CM	CEY5760	Status: Closed	04/06/2006	INC	\$0.00	\$375.00	\$104.00	\$479.00
	EE WALKING DOWN WOODEN STEPS COLLECTING DISCHARGE SAMPLE LAST STEP GAVE WAY AND EE FELL BACKWARDS & HIT BACK ON REMAINING STEPS					04/06/2006	PD	\$0.00	\$374.81	\$103.73	\$478.54
██████████		KY	CM	CCL3030	Status: Closed	12/01/2006	INC	\$0.00	\$373.00	\$0.00	\$373.00
	IW WAS AT A JOB SITE PREPARING TO REPAIR A WATER MAIN BREAK WHEN HE WAS STRUCK IN THE LEFT EYE WITH MUD THAT WAS FLUNG FROM A BACK HOE THAT WAS BEING USED ON THE JOB SITE RESULTING IN FOREIGN OBJECT IN THE LEFT EYE					12/05/2006	PD	\$0.00	\$373.09	\$0.00	\$373.09
██████████		KY	CM	CEY3213	Status: Closed	03/02/2006	INC	\$0.00	\$329.00	\$0.00	\$329.00
	IW STATES HE IS A METER READER, AS DAY PROGRESSED THERE WAS MORE PAIN IN RT KNEE					03/03/2006	PD	\$0.00	\$328.88	\$0.00	\$328.88
██████████		KY	CM	CDN5095	Status: Closed	08/04/2006	INC	\$0.00	\$282.00	\$0.00	\$282.00
	EE WAS WORKING IN A HOLE, BANK GAVE AWAY, HIT SHUVEL, SHUVEL EE IN THE FACE.					08/11/2006	PD	\$0.00	\$281.83	\$0.00	\$281.83
██████████		KY	CM	CCL1389	Status: Closed	11/01/2006	INC	\$0.00	\$234.00	\$0.00	\$234.00
	EE STRAINED MUSCLE IN LOWER BACK WHILE LIFTING HOSES					11/07/2006	PD	\$0.00	\$233.67	\$0.00	\$233.67
██████████		KY	CM	CEY6682	Status: Closed	04/19/2006	INC	\$0.00	\$228.00	\$5.00	\$233.00
	EE HIT RIGHT ELBOW ON CONCRETE SLAB OF ROAD WHILE PULLING THE STARTER CORNER OF SAW					04/19/2006	PD	\$0.00	\$228.27	\$5.30	\$233.57
██████████		KY	CM	CCL1597	Status: Closed	11/09/2006	INC	\$0.00	\$138.00	\$0.00	\$138.00
	IW SLIPPED & FELL ON WET FLOOR WHILE COMING OUT OF RESTROOM AND CAUSED A CONTUSION TO BOTH KNEES.					11/10/2006	PD	\$0.00	\$137.56	\$0.00	\$137.56
██████████		KY	CM	CCL1597	Status: Closed	02/09/2007	O/S	\$0.00	\$0.00	\$0.00	\$0.00

AMERICAN WATERWORKS SERVICE CO

Detail Loss Report Losses From 01/01/2004 To 12/31/2007

Accident Year: 2006	File	State	Prefix	Claim #	Accident Date	Notice Date	Close Date	Status	Claim	Medical	Expense	Total
		KY	CM	CEY1611	02/09/2006		02/09/2006	INC	\$0.00	\$67.00	\$27.00	\$94.00
					02/13/2006		02/13/2006	PD	\$0.00	\$66.91	\$27.10	\$94.01
					05/16/2006		05/16/2006	O/S	\$0.00	\$0.00	\$0.00	\$0.00
		KY	CM	CDN8100	09/13/2006		09/13/2006	INC	\$0.00	\$0.00	\$0.00	\$0.00
					09/20/2006		09/20/2006	PD	\$0.00	\$0.00	\$0.00	\$0.00
					12/20/2006		12/20/2006	O/S	\$0.00	\$0.00	\$0.00	\$0.00
Subtotals for Accident Year: 2006												
					INC				\$12,164.00	\$18,061.00	\$2,426.00	\$32,651.00
					PD				\$11,091.42	\$9,772.28	\$915.14	\$21,778.84
					O/S				\$1,072.00	\$8,288.27	\$1,511.40	\$10,871.67
									Claim Count:	16		

AMERICAN WATERWORKS SERVICE CO

Detail Loss Report		Losses From 01/01/2004 To 12/31/2007									
Claimant	File	State	Prefix	Claim #	Accident Date	Notice Date	Close Date	Claim	Medical	Expense	Total

Accident Year: 2007											
[REDACTED]		KY	CB	CAW1852	Status: Open	02/26/2007	INC	\$3,372.00	\$2,500.00	\$375.00	\$6,247.00
IW WAS HAVING PAIN IN THE BACK OF HIS LEG DUE TO A PREVIOUS INJURY.											
[REDACTED]		KY	CB	CAW1998	Status: Open	05/01/2007	PD	\$0.00	\$0.00	\$45.65	\$45.65
EE INJURED HIS RT HAND WHILE WORKING ON FIRE HYDRANT											
[REDACTED]		KY	CM	CCL8353	Status: Closed	05/03/2007	INC	\$0.00	\$2,500.00	\$450.00	\$2,950.00
IW WAS LOADING PUMP ONTO BACK OF TRUCK LOST GRIP TO PUMP, TRIED TO CATCH PUMP FELT STING IN LWR BACK.											
[REDACTED]		KY	CM	CAW3090	Status: Open	05/03/2007	PD	\$0.00	\$38.03	\$8.90	\$46.93
IW USING PIPE WRENCH, USING BODY WEIGHT TO TURN THE WRENCH WHEN HE FELT A "PULL" IN HIS RUBCAGE.											
[REDACTED]		KY	CM	CAW2732	Status: Open	06/01/2007	O/S	\$0.00	\$2,461.97	\$441.10	\$2,903.07
IE BUMPED RT KNEE WITH HIS DOOR WHILE GETTING INTO TRUCK.											
[REDACTED]		KY	CB	CAW3398	Status: Open	02/28/2007	INC	\$0.00	\$530.00	\$19.00	\$549.00
EE WAS BITTEN BY CUSTOMER DOG.											
[REDACTED]		KY	CB	CAW3398	Status: Open	03/02/2007	PD	\$0.00	\$529.88	\$18.85	\$548.73
[REDACTED]		KY	CB	CAW3398	Status: Open	05/18/2007	INC	\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED]		KY	CB	CAW3398	Status: Open	05/23/2007	PD	\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED]		KY	CB	CAW3398	Status: Open	05/11/2007	INC	\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED]		KY	CB	CAW3398	Status: Open	05/16/2007	PD	\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED]		KY	CB	CAW3398	Status: Open	05/24/2007	INC	\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED]		KY	CB	CAW3398	Status: Open	05/29/2007	PD	\$0.00	\$0.00	\$0.00	\$0.00
[REDACTED]		KY	CB	CAW3398	Status: Open	05/29/2007	O/S	\$0.00	\$0.00	\$0.00	\$0.00

AMERICAN WATERWORKS SERVICE CO

Detail Loss Report Losses From 01/01/2004 To 12/31/2007

Claimant	File	State	Prefix	Claim #	Accident Date	Notice Date	Close Date	Claim	Medical	Expense	Total
					INC			\$3,372.00	\$5,530.00	\$844.00	\$9,746.00
					PD			\$0.00	\$567.91	\$73.40	\$641.31
					O/S			\$3,372.00	\$4,961.97	\$770.45	\$9,104.42

Claim Count: 6

Subtotals for Accident Year: 2007

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Witness: Sheila Miller/Michael Miller

259. Please state whether any amounts have been booked during the test year by the Company for the liability created pursuant to any employment severance compensation agreements.

