

**KENTUCKY-AMERICAN WATER COMPANY**  
**CASE NO. 2007-00143**  
**ATTORNEY GENERAL'S REQUEST FOR INFORMATION**  
**Item 114 of 312**

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**Witness: Michael A. Miller**

114. Please provide the following information regarding deferred income taxes:
- a. Calculation of all timing differences reflected in DFIT; show book amount and tax amount; indicate when amounts were included in book and in tax returns;
  - b. Tax rate applied to each timing difference;
  - c. Calculation of actual DFIT;
  - d. If different, reconcile book amount per cost of service and book amount in DFIT calculation. Identify and quantify all reconciling items.
  - e. For each year 2001 through 2007 the gross and net additions to deferred taxes. Please breakdown such additions within each year by sub-account, providing the number and name for each account and sub-account. For each item by year, please reconcile the gross to net additions and explain how that reconciliation was derived.
  - f. For 2006 and 2007 (to date) please provide information requested in (e) above for each month.

**Response:**

The Company does not have the information available at this time to respond to this question, but will provide a response as soon as possible.

For electronic version, refer to KAW\_R\_AGDR1#114\_061807.pdf

**Supplemental Response:**

- a. See Revised Exhibit 37, Schedule E filed as KAW\_APP\_EX37E\_REVISIED\_062507.pdf
- b. The state tax rate is 6% and the federal tax rate is 35%.

- c. See response to a. above.
- d. None.
- e. Please see the attached documents for the years 2005-2006. Please see the response to AGDR1#128 for 2007.
- f. The requested information is not available in the stated format. The Company records its deferred tax provision using FAS 109 (income statement approach) for monthly accounting closes. This method records the income tax provisions using the Effective Tax Rate (“EFT” approach).

