

Exhibit___(MJM-3)

Rate Base

Index

<u>Schedule</u>	<u>AG Adjustment No.</u>	<u>Description</u>
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Schedule 3	2	Adjustment to Cash Working Capital

KENTUCKY AMERICAN WATER COMPANY
FUTURE TEST YEAR ENDING NOVEMBER 30, 2008
RATE BASE SUMMARY

Line No.	Rate Base Component	Company Claim 1/	AG Recommended Position	Adjustment
1				
2	Utility Plant In Service	\$ 366,185,081	\$ 366,185,081	-
3				
4	Property Held for Future Use	-	-	-
5				
6	Utility Plant Acquisition Adjustments	38,065	38,065	-
7				
8	Accumulated Depreciation	(94,623,187)	(94,209,638) 2/	413,549
9				
10	Accumulated Amortization	-	-	-
11				
12	Net Utility Plant In Service	\$ 271,599,959	\$ 272,013,508	\$ 413,549
13				
14				
15	Construction Work in Progress	23,186,818	23,186,818	-
16				
17	Working Capital Allowance	3,596,000	3,327,000 3/	(269,000)
18				
19	Other Working Capital Allowance	523,761	523,761	-
20				
21	Contributions in Aid of Construction	(46,562,799)	(46,562,799)	-
22				
23	Customer Advances	(21,380,918)	(21,380,918)	-
24				
25	Deferred Income Taxes	(30,854,190)	(30,854,190)	-
26				
27	Deferred Investment Tax Credits	(94,805)	(94,805)	-
28				
29	Deferred Maintenance	1,741,451	1,741,451	-
30				
31	Deferred Debits	1,897,923	1,897,923	-
32				
33	Other Rate Base Elements	(1,552,510)	(1,552,510)	-
34				
45	Jurisdictional Rate Base	\$ 202,100,690	\$ 202,245,239	\$ 144,549

Sources:

- 1/ KAWC Schedule B-1, p. 2 of 2.
- 2/ Accumulated depreciation as calculated by "KAW_R_AGDR2#6_RB07_071607.xls" when AG recommended depreciation rates are used. See Schedule 2.
- 3/ See Schedule 3.

**KENTUCKY AMERICAN WATER COMPANY
FUTURE TEST YEAR ENDING NOVEMBER 30, 2008**

AG Adjustment No. 1

**Adjustment to Accumulated Depreciation
to Reflect AG Recommended Depreciation Rates**

<u>Line</u>	<u>Description</u>	<u>Amount</u>	
1	Accumulated Depreciation per Company	\$ 94,623,187	1/
2	Accumulated Depreciation per AG	<u>94,209,638</u>	2/
3	Decrease to Accumulated Depreciation (L. 1 - L. 2)	<u>\$ 413,549</u>	

Sources:

- 1/ KAWC Schedule B-1, p. 2 of 2.
- 2/ Accumulated depreciation as calculated by KAW_R_AGDR2#6_RB07_071607.xls when AG recommended depreciation rates are used.

KENTUCKY-AMERICAN WATER COMPANY
 FUTURE TEST YEAR ENDING NOVEMBER 30, 2008

AG ADJUSTMENT NO. 2
 AG ADJUSTMENT TO CASH WORKING CAPITAL
 WORKING CAPITAL - LEAD/LAG STUDY

Lines	Description	Company Proposed 1/		AG Recommended	
		Total Water		Total Water	
1	Total Operating Funds	64,354,398		63,558,192	
2					
3	Average Daily Operating Funds	176,313		174,132	
4					
5	Composite Average Days Interval Between:				
6					
7	(A) Date Service Furnished and Date Collections Deposited	43.18	Days	43.18	
8					
9	(B) Date Expenses Incurred and Date of Payment	22.81	2/ Days	24.07	
10					
11	(C) Net Interval	20.37		19.11	
12					
13	Total Working Capital	\$3,590,875		\$3,327,049	
14					
15	Use	\$3,596,000	3/	\$3,327,000	
16					
17	Difference			(269,000)	
18					