Response:

The forecasted test-year does not include any severance costs.

For electronic version, refer to KAW_R_AGDR1#259_061807.pdf

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Witness: Sheila Miller

260. List employee relocation expense for the base and test years and the previous three years. Indicate annually the amounts and accounts in which such expense is recorded.

Response:

All relocation expense is recorded in account 575670.

2004	\$2,584
2005	\$4,758
2006	\$0
Base Period	\$1,000
Forecast	\$1,000

For electronic version, refer to KAW_R_AGDR1#260_061807.pdf

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Item 261 of 312

Witness: Nick Rowe/Michael Miller

261. Provide a complete copy of the Company's policy with respect to employee relocation, including full details as to cost reimbursement.

Response:

See attached.

For electronic version, refer to KAW_R_AGDR1#261_061807.pdf



Title: **Relocation Policy**
Functional Area: **Human Resources**
Policy Number: **hrs_stf_po_04_relocation_2006_11_02.doc**

POLICY STATEMENT

Business Objective

It is the intent of American Water to support employees and their families to the extent practical in all phases of relocation, and to provide fair and uniform relocation benefits.

Statement

American Water will provide financial assistance to reduce inconvenience and financial burdens incurred during the assignment of an exempt employee to a new work location in accordance with the provisions of this policy. The Company will assist the employee in securing housing at the new work location and in disposing of the principal residence at the old location as quickly as possible. However, only employees who currently own a personal or family residence and who purchase a home at the new location within **one year** of their effective transfer date are eligible for home purchase closing costs.

All approved relocation expenses are to be charged to the destination company.

Employees participating in the relocation program must work with the approved relocation vendor. The employee must contact the relocation vendor before initiating any transactions. Failure to contact the vendor prior to a transaction may result in some or all of those expenses being denied.

Any employee who participates in the relocation program will be required to complete one (1) full year of service after the relocation is completed. Any employee who does not complete the full year of service following the completion of the relocation will be required to pay back any and all relocation funds received.

SCOPE

This policy covers all exempt non-bargaining unit employees of American Water Works Company, Inc. and employees of its regulated subsidiaries ("American Water" or the "Company") employed in the United States.

MONITORING

Human Resources, particularly Regional Human Resources, is responsible for monitoring compliance and will provide metrics regarding the number of relocations issued each quarter.

To ensure consistent application of this policy throughout the system, all relocation expenses will be reviewed and approved by the Senior Vice President, Human Resources, or his/her designee.

REPORTING/METRICS

Corporate Human Resources will provide the American Water Service Company Board with an annual report identifying the number of relocations provided as well as the annual cost of the program.



CONSEQUENCE OF NON-COMPLIANCE

Employees who knowingly violate this policy may lose relocation privileges and may also be subject to disciplinary action up to and including termination from employment.

WAIVER

Any exceptions to this policy must be approved in advance by the Senior Vice President of Human Resources, or her or his designee.

REFERENCES

[NEI Global Relocation Website](#)

DEFINITIONS

Eligibility - An individual in an exempt position who relocates for the benefit of and at the request of the Company in conjunction with a full-time position (35 hours a week or more), for which relocation has been authorized and approved, may be reimbursed for certain costs associated with the relocation when the distance from the old residence to the new place of work is at least 50 miles (subject to change per IRS regulations) farther than the distance from the old residence to the old work location, provided the employee meets all other eligibility requirements. This applies only to employees being permanently reassigned by the Company to a new location for an indefinite or stated period of not less than 12 months.

Participation in the American Water relocation program must conclude within 12 months of the date of hire or effective date of transfer.

Levels of Relocation - American Water offers three program levels of relocation:

- **Gold** Available to employees in Salary Levels ML 1 through ML 5
- **Silver** Available to employees in Salary Levels L 6 and L 7
- **Bronze** Available to employees in salary Levels L 8 through L 11

Individuals should consult with the local Human Resources department to ascertain whether or not relocation is available for their new or transfer position and to obtain additional information on the level for which they are eligible. Any individual who participates in this program must contact the approved Relocation Company prior to initiating any activities related to a move.

Covered expenses and Services - Actual details are covered in the program description for each program level. Covered expenses may include, among other things:

- *Relocation Expense Report Payments*
- *A Market Value Driven Program*
- *Temporary Living*
- *Home Finding Services*
- *Household Moves*
- *Other Expenses and Services*, such as
 - *Income Tax Expense Support*
 - *Spouse Employment Assistance*
 - *Rental Home Finding Assistance*



The allowable reimbursable relocation expenses are determined by the organization level of the position into which the employee is transferred or hired and the package for which the employee is eligible.

REVIEW/UPDATE

This policy shall be reviewed every 3 years.

Approved by:

Service Company Board

Original Adopted: November 2, 2006

Revised Adopted:

Date of Last Review: November 2, 2006

Effective Date: November 2, 2006

Prepared By: Human Resources

Disclaimer

American Water reserves the right to change, revise or discontinue this Policy for any reason whatsoever. No employee, manager or other agent of American Water, other than the Service Company Board (or its direct executive membership) has the authority to enter into any agreement contrary to this Policy.

This Policy supersedes and voids all previous policies and practices, which may be inconsistent in any way with that stated herein.

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Witness: Nick Rowe/Sheila Miller

262. List each athletic and employee association to which the Company contributes and the associated amounts for the test year and preceding year. State how the Company has treated these expenses in the test year.

Response:

For both years:

Audubon Society	Dillard Griffin membership	\$35/yr	120201.575240.16
	Rick Buchanan membership	\$35/yr	120201.575240.16
Lexington Forum	Greg Tomko membership	\$225/yr	120205.575280.16
	Susan Lancho membership	\$225/yr	120121.575280.16
Rotary Club	Rick Buchanan membership	\$375/yr	120201.575240.16
	David Whitehouse membership	\$465/yr	120122.575280.16

The Company has included these expenses in their revenue requirement.

For electronic version, refer to KAW_R_AGDR1#262_061807.pdf

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Witness: Michael Miller

263. List the dollar value of discounts for service and merchandise the Company provides to employees. Provide for the test year. Show in what accounts and amounts such expense was recorded. What employees are eligible to receive such discounts?

Response:

None.