For electronic version, refer to KAW\_R\_AGDR1#114\_Supplemental\_062507.pdf

**FEDERAL TAX**

**KENTUCKY AMERICAN WATER COMPANY**

	Dec 05 YTD Prov KY	*Dec 05 05 TS KY	**Dec 05 TTD Per PPA KY	Dec 05 TR TTD KY	Dec 06 YTD Prov KY	TOTAL KY
Income per Books	7,013,829				6,065,658	13,079,487
Federal income tax accrual	721,070					721,070
State & Local Income Tax Accrual net of State Income Tax Deduction	856,837					856,837
Pretax Income	8,591,736				6,065,658	14,657,394
JE# P005 Meals and Entertainment	17,352			-	16,507	33,859
JE# P015 Research and Development Expense	901		-	-	0	901
JE# P020 Nondeductible Penalties	50			-	217,010	217,060
JE# P025 Nondeductible Donations				-	0	0
JE# P030 Nondeductible Dues				-	0	0
JE# P035 Amortization of Preferred Stock Expense				-	0	0
JE# P040 Lobbying Expenses	78,901			-	26,274	105,175
Dividend Mandatory Redemption				-	0	0
Medicare Subsidy				-	(226,862)	(226,862)
JE# P070 Interest Expense-Repurchase (TWUS only)				-	0	0
Total Permanent Differences	97,204		-	-	32,929	130,133
	8,688,940				6,098,587	14,787,527
JE# T005 Uncollectible Accounts	130,539		(41,334)	89,205	26,047	156,586
JE# T010 Vacation Pay	12,218			12,218	(25,963)	(13,745)
JE# T015 Customer Deposits				0	500	500
JE# T020 Taxable Contributions (CIAC 1)	403,862		(8,530)	395,332	408,045	811,907
JE# T021 Deferred Revenue - CIAC (CIAC 2)				0	0	0
JE# T025 Taxable Advances (CAC 1)	(77,333)			(77,333)	(1,157,583)	(1,234,916)
JE# T030 Merger Expense				0	0	0
JE# T040 Rate Case Expense	105,779		62,254	168,033	331,204	436,983
JE# T045 Depreciation and Amortization (Depr 1)	(1,475,501)		315,101	(1,160,400)	(1,075,879)	(2,551,380)
JE# T046 Post In-Service Depreciation Expense (Depr 2)				0	0	0
JE# T048 Reg Asset - AFUDC Debt (Depr 4)	7,475		(575)	6,900	6,325	13,800
JE# T060 Gains and Losses (Disp 1)				0	0	0
JE# T061 Deferred Tax Gain (Disp 2)				0	0	0
JE# T062 Abandonment Losses (Disp 3)	(388,702)		273,732	(114,970)	(739,670)	(1,128,372)
JE# T063 Cost of Removal (Disp 4)	(629)			(629)	89	(540)
JE# T064 Amortization of Premature Property Losses (Disp 5)				0	0	0
JE# T070 Amortization of UPAA	21,611			21,611	19,315	40,926
JE# T086 Purchased Water - Outside (PWtr 2)				0	0	0
JE# T090 Depreciation Study				0	0	0
JE# T095 Cost of Service Study	16,911		(925)	15,986	8,570	25,481
JE# T100 Amortization of Debt Discount				0	0	0
JE# T105 Management Study				0	0	0
JE# T110 Waste Disposal	(70,323)			(70,323)	70,323	0
JE# T122 Incentive Plan (Incen 3)	(83,029)	(5,174)	(46,047)	(134,250)	23,763	(59,266)
JE# T124 Incentive Plan (Incent 5)	(42,640)		42,640	0	11,987	(30,653)
JE# T130 Regulatory Pension (Pension 1)				0	0	0
JE# T131 Regulatory Pension (Pension 2)	166,444		(496,888)	(330,444)	(581,951)	(415,507)
JE# T132 Regulatory Pension (Pension 3)	154,681		(23,152)	131,529	119,890	274,571
JE# T135 Supplemental Pension				0	0	0
JE# T140 Accrued OPEB (OPEB 1)	(137,364)		137,364	0	226,862	89,498
JE# T141 Accrued OPEB (OPEB 2)				0	(67,657)	(67,657)
JE# T142 Accrued OPEB (OPEB 3)				0	0	0
JE# T145 AFUDC (AFUDC 1)	(155,294)		(3,148)	(158,442)	(14,855)	(170,149)
JE# T146 AFUDC - Equity CWIP (AFUDC 2)	(141,648)		3,148	(138,500)	(92,759)	(234,407)
JE# T147 Amortization of Regulatory Asset (AFUDC 3)	27,872		(2,144)	25,728	23,584	51,456
JE# T150 Post AFUDC (P AFUDC 1)				0	0	0
JE# T151 Amortization of Post In-Service AFUDC (P AFUDC 2)				0	0	0
JE# T152 Pavement Repairs				0	0	0
JE# T160 Deferred Maintenance (Maint 1)	401,664		(22,945)	378,719	270,705	672,369
JE# T161 Deferred Maintenance (Maint 2)				0	0	0
JE# T165 Miscellaneous Deferred Debits (Misc 1)	857,866		(67,799)	790,067	404,366	1,262,232
JE# T166 Miscellaneous Deferred Credits (Misc 2)				0	0	0
JE# T167 Miscellaneous Deferred Credits (Misc 3)				0	0	0
OTHER AMORTIZATIONS				0	0	0