KENTUCKY-AMERICAN WATER COMPANY
FUTURE TEST YEAR ENDING NOVEMBER 30, 2008

AG ADJUSTMENT NO. 2
AG ADJUSTMENT TO CASH WORKING CAPITAL
WORKING CAPITAL - LEAD/LAG STUDY

Lines	Description	Company Proposed 1/			AG Recommended			
		Amount Total	Post Payment or (Lead) Days	Dollar Days Total	AG Adjustment	Amount Total	Post Payment or (Lead) Days	Dollar Days Total
19								
20								
21								
22	Payrolls Charged to Expense - Union/ATS Group	4,260,316	12.00	51,123,792	(12,497) 4/	4,247,819	12	50,973,828
23	Payrolls Charged to Expense - Salaried	1,988,161	12.00	23,857,932	(252,550) 5/	1,735,611	12	20,827,332
24	Total Payroll	6,248,477		74,981,724	(265,047)	5,983,430		71,801,160
25								
26	Fuel and Power	2,986,277	26.96	80,510,027		2,986,277	27	80,510,027
27	Chemicals	1,505,218	6.65	10,009,700		1,505,218	7	10,009,700
28	Service Company Charges	6,201,194	0.40	2,480,478		6,201,194	0	2,480,478
29	Group Insurance	1,426,861	(6.81)	(9,716,923)	(114,696) 6/	1,312,165	(7)	(8,935,844)
30	Opeb	450,034	23.13	10,409,286		450,034	23	10,409,286
31	Insurance Other than Group	663,910	(44.70)	(29,676,777)		663,910	(45)	(29,676,777)
32	Transportation Expense	567,498	13.56	7,695,273		567,498	14	7,695,273
33	Rents	52,165	18.39	959,314		52,165	18	959,314
34	Telephone Expense	186,090	10.31	1,918,588		186,090	10	1,918,588
35	Postage Expense	480,000	23.47	11,265,600		480,000	23	11,265,600
36	Stock E	90,807	28.03	2,545,320		90,807	28	2,545,320
37	Maintenance Expense, excluding Amortizations	1,122,962	18.54	20,819,715		1,122,962	19	20,819,715
38	Amortization	293,441	-	-		293,441	-	-
39	Uncollectibles	418,563	-	-		418,563	-	-
40	Waste Disposal	262,237	-	-		262,237	-	-
41	Other Operating Expenses	4,474,048	24.44	109,345,729		4,474,048	24	109,345,729
42	Total O & M Expenses	27,429,783		293,547,054	(379,743)	27,050,040		291,147,569
43								
44	Depreciation and Amortization	8,502,675	-	-	(416,463) 7/	8,086,211	-	-
45	Taxes, Other than Income							
46	Payroll - FUTA	6,096	69.86	425,867		6,096	70	425,867
47	Payroll - SUTA	5,331	75.14	400,571		5,331	75	400,571
48	Payroll - FICA	471,360	15.00	7,070,400		471,360	15	7,070,400
49	Other	2,814,982	70.95	199,722,973		2,814,982	71	199,722,973
50	Income Taxes - Current - SIT	958,767	52.75	50,574,959		958,767	53	50,574,959
51	Income Taxes - Current - FIT	5,257,239	30.13	158,400,611		5,257,239	30	158,400,611
52	Deferred Income Taxes	1,002,045	-	-		1,002,045	-	-
53	Interest Expense - Long - Term Debt	6,649,112	119.64	795,499,760		6,649,112	120	795,499,760
54	Interest Expense - Short - Term Debt	404,202	14.60	5,901,349		404,202	15	5,901,349
55	Preferred Dividends	444,622	46.40	20,630,461		444,622	46	20,630,461
56	Net Income	10,408,185	-	-		10,408,185	-	-
57								
58	Net Operating Funds	64,354,398		1,532,174,005	(796,206)	63,558,192		1,529,774,520
59								
60	Average Days Interval between Date Expenses are Incurred and Date of Payment			22.81 2/				24.07

KENTUCKY-AMERICAN WATER COMPANY
FUTURE TEST YEAR ENDING NOVEMBER 30, 2008

AG ADJUSTMENT NO. 2
AG ADJUSTMENT TO CASH WORKING CAPITAL
WORKING CAPITAL - LEAD/LAG STUDY

Lines	Description	Company Proposed 1/				AG Recommended			
		Total Water	Revenues Total	Median Service Days	Dollar Days Total	Total Water	Revenues Total	Median Service Days	Dollar Days Total
61									
62									
63									
64									
65									
66	Monthly - Arrears Full Bills		45,915,718	15.21	698,378,071		45,915,718	15.21	698,378,071
67									
68	Other Revenues		3,950,872	34.54	136,463,119		3,950,872	34.54	136,463,119
69									
70	Fire Service		3,327,187	(15.26)	(50,772,874)		3,327,187	(15.26)	(50,772,874)
71									
72	Total		53,193,777		784,068,316		53,193,777		784,068,316
73									
74									
75	Average Median Service Days		14.74				14.74		
76									
77	Number of Days between the Reading Date and the								
78	Billing Date		4.17				4.17		
79									
80	Number of Days between the Billing Date and the								
81	Date the Bills are Paid		24.27				24.27		
82									
83	Total Average Days' Interval between Number of Days								
84	from Date Services are Furnished to Date Collections								
85	are Received		43.18				43.18		

1/ KAWC Schedule B-5.2, pp. 4-6, summed for total company.
2/ Company used this for each division. It is the Lexington number.
3/ Difference due to composite calculation.
4/ See Exhibit (MJM-4), Schedule 7.
5/ See Exhibit (MJM-4), Schedule 4.
6/ See Exhibit (MJM-4), Schedule 5.
7/ See Exhibit (MJM-4), Schedule 3.