For electronic version, refer to KAW_R_AGDR1#263_061807.pdf

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Witness: Michael A. Miller/Nick Rowe

264. List all Company owned automobiles, other than service vehicles, and state the Company's policy for charging employees for the personal use of these automobiles and the Company policy of reporting the personal usage of these automobiles for Federal income tax purposes.

Response:

See attached vehicle listing.

Employees are not charged for personal use; however the personal use is reported for tax purposes according to IRS rules.

For the electronic version, refer to KAW_R_AGDR1#264_061807.pdf.

KAWC VEHICLE LISTING

NO.	MAKE	VEHICLE TYPE	YEAR	SERIAL NUMBER	REGIST WT	OWN/ LEASED	PLATE NO.	VEHICLE ODOMETER	TITLE
43	Chevrolet	Cavalier	1995	1G1JCS245S7183326		Owned	958-CAL	105862	POOL
54	Ford	Explorer	1997	1FMDU34E2VUA22011		Owned	264000	105578	C. TUDOR
64	Mercury	Grand Marquis	1997	2MELM75W0VX605098		Owned	575-CAX	105113	POOL
71	GMC	S-15 Pickup	1997	1GTC19X7VKS19362		Owned	264027	103778	KRUNCHINSKI
73	Chevrolet	Malibu	1997	1G1ND52M9VY122705		Owned	963-CAL	50169	Director Engineering
74	GMC	1/2 Ton Pickup	1997	1GTEC14R8VZ545443		Owned	264033	129793	RONEY
75	GMC	S-15 Pickup	1997	1GTC19X7VKS19054		Owned	264026	84966	Maintenance Svc. Spec.
76	GMC	Jimmy	1997	1GKDT13W9V2552577		Owned	264015	109290	Operations Supt.
81	GMC	S-15 Pickup	1997	1GTCS19X5VK519327		Owned	264025	119770	BRUMFIELD
82	Chevrolet	S-10 Pickup	1997	1GCCS19X2V8190924		Owned	264009	142254	A & G Service
83	GMC	S-15 Pickup	1997	1GTCS19X9VK519461		Owned	264031	31440	Stock Clerk
85	Buick	LeSabre	1998	1G4HP52K6WH426114		Owned	965-CAL	74957	POOL
86	Oldsmobile	88 LS	1998	1G3HN52K8W4815516		Owned	964-CAL	154976	POOL
88	Toyota	Tacoma 4 x 4	1998	4TAWN72N8WZ106970		Owned	264037	175511	BUCHANAN
90	Dodge	Dakota Sport Extended Cab	1998	1B7GG22X9WS712987		Owned	263995	206407	Production POOL
91	Chevrolet	Malibu	1998	1G1ND52M1W6236579		Owned	959-CAL	83486	POOL
96	GMC	Van	1998	1GKDM19W1WB532278		Owned	264014	68110	POOL
97	Chevrolet	Malibu	1998	1G1ND52M5WY170994		Owned	960-CAL	163166	POOL
101	Chevrolet	Malibu	1999	1G1ND52M5X6121274		Owned	961-CAL	60676	POOL - LOSS CONTROL
102	Chevrolet	Malibu	1999	1G1ND52M7XY157374		Owned	962-CAL	76366	COY
103	Dodge	Dakota Sport Extended Cab	1999	1B7GL22X0XS250509		Owned	263996	117949	W. MATTINGLY
104	Dodge	Dakota Sport Extended Cab	1999	1B7GL22X7XS250510		Owned	263999	146620	HAWTHORNE
105	Chevrolet	Blazer	1999	1GNDDT13W3XK156649		Owned	264020	74542	ROOKARD
106	Chevrolet	Blazer	1999	1GNDDT13W0X2179130		Owned	264019	96163	POOL - ENGINEERING
113	Dodge	Dakota Sport Extended Cab	1999	1B7GL22X0XS321806		Owned	263997	106478	ANDERSON
116	Dodge	Dakota Club Cab	2000	1B7GL22X4YS709266		Owned	263998	89537	BUCKNER
130	Ford	SUV-Explorer	2001	1FMZU73E32UB40790		Owned	264001	46890	WHITE
131	Ford	Ranger 4X4	2002	1FTZR15U12PA40631		Owned	264004	100540	COMBS
132	Ford	Ranger 4 X 4	2002	1FTZR45UX2PA72706		Owned	264005	62109	JACKSON
133	Chevrolet	Trailblazer	2002	1GNDDT13S022360265		Owned	264018	59861	GRIFFIN
140	Chevrolet	Malibu	2004	1G1ZS52894F135653		Owned	365-CBE	59725	POOL
151	Chevy	Silverado 2500 HD	2005	1GCHK29U5E249799		LEASED	4938-PW	46475	RICK CURRY
161	CHEVY	EQUINOX	2006	2CNDL23F366166738		Owned	053-DHX	7796	JOE WHITE
162	CHEVY	EQUINOX	2006	2CNDL23F966165965		Owned	054-DHX	7716	DOTTY JOHNSON
163	CHEVY	SILVERADO 1500	2006	1GCEK19V96Z290117		Owned	1212-RD	9444	MARK MULLINS

KAWC VEHICLE LISTING

NO.	MAKE	VEHICLE TYPE	YEAR	SERIAL NUMBER	REGIST WT	OWN/ LEASED	PLATE NO.	VEHICLE ODOMETER	TITLE
170	CHEVY	EQUINOX	2006	2CNDL23FX66175291		Owened	290-DHX	11738	BAMBI FLOYD
174	CHEVY	EQUINOX	2006	2CNDL23F866175404		Owened	289-DHX	11705	MARK WALTERS
175	CHEVY	MALIBU	2007	1G1ZS58N17F134997		Owened	663-EXT	7994	DAVID SHEHEE
180	CHEVY	EQUINOX	2007	2CNDL23FX76225348		Owened			W. MATTINGLY
181	CHEVY	MALIBU	2007	1G1ZS58N67F264435		Owened	337-GDB		STACY OWENS
185	DODGE	RAM 1500	2007	1D7HU18P67J622322		Owened			MITZI COMBS
186	DODGE	RAM 1500	2007	1D7HU16P97J609955		Owened			MIKE MAGGARD
187	DODGE	RAM 1500	2007	1D7HU16P07J609956		Owened			KEVIN KRUCHINSKI
188	DODGE	RAM 1500	2007	1D7HU18P87J622323		Owened			RICK BUCHANAN

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Witness: Nick Rowe

265. Does the Company maintain any recreational sites for the use of the public and/or Company employees? If so, please:
- a. Identify each site and the type of recreational facility.
 - b. State whether each site is for public use or exclusively for employ-ee use.
 - c. For each site identified in (a) above, state the amount of expense incurred during the test year to maintain it.

Response:

No.

For electronic version, refer to KAW_R_AGDR1#265_061807.pdf

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Witness: Nick Rowe/Michael A. Miller/Sheila Miller

266. For the base year list all payments made for employee gifts, employee awards, employee luncheons and dinners, employee picnics and all other similar type items. For each, list the dollar amount paid, the payee, the account charged and state the purpose. Provide copies of invoices which exceed \$5,000.

Response:

See attached.