AFUDC			0		0
JE# T185 Deferred Security Costs	(2,807,536)		10,249	(2,797,287)	(2,807,536)
JE# T186 Deferred Customer Service Center Costs	(553,617)		(8,900)	(562,517)	(553,617)
JE# T187 Deferred Financial Services Costs	(530,672)		(13,417)	(544,089)	(530,672)
OTHER			0	0	0
JE# T225 Medicare Part D Reclass		349,311	(349,311)	0	0
JE# T200 Transaction Costs					0
JE# T220 JV Gain/Loss					0
<b>Total Temporary Differences:</b>	<b>(4,157,366)</b>	<b>344,137</b>	<b>(240,627)</b>	<b>(4,053,856)</b>	<b>(1,804,742)</b>
Federal taxable inc before NOL, DRD	4,531,574			4,293,845	8,825,419
Less State Income Tax Expense (Inc)	503,486			589,055	1,092,541
Federal Taxable Income	4,028,088			3,704,790	7,732,878
Current Federal Income Tax Expense @.35	1,409,831			1,296,677	2,706,507
NOL Recorded After ETR Ran	133,138				133,138
AMT Recorded After ETR Ran	133,392				133,392
Federal Effect of Pre Tax ABP 28 Calculation					0
Federal Effect of Pre Tax State Corrections ( 331,616)				116,066	116,066
<b>Total Federal Current Tax Expense Per ETR</b>	<b>1,676,361</b>			<b>1,412,743</b>	<b>3,089,103</b>
Tax Effect of Pre Tax Correction Due to The Reversal of 05 TS Bk in 06				817,515	817,515
Pre Tax Topside Tax Effect				(1,875)	(1,875)
05 TS November 06 Reversals				1,102,000	1,102,000
					-
<b>Total Current Federal Tax Expense (Income) Per G/L</b>	<b>1,676,361</b>			<b>3,330,383</b>	<b>5,006,743</b>
Total Timing Differences	(4,157,366)			(1,804,742)	(5,962,108)
State Deferred Tax	(185,263)			(172,545)	(357,808)
Total Federal Timing Differences	(3,972,103)			(1,632,197)	(5,604,300)
Deferred Federal Taxes @ .35	(1,390,236)			(571,269)	(1,961,505)
<b>Total Calculated Deferred Federal Tax Expense (Income)</b>	<b>1,390,236</b>			<b>571,269</b>	<b>1,961,505</b>
<b>Reconciling Items</b>					
Difference in Pre Tax Calc Per ETR				0	-
Deferred Tax Exp Understated Due To 05 TS Reversal ALL to Current				(1,102,000)	(1,102,000)
Record Pe Tax Adjustment	(1,302,390)			-	(1,302,390)
To Adjust June 06 Qtr ETR				-	-
Flow Thru Regulatory Assets	159,007			172,339	331,346
Excess Deferred	(59,865)			(59,865)	(119,730)
Deferred Investments Credits	3,482			3,481	6,963
NOL Recorded After ETR Ran	(133,138)				(133,138)
AMT Recorded After ETR Ran	(133,392)				(133,392)
Tax Effect of Pre Tax TS Recorded After the ETR was Run	825,890				825,890
ITC Amortization Adjustments				0	-
Unknown	(12,812)			(35,017)	(47,829)
<b>Total Federal Deferred Other Tax Expense Per ETR</b>	<b>737,018</b>			<b>(449,793)</b>	<b>287,225</b>
Fas109 Regulatory Asset/Liability Amortization 690630	72,060			146,601	218,661
Fas109 Regulatory Asset/Liability Amortization 690730 YTD ADJ					
<b>Total Deferred Tax Expense</b>	<b>809,078</b>			<b>(303,192)</b>	<b>505,886</b>
<b>Other Federal Deferred Tax Items Recorded</b>					
Prior Period Adjustment Deferred Tax Expense	378,145			(633,031)	(254,886)
Tax Effect of 04 TS Recorded After the ETR was Run	(557,911)				(557,911)
<b>Total</b>	<b>(179,766)</b>			<b>(633,031)</b>	<b>(812,797)</b>
<b>Amortization ITC</b>	<b>(95,595)</b>			<b>(84,757)</b>	<b>(180,352)</b>
<b>Other Federal Current Tax Items Recorded</b>					
Prior Period Adjustments	(478,806)			(282,058)	(760,864)
Tax Effect of 04 TS Recorded After the ETR was Run	22,230				22,230
<b>Total</b>	<b>(456,576)</b>			<b>(282,058)</b>	<b>(738,634)</b>
<b>TOTAL FEDERAL TAX EXPENSE</b>	<b>1,753,502</b>			<b>2,027,344</b>	<b>3,780,846</b>

\* Represents 05 TS included in 05 Tax Return not recorded to G/L when return filed.

\*\* Represents the difference between the amount recorded per provision and the tax return.  
The 05 Prior Period Adjustment is recorded to the G/L in the subsequent period (06).

