

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

**COMMISSION STAFF'S FOURTH
SET OF INFORMATION REQUESTS
Item 1 of 5**

Witness: Sheila Miller

1. On June 25, 2007, KAWC filed revisions to Exhibit 37 of its Application. The tables below compares the amounts listed on the original exhibit and the revised exhibit. For each revision to the original exhibit, describe the revision and explain why the revision was required.

TABLE I			
	Original Exh. 37	Adjustment	Revised Exh. 37
Rate Base			
Plant in Service	366,185,081	-	366,185,081
Acquisition Adjustment	38,065	-	38,065
Accumulated Depreciation	(85,950,991)	(8,672,196)	(94,623,187)
Accumulated Amortization	(7,674)	7,674	-
Construction Work in Process	23,186,818	-	23,186,818
Working Capital Allowance	4,403,000	(807,000)	3,596,000
Other Working Capital Allowance	523,761	-	523,761
Contributions in Aid of Construction	(46,562,799)	-	(46,562,799)
Customer Advances	(21,380,918)	-	(21,380,918)
Deferred Taxes	(30,854,190)	-	(30,854,190)
Deferred Investment Tax Credits	(94,805)	-	(94,805)
Deferred Maintenance	1,741,451	-	1,741,451
Deferred Debits	1,897,923	-	1,897,923
Other Rate Base Elements	<u>(1,552,510)</u>	<u>-</u>	<u>(1,552,510)</u>
Total Rate Base	211,572,212	(9,471,522)	202,100,690

TABLE II
Operating Statement Revenues

	Original Exh. 37	Adjustment	Revised Exh. 37
Water Sales	48,789,765	453,140	49,242,905
Other Operating Revenue	<u>3,760,392</u>	<u>-</u>	<u>3,760,392</u>
Total Revenues	<u>52,550,157</u>	<u>453,140</u>	<u>53,003,297</u>
Expenses			
Labor	6,318,580	(70,103)	6,248,477
Purchased Water	477,463	-	477,463
Fuel and Power	2,986,277	-	2,986,277
Chemicals	1,505,218	(2)	1,505,216
Waste Disposal	262,237	-	262,237
Management Fees	6,246,717	(45,523)	6,201,194
Group Insurance	1,887,912	(11,017)	1,876,895
Pensions	503,733	(1,049)	502,684
Regulatory Expense	292,196	(1)	292,195
Insurance Other Than Group	671,331	(7,421)	663,910
Customer Accounting	1,461,534	(85,162)	1,376,372
Rents	52,165	-	52,165
General Office Expense	475,196	-	475,196
Miscellaneous Expense	3,034,793	(32,504)	3,002,289
Maintenance-Other	1,507,210	-	1,507,210
Depreciation	8,038,653	-	8,038,653
Amortization	450,971	-	450,971
Property Taxes	3,054,079	(325,029)	2,729,050
PSC Fee	85,184	748	85,932
Payroll	487,918	(5,131)	482,787
Miscellaneous Tax		-	
State Income Tax	398,263	88,558	486,821
Federal Income	<u>2,046,597</u>	<u>447,089</u>	<u>2,493,686</u>
Total Expenses	<u>42,244,227</u>	<u>(46,547)</u>	<u>42,197,680</u>
Operating Income	<u>10,305,930</u>	<u>499,687</u>	<u>10,805,617</u>

Response:

See attached.

For electronic version, refer to KAW_R_PSCDR4#1_091407.pdf

Kentucky American Water
PSC DR 4 Question 1

Accumulated Depreciation - Adjusted for net negative salvage.

Accumulated Amortization - Eliminated UPIS Amortization to correct its erroneous inclusion in the original filing.

Working Capital Allowance - Original filing utilized incorrect post payment or (lead) days on some expenses- Adjusted post payment or (lead) days for the following:

Service Company charges; group insurance; OPEB's; Insurance Other than Group;
Other Operating Expenses; Payroll FUTA; Other taxes; Income Taxes-current SIT; Interest
Expense long term debt; Interest Expense short term debt; preferred dividends.

Working capital was also adjusted for corrections to revenues and expenses that were made in the revised filing.

Labor - Adjusted employees hours and dollars for time charged to sewer activities.

Richard Buchanan	\$7,576
Shana Carr	2,371
Tim Coy	5,807
Marshall Gibson	3,352
Dillard Griffin	1,750
David Shehee	1,479
Joe White	10,191
Eliminated Anthony Callan	<u>37,577</u>
	\$70,103

Management Fees - Adjusted regional management fees which were originally overstated by \$45,523.
The monthly amounts for regional management fees were incorrect in original filing due to a calculation error.

Group Insurance:

Adjustment due to reduction in labor dollars:	3,240
OPEB's adjusted for capitalization from 17% to 18.41%:	7,783

Pensions - Adjusted due to change in labor.

Insurance other than group - Correction to worker compensation calculation.

Original calculation included total labor on the O & M labor line which overstated the calculation.

Customer Accounting - Adjusted uncollectible % from .88% in budget to three year average of .85%.

Original filing \$503,725 less revised amount of \$418,563 = \$85,162.

Miscellaneous Expense - Adjustment to defined compensation plan.

Original calculation included all employees hired after 1/1/01 and it should have included only hourly hired after 1/1/01 and salary hired after 1/1/06.

Original filing of \$145,405 less revised amount of \$112,903 = \$32,502.

Property Taxes - The 2006 tax amount for Bourbon county was entered incorrectly making the

2006 tax payments overstated in the case. The tax payments are divided by the tax base to arrive at an effective tax rate or ratio. Thus the ratio was calculated at a higher rate than it should have been. That ratio is used to multiply the tax base in 2006 and 2007 to arrive at a monthly tax payment which resulted in a higher amount in the original filing.

Also, the change in accumulated depreciation to rate base reduced the tax base for December 2007 making the monthly 2007 amount less in the final calculation.

Overall, with the two corrections, the property taxes were reduced by \$325,029.

PSC Fee- In the revised filing an adjustment was made to the billing determinants for fire service.

The PSC fee was based on forecasted revenues at present rates. The result was a slight increase in the PSC fee.

Payroll - The reduction in labor resulted in a reduction to the payroll taxes.

State & Federal Income Taxes - The difference is due to the increase in present rate revenues, offset by the reduction in expenses, and the lower interest charge due to the decrease in rate base.

The overall effect is an increase in taxable income resulting in an increase in state and federal income taxes.