For electronic version, refer to KAW_R_AGDR1#266_061807.pdf

Kentucky American Water
AGDR #266

Doc Ty	Doc Description	Doc #	Date	Account	Department	BU #	Description	Amount	Explanation	Explanation2	Event
CC	Purchase Card	2312	08/10/06	504500	CORP-Human Resources	120118	Other Well Oper AG	2,455.40	OLD HAPPY DAYS BARBECUE	NICK O ROWE	Company picnic
PV	Voucher	41381582	08/21/06	504500	LEX-Field Services	120206	Other Well Oper AG	770.91	Tharpe Company Inc-REMIT	cust. 8505	Retirement service award
PV	Voucher	41398733	09/12/06	504500	CORP-Human Resources	120118	Other Well Oper AG	714.96	Purdon's Rental & Sales Inc- P	KYAWC CON#24139	Purdon's Rental & Sales Inc
CC	Purchase Card	2542	10/12/06	504500	CORP-Human Resources	120118	Other Well Oper AG	116.48	HARDEES OF LEXINGTON	MARY E PUGH	United Way Rally
CC	Purchase Card	2568	10/19/06	504500	CORP-Human Resources	120118	Other Well Oper AG	33.53	KROGER #407 SL	DOROTHY J JOHNSON	United Way Rally
PS	Disbursement Reque	41432254	10/24/06	504500	CORP-Human Resources	120118	Other Well Oper AG	175.00	Horton, Beverly Petty, Cash	Prizes Emp Picnic	Company picnic
CC	Purchase Card	2602	10/26/06	504500	CORP-Human Resources	120118	Other Well Oper AG	26.21	KROGER #407 SL	BEVERLY G HORTON	Company picnic
CC	Purchase Card	2673	11/16/06	504500	CORP-Human Resources	120118	Other Well Oper AG	1,079.00	OLD HAPPY DAYS BARBECUE	MARY E PUGH	Company picnic

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ATTORNEY GENERAL'S REQUEST FOR INFORMATION
Item 267 of 312

Witness: Michael Miller

267. Identify all expenses incurred during the base and test years for athletic events, tickets, sky boxes and all sporting activities.
- a. Specifically identify the activity and dollar amount.
 - b. Provide copies of paid vouchers and invoices supporting these expenditures.

Response:

- a. None included in rate filing.
- b. See response to part a. above.

For electronic version, refer to KAW_R_AGDR1#267_061807.pdf

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143
ATTORNEY GENERAL'S REQUEST FOR INFORMATION
Item 268 of 312

Witness: Michael Miller

268. Does the Company or any affiliates employ chauffeurs? If so, identify the expenses included in the test year.

Response:

No.

For electronic version, refer to KAW_R_AGDR1#268_061807.pdf

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143
ATTORNEY GENERAL'S REQUEST FOR INFORMATION
Item 269 of 312

Witness: Michael Miller

269. Please list all steps the Company has taken to reduce the cost of medical insurance.
- a. Does the Company's insurance coverage require a coordination of benefits and, if so, how does it function?
 - b. Does the Company plan require a co-pay percentage by the employee? If so, what is the percentage and has it increased over the past three years? State the various levels over the past three years.

Response:

Plan designs have changed from a Managed Choice (HMO) style plan to a Preferred Provider Organization style plan, so percentages and co-pays are not directly comparable to previous plans. For the plan with lowest monthly contributions from employees (the Standard PPO), the co-insurance percentage has decreased (employee portion increased) and deductibles have also increased. The Premium PPO has similar deductibles and co-payment percentages to previous plans, but requires a higher monthly employee contribution than the Standard PPO or the previous plan. The EPO plan has the highest monthly employee contributions, but with a 100% co-insurance percentage, and no deductibles. This plan is an in network only plan, and thus has less flexibility for the employee and lower costs to the company. New non-union employees hired after 1/1/2006 must make higher monthly employee payments to obtain similar coverage as longer term employees.

Additionally, Horizon Blue Cross/Blue Shield, our plan administrative services provider, has an active disease management program to provide treatment management for a number of common conditions. This program assists in reducing expenditures for ineffective or unnecessary treatments.

- a. Yes. Please see attached pages 76 through 81 of the group insurance summary plan document.
- b. Yes. The percentage varies depending on the plan chosen. Please see pages 8 through 11 of the current summary plan document provided in response to PSCDR2#21.

For electronic version, refer to KAW_R_AGDR1#269_061807.pdf

- Coverage is specifically provided by name in this Summary Plan Description booklet, or
- Coverage of the charges is required under any law that applies to the coverage.

These excluded charges will not be used when calculating benefits.

The law of the jurisdiction where a person lives when a claim occurs may prohibit some benefits. If so, they will not be paid.

Any charge for a service or supply furnished by a Network Provider in excess of such provider's Negotiated Charge for that service or supply will not be a covered expense under the Plan of benefits. This rule will not apply to any service or supply for which a benefit is provided under Medicare before the benefits of the group contract are paid.

Coordination of Your Benefits With Other Plans, Not Including Medicare

If you have other group coverage, the benefits from those plans will be taken into account when you have a claim.

Today, in many situations, both husbands and wives work. Therefore, it is common for individual members of a family to be eligible for benefits under more than one group medical or dental plan. In such situations the benefits of the various plans are "coordinated" to determine how covered expense will be paid by your American Water Plan and the other plans. This may mean a reduction in benefits under this Plan. The combined benefits will not be more than the expenses recognized under these American Water Plans.

"Other plans" means:

- Any group medical or dental plan for which an employer pays all or part of the costs or makes payroll deductions;
- Any plan that you purchase through a group such as AARP; or
- Any government program, coverage required or provided by any law, or vehicle insurance (uninsured/underinsured motorist and casualty/liability).

If the American Water Plan is determined to be the primary plan (the plan that pays its benefits first), it will pay its regular benefits in full without regard to any payment that may be made under any other plan.

If the American Water Plan is determined to be the secondary plan (the plan that pays its benefits after the primary plan pays benefits), it will pay a reduced amount of benefits that will in no event cause the total benefit from all plans to exceed the benefit that would have been paid

by the American Water Plan if it had been the primary plan. However, if benefits under the primary plan are reduced because a covered person does not comply with the plan provisions (such as penalties resulting from the failure to comply with cost management provisions of the plan), the amount of the reduction will not be considered for payment under the American Water Plan.

For example, if you have Standard PPO coverage the primary plan pays 70% of eligible charges to an in-network provider, the American Water Plan will pay an additional 10% of covered charges for a total benefit equal to 80% of covered charges which is the benefit the American Water Plan would have paid as the primary plan.