**STATE TAX**

	Dec 05 YTD Prov KY	*Dec 05 05 TS KY	**Dec 05 TTD Per PPA KY	Dec 05 TR TTD KY	Dec 06 YTD Prov KY	TOTAL KY
Income per Books	7,013,829				6,060,650	13,074,479
Federal income tax accrual	721,070					721,070
State & Local Income Tax Accrual net of State Income Tax Deduction	856,837					856,837
	0				0	0
Pretax Income	8,591,736				6,060,650	14,652,386
JE# P005 Meals and Entertainment	17,352				16,507	33,859
JE# P015 Research and Development Expense	901					901
JE# P020 Nondeductible Penalties	50				217,010	217,060
JE# P025 Nondeductible Donations						0
JE# P030 Nondeductible Dues						0
JE# P035 Amortization of Preferred Stock Expense						0
JE# P040 Lobbying Expenses	78,901				26,274	105,175
Dividend Mandatory Redemption						0
Medicare Subsidy	0				(226,862)	(226,862)
JE# P070 Interest Expense-Repurchase (TWUS only)						
Total Permanent Differences	97,204				32,929	130,133
	8,688,940				6,093,579	14,782,519
						0
JE# T005 Uncollectible Accounts	130,539		(41,334)	89,205	26,047	156,586
JE# T010 Vacation Pay	12,218			12,218	(25,963)	(13,745)
JE# T015 Customer Deposits				0	500	500
JE# T020 Taxable Contributions (CIAC 1)	403,862		(8,530)	395,332	408,045	811,907
JE# T021 Deferred Revenue - CIAC (CIAC 2)				0		0
JE# T025 Taxable Advances (CAC 1)	(77,333)			(77,333)	(1,157,583)	(1,234,916)
JE# T030 Merger Expense				0		0
JE# T040 Rate Case Expense	105,779		62,254	168,033	331,204	436,983
JE# T045 Depreciation and Amortization (Depr 1)	(1,475,501)		315,101	(1,160,400)	(1,075,879)	(2,551,380)
JE# T046 Post In-Service Depreciation Expense (Depr 2)				0		0
JE# T048 Reg Asset - AFUDC Debt (Depr 4)	7,475		(575)	6,900	6,325	13,800
JE# T060 Gains and Losses (Disp 1)				0		0
JE# T061 Deferred Tax Gain (Disp 2)				0		0
JE# T062 Abandonment Losses (Disp 3)	(388,702)		273,732	(114,970)	(739,670)	(1,128,372)
JE# T063 Cost of Removal (Disp 4)	(629)			(629)	89	(540)
JE# T064 Amortization of Premature Property Losses (Disp 5)				0		0
JE# T070 Amortization of UPAA	21,611			21,611	19,315	40,926
JE# T086 Purchased Water - Outside (PWtr 2)				0		0
JE# T090 Depreciation Study				0		0
JE# T095 Cost of Service Study	16,911		(925)	15,986	8,570	25,481
JE# T100 Amortization of Debt Discount				0		0
JE# T105 Management Study				0		0
JE# T110 Waste Disposal	(70,323)			(70,323)	70,323	0
JE# T122 Incentive Plan (Incent 3)	(83,029)	(5,174)	(46,047)	(134,250)	23,763	(59,266)
JE# T124 Incentive Plan (Incent 5)	(42,640)		42,640	0	11,987	(30,653)
JE# T130 Regulatory Pension (Pension 1)				0		0
JE# T131 Regulatory Pension (Pension 2)	166,444		(496,888)	(330,444)	(581,951)	(415,507)
JE# T132 Regulatory Pension (Pension 3)	154,681		(23,152)	131,529	119,890	274,571
JE# T135 Supplemental Pension				0		0
JE# T140 Accrued OPEB (OPEB 1)	(137,364)		137,364	0	226,862	89,498
JE# T141 Accrued OPEB (OPEB 2)				0	(67,657)	(67,657)
JE# T142 Accrued OPEB (OPEB 3)				0		0
JE# T145 AFUDC (AFUDC 1)	(155,294)		(3,148)	(158,442)	(14,855)	(170,149)
JE# T146 AFUDC - Equity CWIP (AFUDC 2)	(141,648)		3,148	(138,500)	(92,759)	(234,407)
JE# T147 Amortization of Regulatory Asset (AFUDC 3)	27,872		(2,144)	25,728	23,584	51,456
JE# T150 Post AFUDC (P AFUDC 1)				0		0
JE# T151 Amortization of Post In-Service AFUDC (P AFUDC 2)				0		0
JE# T152 Pavement Repairs				0		0
JE# T160 Deferred Maintenance (Maint 1)	401,664		(22,945)	378,719	270,705	672,369
JE# T161 Deferred Maintenance (Maint 2)				0		0
JE# T165 Miscellaneous Deferred Debits (Misc 1)	857,866		(67,799)	790,067	404,366	1,262,232
JE# T166 Miscellaneous Deferred Credits (Misc 2)				0		0
JE# T167 Miscellaneous Deferred Credits (Misc 3)				0		0
OTHER AMORTIZATIONS				0		0