When other coverage exists in addition to your American Water coverage, the following rules will be used to determine which medical or dental plan is primary and pays first, and which medical or dental plan is secondary and pays second:

- A plan with no rules for coordination with other benefits will pay its benefits before a plan which contains such rules.
- A plan that covers a person as an employee pays before the plan that covers the person as a dependent. However, there may be situations where the person is a Medicare beneficiary and has a working spouse. In such a situation,
 - The spouse’s plan which covers the person as a dependent pays first,
 - Medicare pays second, and
 - The plan covering the person as an employee pays third.
- Except in the case of a dependent child whose parents are divorced or separated, the plan which covers the person as a dependent of a person whose birthday comes first in a calendar year will be primary to the plan which covers the person as a dependent of a person whose birthday comes later in that calendar year. If both parents have the same birthday, the benefits of a plan which covered one parent longer are determined before those of a plan which covered the other parent for a shorter period of time.
- If the other plan does not have the rule described in the above provision and, as a result, the plans do not agree on the order of benefits, the rule in the other plan will determine the order of benefits.
- In the case of a dependent child whose parents are divorced or separated:
 - If there is a court decree which states that the parents shall share joint custody of a dependent child, without stating that one of the parents is responsible for the health care expenses of

the child, the order of benefit determination rules specified in the above provision will apply.

- If there is a court decree which makes one parent financially responsible for the medical, dental, or other health care expenses of such child, the benefits of a plan which covers the child as a dependent of such parent will be determined before the benefits of any other plan which covers the child as a dependent child.

- If there is not such a court decree:

If the parent with custody of the child has not remarried, the benefits of a plan which covers the child as a dependent of the parent with custody of the child will be determined before the benefits of a plan which covers the child as a dependent of the parent without custody.

If the parent with custody of the child has remarried, the benefits of a plan which covers the child as a dependent of the parent with custody shall be determined before the benefits of a plan which covers that child as a dependent of the stepparent. The benefits of a plan which covers that child as a dependent of the stepparent will be determined before the benefits of a plan which covers that child as a dependent of the parent without custody.

- If the above rules do not establish an order of payment, the plan under which the person has been covered for the longest will be deemed to pay its benefits first, except that the benefits of a plan which covers the person as a:
 - laid-off or retired employee, or
 - the dependent of such person,shall be determined **after** the benefits of any other plan which covers such person as:
 - an employee who is not laid-off or retired, or
 - a dependent of such person.
- If the other plan does not have a provision regarding laid-off or retired employees and, as a result, each plan determines its benefits after the other, then the previous paragraph will not apply.
- The benefits of a plan which covers the person under a right of continuation pursuant to federal or state law shall be determined after the benefits of any other plan which covers the person other than under such right of continuation.
- If the other plan does not have a provision regarding right of continuation pursuant to federal or state law, and as a result, each plan determines its benefits after the other, then the above paragraph will not apply.

Horizon has the right to release or obtain any information and to make or recover any payment it considers necessary in order to administer this provision.

When this provision operates to reduce the total amount of benefits otherwise payable to you under this Plan during a calendar year, each benefit that would be payable in the absence of this provision will be reduced proportionately. Such reduced amount will be charged against any applicable benefit limit of your American Water Plan.

Automobile Personal Injury Protection (PIP)

If you are injured in an automobile accident and become eligible for benefits under the personal injury protection (PIP) provision of an automobile insurance policy, benefits under the American Water Medical Plan are payable after the automobile insurance policy benefits have been paid, even if you have designated the American Water Medical Plan as primary to your automobile insurance coverage in exchange for reduced automobile insurance premiums.

Third Party Liability and Subrogation

General Principle

When you or your dependent receive benefits under the Plan which are related to medical expenses that are also payable under Workers' Compensation, any statute, any uninsured or underinsured motorist program, any no fault or school insurance program, any other insurance policy or any other plan of benefits, or when related medical expenses that arise through an act or omission of another person are paid by a third party, whether through legal action, settlement or for any other reason, you or your dependent shall reimburse the Plan for the related benefits received out of any funds or monies you or your dependent recovers from any third party.

Specific Requirements and Plan Rights

Because the Plan is entitled to reimbursement, the Plan shall be fully subrogated to any and all rights, recovery or causes of actions or claims that you or your dependent may have against any third party. The Plan is granted a specific and first right of reimbursement from any payment, amount or recovery from a third party. This right to

reimbursement is regardless of the manner in which the recovery is structured or worded, and even if you or your dependent has not been paid or fully reimbursed for all of their damages or expenses.

The Plan's share of the recovery shall not be reduced because the full damages or expenses claimed have not been reimbursed unless the Plan agrees in writing to such reduction. Further, the Plan's right to subrogation or reimbursement will not be affected or reduced by the "make whole" doctrine, the "fund" doctrine, the "common fund" doctrine, comparative/contributory negligence, "collateral source" rule, "attorney's fund" doctrine, regulatory diligence or any other equitable defenses that may affect the Plan's right to subrogation or reimbursement.

The Plan may enforce its subrogation or reimbursement rights by requiring you or your dependent to assert a claim to any of the benefits to which you or your dependent may be entitled. The Plan will not pay attorneys fees or costs associated with the claim or lawsuit without express written authorization from the Employer.

If the Plan should become aware that you or your dependent has received a third party payment, amount or recovery and not reported such amount, the Plan, in its sole discretion, may suspend all further benefits payments related to you or any of your dependents until the reimbursable portion is returned to the Plan or offset against amounts that would otherwise be paid to or on behalf of you or your dependents.

Participant Duties and Actions

By participating in the Plan you and your dependents consent and agree that a constructive trust, lien or an equitable lien by agreement in favor of the Plan exists with regard to any settlement or recovery from a third person or party. In accordance with that constructive trust, lien or equitable lien by agreement, you and your dependents agree to cooperate with the Plan in reimbursing it for Plan costs and expenses.

Once you or your dependent has any reason to believe that you or they may be entitled to recovery from any third party, you or your dependent must notify the Plan. And, at that time, the you and your dependent (and your or their attorney, if applicable) must sign a subrogation/reimbursement agreement that confirms the prior acceptance of the Plan's subrogation rights and the Plan's right to be reimbursed for expenses arising from circumstances that entitle you or your dependent to any payment, amount or recovery from a third party.

If you or your dependent fails or refuses to execute the required subrogation/reimbursement agreement, the Plan may deny payment of any benefits to you and any of your dependents until the agreement is

signed. Alternatively, if you or your dependent fails or refuses to execute the required subrogation/reimbursement agreement and the Plan nevertheless pays benefits to or on behalf of you or your dependent, your or your dependent's acceptance of such benefits shall constitute agreement to the Plan's right to subrogation or reimbursement.

You and your dependent consent and agree that you or they shall not assign your or their rights to settlement or recovery against a third person or party to any other party, including their attorneys, without the Plan's consent. As such, the Plan's reimbursement will not be reduced by attorneys' fees and expenses without express written authorization from the Employer.

Recoupment

The Plan has the right to recover any mistaken payment, any overpayment, any payment that is made to any individual who was not eligible for that payment or any payment that was required to have been made to the Plan under the "Third Party Liability and Subrogation" section above. The Plan, or its designee, may withhold or offset future benefit payments, sue to recover such amounts, or may use any other lawful remedy to recoup any such amounts.

No Assignment of Benefits

You cannot assign, pledge, encumber or otherwise alienate any legal or beneficial interest in benefits under the Plan, and any attempt to do so will be void. The payment of benefits directly to a health care provider, if any, shall be done as a convenience to the covered person and shall not constitute an assignment of benefits under the Plan.

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

ATTORNEY GENERAL'S REQUEST FOR INFORMATION

Item 270 of 312

Witness: Nick Rowe/Michael Miller

270. With regard to research and development (R&D) expenditures, please provide:
- a. A monthly breakdown of the R&D expenses by project included in 2005, 2006, and as forecasted for the 12 months ended July 31, 2007 and November 30, 2008.
 - b. A comparison of actual vs. budgeted expenditures for 2005, 2006 and 2007 to date.
 - c. A detailed explanation of the causes of any increase from 2005 levels to 2006 levels and from 2006 to the 2007 budgeted level and why such an increase is necessary and reasonable.
 - d. A summary description of each of the R&D projects identified and the benefit to be derived by ratepayers.
 - e. Please provide the costs by project for each year of 2005, 2006 and 2007 to date.

Response:

- a. All research project costs conducted by AWWSCo are billed to operating companies based on how the operating company will benefit from the research. For example, projects dealing with treatment of surface water are charged based on the number of customers receiving treated surface water. Likewise, a research project on groundwater treatment is charged based on the number of customers receiving treated groundwater. Many projects that benefit all water systems are charged based on a percentage of total population served. The cost of individual research projects vary over the life of the project (typically 2-3 years). For some projects where we have been awarded a grant proposal to partially off-set the research costs, there may be initial project outside funds to off-set project start-ups costs. Funding agencies (like the Awwa Research Foundation) typically withhold 20% of project monies until the final reports are completed. All these factors will result in some year to year variation in project costs. For example, in 2005 KYAW charge for research was \$30,859, but this expense included \$4,739 credits for project off-sets from external research grants (either start-up funds or end-of-project payments). In 2006, research expenses were \$36,877, only 3.5% greater than the total expense (\$30,859 + \$4,739) in 2005. Some of this increase was the result of vacancies in 2005 when the research program was reorganized.

Project by project forecasts are not available for 2007 and 2008 – only the general department budget is available. Please see the attached monthly breakdown of expenses by project.

- b. We have been on or under budget for the past several years. Higher than anticipated outside research grant revenues and position vacancies resulted in reduced 2006 charges (compared to budget). Please see the attached comparison of Actual vs. budgeted for 2005 2006 and 2007 to date.
- c. As noted above, the research group was reorganized in 2004 and it has taken 2005 and 2006 to completely re-staff the department to the targeted 13 FTEs. The Innovation & Environmental Stewardship department encompasses both research and environmental compliance. A total of 10.5 FTEs are devoted to research, 1.5 FTEs to environmental compliance, and 1 FTE is administrative support. Charges for personnel and operations (lab supplies, travel, etc.) are allocated to specific projects based on the actual time and materials. As outlined above, the projects are charged to the operating companies based on the characteristic of the research.
- d. SEASONAL CHLORINATION AU0213. This study examined alternative methods to control nitrification events – other than conversion to free chlorine. It was particularly relevant to KY-Am as a means of maintaining distribution system water quality.

KNOWLEDGE SHARE PRJ AU0258. This project related to improving dissemination of research results and knowledge sharing. It primarily related to development of the intranet. Through this project KY-Am can readily access technical information.

SOP-DECON PIPELINE SYS AU0259. This project developed protocols to decontaminate distribution system infrastructure following an intentional or unintentional contamination event. The work was partially funded by AwwaRF.

IMPROVED DETECT E COLI AU0297. *Escherichia coli* O157:H7 is an important waterborne pathogen that has caused serious waterborne outbreaks. Previous to this project there were no methods for the environmental detection of this pathogen. The work was partially funded by AwwaRF.

ENDOCRINE DISRUPT SUBST AU0217. This preliminary project examined methods to detect endocrine disrupting compounds in source waters. This is an important emerging contaminant.

UV DISINFECT WW PLANTS AU0212. This project examined UV technology for inactivation of *Cryptosporidium*. *Cryptosporidium* has been detected in the surface waters used by KY-Am.

NEG. PRESSURE TRANSIENT AU0218. This study evaluated the application of computer models to better understand the frequency and occurrence of negative pressure transients. The occurrence of negative pressures could have impacts on water quality. The work was partially funded by AwwaRF.

EVALUATE ORTHOPHOSPHATE AU0256. This project evaluated options to improve corrosion control, reduce chemical cost, while reducing the environmental discharge of zinc into wastewater sludges and receiving streams. The results will be applicable to KY-Am.

CROSS-CONNECT&BACKFLOW AU0208. This project investigates techniques to detect and control cross connections and backflow into distribution systems. The work was partially funded by AwwaRF.

FAIL ANLY ORIEN PIPE ASM STUDY. This study examined the failure rate of service line materials (copper and HDPE) to make recommendations on the reliability of service lines.

AUTO METER READING MGT STUDY. This project is developing guidance for best practices related to the selection, installation and operation of automatic metering reading. The work was partially funded by AwwaRF.

MANAGE COLIFORMS & E.COLI. This project is evaluating utility experiences and techniques to determine the source and control of coliform bacteria in drinking water systems. KY-Am is a participant in the study. The work was partially funded by AwwaRF.

LEAK REPAIR STUDY. This study uses an innovative acoustic leak detection monitor to detect pipe leakage and subsequent pipe failure (breaks). The work was partially funded by AwwaRF.

RECLAIMED WATER STUDY. This study examines the growth of opportunistic pathogens and indicator bacteria in reclaimed water systems. Increasingly reclaimed water is being considered for applications that do not require high-quality drinking water (e.g. toilet flushing or irrigation). The work was partially funded by the WaterReuse Foundation.

AWWARF AM WORKSHOP. This project examined the latest techniques and recommendations for asset management. The work was partially funded by AwwaRF.

Project 100001 and 100003. These charges are for general research and environmental management activities and include technical assistance to operating companies, preparation of reports and manuscripts, proposal preparation, conference attendance, staff meetings, vacation, sick days, telephone, mail, etc. In 2005 and 2006, several small research projects (development of a

rapid AOC method, implementation of on-line water quality monitors, energy management and climate change) were included in these lines. In 2007, additional project numbers (for environmental management) and procedures to charge project related expenses (vacation, sick time, etc.) to specific research projects were implemented to better account for project expenses. Project 100001 spreads the charges across regulated utilities while 100003 includes charges to non-regulated utilities.

- e. Please refer to the attached spreadsheets included in part a.