AFUDC			0		0
JE# T180 Insurance Other than Group			0		0
JE# T185 Deferred Security Costs	(2,807,536)	10,249	(2,797,287)		(2,807,536)
JE# T186 Deferred Customer Service Center Costs	(553,617)	(8,900)	(562,517)		(553,617)
JE# T187 Deferred Financial Services Costs	(530,672)	(13,417)	(544,089)		(530,672)
JE# T225 Medicare Part D Reclass	349,311	(349,311)	0		0
INTEREST			0		0
JE# T200 Transaction Costs				0	0
JE# T220 JV Gain/Loss	0			0	0
Total Temporary Differences:	(4,157,366)	344,137	(240,627)	(4,053,856)	(1,804,742)
Federal taxable inc before NOL, DRD	4,531,574			4,288,837	8,820,411
Preferred Dividends of Subs					
Preferred Dividend Paid Credit					
State Tax Depreciation in Excess of Federal	(622,216)	(1,192,792)	(1,815,008)	(616,145)	(1,238,361)
InterCompany Interest	3,283,292	(3,283,292)	0	0	3,283,292
<b>State Temporary Timing Differences</b>		<b>(4,716,711)</b>	<b>(5,868,864)</b>		
State Taxable Income	7,192,650			3,672,692	10,865,342
State Apportionment Factor	1			1	1
State Apportioned Taxable Income	7,192,650			3,672,692	10,865,342
<b>Calculated Current State Tax Expense</b>	<b>503,486</b>			<b>257,088</b>	<b>760,574</b>
Tax Effect of Pre Tax Correction Due to The Reversal of 05 TS Bk in 06	-			-	0
Pre Tax Topside Tax Effect	0			0	0
Difference in Pre Tax Calc vs ETR Due to APB 28 Calc					0
<b>Total Current State Tax Expense</b>	<b>503,486</b>			<b>257,088</b>	<b>760,574</b>
Total Timing Differences	(4,157,366)			(1,804,742)	(5,962,108)
State Only Timing Differences	2,661,076			(616,145)	2,044,931
Total State Timing Differences	(1,496,290)			(2,420,887)	(3,917,177)
Deferred State Taxes	(104,740)			(169,462)	(274,202)
<b>Calculated Deferred State Tax Expense</b>	<b>104,740</b>			<b>169,462</b>	<b>274,202</b>
<b>Reconciling Items</b>					0
Difference in Pre Tax Calc vs ETR	(280,084)			0	(280,084)
Difference in Pre Tax Calc vs ETR Due to APB 28 Calc					0
State Effective Tax Rate Over Stated Reg Asset/Liab Difference	0			0	0
Reg Asset/Liab Rate Updated					0
Flow Thru Regulatory Assets	34,195			37,062	71,257
Excess Deferred	(25,087)			(24,547)	(49,634)
Deferred Investments Credits	749			749	1,498
Unknown	(10,668)			3,083	(7,585)
<b>Total State Deferred Other Tax Expense Per ETR</b>	<b>(176,155)</b>			<b>185,809</b>	<b>9,654</b>
Fas109 Regulatory Asset/Liability Amortization 690730	38,076			24,876	62,952
Fas109 Regulatory Asset/Liability Amortization 690730 YTD ADJ	0			(13,200)	(13,200)
Tax Effect of Pre Tax TS Recorded After the ETR was Run	201,656				201,656
<b>Total State Deferred Tax Expense</b>	<b>63,577</b>			<b>197,485</b>	<b>261,062</b>
<b>Other State Deferred Tax Items Recorded</b>					
Prior Period Adjustment Deferred Tax Expense	192,339			132,722	325,061
Tax Effect of 04 TS Recorded After the ETR was Run	676,792			-	676,792
<b>Total Deferred Tax Expense</b>	<b>932,708</b>			<b>330,207</b>	<b>1,262,915</b>
<b>Other State Current Tax Items Recorded</b>					
Prior Period Adjustments	(382,657)			(160,808)	(543,465)
Tax Effect of 04 TS Recorded After the ETR was Run	5,711				5,711
<b>Total Other State Current Tax</b>	<b>(376,946)</b>			<b>(160,808)</b>	<b>(537,754)</b>
<b>TOTAL STATE TAX EXPENSE</b>	<b>1,059,248</b>			<b>426,488</b>	<b>1,485,735</b>