For electronic version, refer to [KAW_R_AGDR1#270_061807.pdf](#)

WDSBL	FORMULADESCRIPTION	1	2	3	4	5	6	7	8	9	10	11	12	Grand Total
100001	CP-ALL REGULATED CO'S (W & WW)	\$ (490)	\$ 401	\$ 455	\$ 291	\$ 1,098	\$ 2,805	\$ 1,970	\$ 3,362	\$ 3,447	\$ 2,035	\$ 2,002	\$ 3,076	\$ 20,451
100003	CP-PLANT/REVIEMPLOY W/O CHILE	\$ 2,017	\$ 903	\$ 1,658	\$ (1,931)	\$ 1,238	\$ 2,280	\$ 383	\$ 435	\$ 505	\$ 368	\$ 398	\$ 480	\$ 8,733
100005	CP-REVENUE	\$ (1)												\$ (1)
100006	CP-REVENUE	\$ 186												\$ 186
100008	CP-EMPLOYEES	\$ 531				\$ 16	\$ (1)	\$ 6						\$ 558
100107	SEASONAL CHLORINATION AU0213	\$ 5	\$ 9	\$ 9	\$ 19	\$ 97								\$ 139
100109	EPA TEST SURFACE H2O AU0216	\$ 3												\$ 3
100113	KNOWLEDGE SHARE PRJ AU0258	\$ 75	\$ 15	\$ 11	\$ 3	\$ 69	\$ 41	\$ 2	\$ 4	\$ 2	\$ 2	\$ 4	\$ 4	\$ 227
100114	SOP-DECON PIPELINE SYS AU0259	\$ (868)	\$ 132	\$ (1,313)	\$ 83	\$ 194	\$ 245	\$ 60	\$ 150	\$ 163	\$ 80	\$ 114	\$ 65	\$ (896)
100115	IMPROVED DETECT E COLI AU0297			\$ (1,131)										\$ (1,131)
100215	MGMT CONFERENCE IN 2005 AU0425			\$ 173	\$ (172)									\$ 1
100526	UV DISINFECT WW PLANTS AU0212	\$ 18												\$ 18
100527	ENDOCRINE DISRUPT SUBST AU0217	\$ 17	\$ 97	\$ 35										\$ 149
100528	NEG. PRESSURE TRANSIENT AU0218	\$ 2,380	\$ 176	\$ 161	\$ (1,103)	\$ 211	\$ (322)	\$ 142	\$ 161	\$ 260	\$ (988)	\$ (2,743)	\$ 87	\$ (1,577)
100529	EVALUATE ORTHOPHOSPHATE AU0256	\$ 119	\$ 3			\$ 124								\$ 246
100533	CP-ALL REGULATED WATER CO'S	\$ 41	\$ 146											\$ 187
100534	DATABASE-WST WTR PLANTS AU0204	\$ 48	\$ 119	\$ 82	\$ 60	\$ 60	\$ 28	\$ 35	\$ 14	\$ 5				\$ 392
100535	CROSS-CONNECT&BACKFLOW AU0208	\$ (1,419)		\$ 19			\$ 31	\$ 36	\$ 24	\$ 57	\$ 71			\$ (1,135)
100579	STANDARD OPERATING PROCEDURE	\$ 376	\$ 141	\$ 466	\$ 373	\$ 380	\$ 333	\$ 301	\$ 396	\$ 298	\$ 388	\$ 273	\$ 572	\$ 4,298
888888	OH-BENEFITS OVERHEAD	\$ 2,439	\$ 2,330	\$ 1,737	\$ (3,077)	\$ 3,138	\$ 5,681	\$ 2,917	\$ 4,585	\$ 4,711	\$ 1,946	\$ 91	\$ 4,362	\$ 30,860

YEAR 2006

WDSBL	FORMULADESCRIPTION	1	2	3	4	5	6	7	8	9	10	11	12	Grand Total
100001	CP-ALL REGULATED CO'S (W& WW)	(\$4,306)	\$3,006	\$5,317	\$2,125	\$1,379	\$3,874	\$1,848	\$2,459	\$2,709	\$1,897	\$2,738	\$2,311	\$25,357
100003	CP-PLANT/REV/EMPLOY W/O CHILE	\$568	\$419	\$68	\$88	\$39	\$133	\$3	\$46	\$14	\$18	\$32	\$127	\$1,556
100005	CP-REV/EMPLOY W/O CHILE												\$240	\$240
100008	CP-EMPLOYEES					\$3		\$3	\$4	\$8	\$72	\$166	(\$4)	\$251
100114	SOP-DECON PIPELINE SYS AU0259	\$186	\$83	\$199	\$20	\$30	\$25			(\$433)		\$63		\$172
100526	UV DISINFECT WW PLANTS AU0212				\$16									\$16
100528	NEG. PRESSURE TRANSIENT AU0218	\$86	\$17	(\$393)	\$238	\$78	\$9			\$3		(\$1,074)	\$63	(\$963)
100529	EVALUATE ORTHOPHOSPHATE AU0256					\$80						\$41	\$142	\$262
100535	CROSS-CONNECT&BACKFLOW AU0208	\$71	\$164	\$1,095	\$406	(\$1,755)	\$75	\$185	(\$836)	\$338	\$221	\$92	(\$1,621)	(\$1,565)
100569	SEVERANCE - CORPORATE					\$11		\$3	\$72					\$87
100590	FAIL ANLY ORIEN PIPE ASM STUDY									\$41	\$101	\$47	\$31	\$219
100591	AUTO METER READING MGT STUDY									\$35	\$27	\$31	\$21	\$114
100658	SE-BUS DEVELOPMENT GENERAL					\$47	\$25	\$10			\$99		\$2	\$183
100858	MANAGE COLIFORMS & E.COLI					\$93	\$376	\$75	\$22	\$139	\$153	(\$1,141)	\$25	(\$259)
100859	LEAK REPAIR STUDY					(\$1,012)	\$21		\$3,157	\$215	\$23	\$48	(\$661)	\$1,791
100903	RECLAIMED WATER STUDY									\$125	\$245	\$342	\$509	\$1,221
100903	AWWARF AM WORKSHOP											\$7	\$165	\$172
888888	OH-BENEFITS OVERHEAD	\$452	\$484	\$565	\$442	\$430	\$416	\$485	\$406	\$609	\$493	\$485	\$528	\$5,795
999999	OH-GENERAL OVERHEAD	\$87	\$79	\$86	\$89	\$121	\$94	\$105	\$44	\$151	\$780	\$100	\$492	\$2,228
		(\$2,847)	\$4,252	\$5,938	\$3,424	(\$466)	\$5,058	\$2,717	\$5,373	\$3,955	\$4,129	\$1,976	\$2,369	\$36,877

YEAR 2007

WDSBL	FCDESC	1	2	3	4	5	Grand Total
100001	CP-ALL REGULATED CO'S (W & WW)	\$2,043	(\$229)	\$2,841	\$1,752	\$2,210	\$8,617
100003	CP-PLANT/REV/EMPLOY W/O CHILE	\$313	\$61	(\$18)	\$2	\$3	\$360
100008	CP-EMPLOYEES	\$0				\$26	\$26
100528	NEG. PRESSURE TRANSIENT AU0218	\$126	\$85	\$54	\$126	\$179	\$570
100529	EVALUATE ORTHOPHOSPHATE AU0256	\$57	\$56	\$41	\$375	\$98	\$627
100535	CROSS-CONNECT&BACKFLOW AU0208	\$125	\$237	\$494	(\$2,368)	\$427	(\$1,086)
100658	SE-BUS DEVELOPMENT GENERAL	\$5				\$51	\$56
100694	CP-BUS DEVELOPMENT GENERAL				\$16	\$20	\$36
100858	MANAGE COLIFORMS & E.COLI	\$93	\$101	\$16	(\$304)	\$16	(\$79)
100859	LEAK REPAIR STUDY	\$25	\$90	\$1,090	(\$1,351)	(\$1,924)	(\$2,070)
100898	RECLAIMED WATER STUDY	(\$260)	\$575	(\$891)	\$411	\$500	\$334
100903	AWWARF AM WORKSHOP	\$12	\$7			(\$174)	(\$155)
100918	RAPID AOC METHODS	\$24	\$15	\$9	\$31	\$36	\$115
100919	CLIMATE LEADERS PROGRAM (EPA)		\$130	\$64	\$39	\$37	\$269
100922	AEROBIC DIGESTER OPTIMIZATION	\$20	\$28	\$32	\$23	\$15	\$117
100924	PRESSURE MANAGEMENT WORKGROUP	\$12	\$72	\$54			\$138
100925	ENVIRONMENTAL MANAGEMENT	\$170	\$596	\$318	\$292	\$307	\$1,682
888888	OH-BENEFITS OVERHEAD	\$782	\$641	\$844	\$585	\$800	\$3,651
999999	OH-GENERAL OVERHEAD	\$110	\$161	\$114	\$104	\$130	\$619
100944	CRYPTOSPORIDIUM INFECTIVITY				\$24		\$24
100856	POWERPLANT DATA CONVERSION	\$3,656	\$2,626	\$5,060	(\$244)	(\$107)	\$10,991

KY Item 270a&e 2007

KY Item 270a&e 2007

American Water Works Service Company
Income Statement 12 months ended 12/31/05

Description	12 Month Actual	12 Month Plan	Variance
1 OPERATING REVENUES			
2 Water			
3 Sewer			
4 Other			
5 Management	1,067,038	1,148,463	-81,425
6 Total Revenues	1,067,038	1,148,463	-81,425
7 OPERATIONS & MAINTENANCE EXPENSE			
8 Labor	838,487	937,971	-99,484
9 Purchased Water			
10 Fuel & Power			
11 Chemicals			
12 Waste Disposal			
13 Management Fees			
14 Group Insurance	108,603	97,800	10,803
15 Pensions	6,512		6,512
16 Regulatory Expense			
17 Insurance Other Than Group			
18 Customer Accounting			
19 Rents	2,832	36,996	-34,164
20 General Office Expense	301,940	244,092	57,848
21 Miscellaneous	-256,949	-244,316	-12,633
25 Other Maintenance		6,720	-6,720
To Total Maintenance & Operations Expense	1,001,425	1,079,263	-77,838
27 Depreciation			
28 Amortization			
29 General Taxes	66,635	69,198	-2,563
30 State Income Taxes			
31 Federal Income Taxes			
32 Tax Savings Acquisition Adjustment			
33 Total Operating Expenses	1,068,060	1,148,461	-80,401
34 Utility Operating Income	-1,022	2	-1,024

American Water Works Service Company
Income Statement 12 months ended 12/31/06

Description	12 Month Actual	12 Month Plan	Variance
1 OPERATING REVENUES			
2 Water			
3 Sewer			
4 Other			
5 Management	1,432,520	1,813,475	-380,955
6 Total Revenues	1,432,520	1,813,475	-380,955
7 OPERATIONS & MAINTENANCE EXPENSE			
8 Labor	1,096,058	1,273,699	-177,641
9 Purchased Water			
10 Fuel & Power			
11 Chemicals			
12 Waste Disposal			
13 Management Fees			
14 Group Insurance	151,735	149,352	2,383
15 Pensions		20,628	-20,628
16 Regulatory Expense			
17 Insurance Other Than Group			
18 Customer Accounting			
19 Rents	100,518	35,297	65,221
20 General Office Expense	151,557	305,500	-153,943
21 Miscellaneous	-232,607	-85,569	-147,038
25 Other Maintenance			
Total Maintenance & Operations Expense	1,267,261	1,698,907	-431,646
27 Depreciation	40,358		40,358
28 Amortization			
29 General Taxes	123,878	114,570	9,308
30 State Income Taxes			
31 Federal Income Taxes			
32 Tax Savings Acquisition Adjustment			
33 Total Operating Expenses	1,431,497	1,813,477	-381,980
34 Utility Operating Income	1,023	-2	1,025

American Water Works Service Company
Income Statement YTD ended 5/31/07

Description	Yr to Date May Actual	Yr to Date May Plan	Yr to Date May Variance	Annual Forecast
1 OPERATING REVENUES				
2 Water				
3 Sewer				
4 Other				
5 Management	525,853	558,475	-32,622	1,543,047
6 Total Revenues	525,853	558,475	-32,622	1,543,047
7 OPERATIONS & MAINTENANCE EXPENSE				
8 Labor	528,286	476,897	51,389	1,203,651
9 Purchased Water				
10 Fuel & Power				
11 Chemicals				
12 Waste Disposal				
13 Management Fees				
14 Group Insurance	74,692	57,720	16,972	144,300
15 Pensions				
16 Regulatory Expense				
17 Insurance Other Than Group				
18 Customer Accounting				
19 Rents	25,545	21,036	4,509	60,638
20 General Office Expense	108,327	84,247	24,080	189,857
21 Miscellaneous	-226,805	-132,465	-94,340	-171,998
25 Other Maintenance				
Total Maintenance & Operations Expense	510,045	507,435	2,610	1,426,448
27 Depreciation	1,254	9,890	-8,636	23,736
28 Amortization				
29 General Taxes	14,555	35,030	-20,475	78,182
30 State Income Taxes				
31 Federal Income Taxes				
32 Tax Savings Acquisition Adjustment				
33 Total Operating Expenses	525,854	552,355	-26,501	1,528,366
34 Utility Operating Income	-1	6,120	-6,121	14,681

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143
ATTORNEY GENERAL'S REQUEST FOR INFORMATION
Item 271 of 312

Witness: Michael A. Miller

271. With regard to R&D projects charged to KAWC, does it realize any royalties, profits from commercialization, or other forms of reimbursement or funding? If yes, please identify the amounts of all such items in 2005, 2006, 2007 and 2008 as forecasted and explain how these amounts are recognized in the billings to KAWC. If they are not recognized, please explain why not.

Response:

The purpose of American Water's research program is to meet the informational and operational needs of its operating companies. The research program is not directed at developing or commercializing new products. Therefore there are no royalties or profits from commercialization, nor do we at this time anticipate such funds in 2007 or 2008.

Where the research needs and priorities of American Water's subsidiaries match those of outside funding agencies, we can apply for competitive research grants to partially offset our research costs. More importantly, these collaborations (typically with universities or consultants) on the research grants provide outside technical expertise that directly benefits our operations. On average, American Water offsets its research costs by about 25% through these collaborative grants. These funds directly reduce the research costs that are passed on to Kentucky American.

For electronic version, refer to KAW_R_AGDR1#271_061807.pdf