

Exhibit___(MJM-4)
Operating Income Adjustments

Index

<u>Schedule</u>	<u>AG Adjustment No.</u>	<u>Description</u>
Schedule 1	3	Adjustment for Consolidated Income Tax Savings
Schedule 2	4	Adjustment for Excess Management Fees
Schedule 3	5	Adjustment to Depreciation Expense
Schedule 4	6	Adjustment to Incentive Pay
Schedule 5	7	Adjustment to Group Insurance
Schedule 6	8	Adjustment to Business Development Management Fees
Schedule 7	9	Adjustment for Wastewater Technician
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**Kentucky American Water
 Future Test Year Ending November 30, 2008**

AG Adjustment No. 3

Consolidated Income Tax Adjustment

	2003	2004	2005
	(A)	(B)	(C)
1 Positive Taxable Income	\$ 134,138,588	\$ 157,986,815	\$ 247,465,686
2 KAWC Taxable Income	2,123,369	-	3,896,807
3 Percent KAWC	1.58%	0.00%	1.57%
4 Tax Losses 1/	275,913,511	200,843,042	210,636,379
5 Tax Loses Allocated to KAWC	4,359,433	-	3,306,991
6 Three Year Average	2,555,475		
7 Federal Income Taxes @ 35%	894,416		

Sources:

1/ Response to PSC DR 3-52

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143
COMMISSION STAFF'S THIRD
SET OF INFORMATION REQUESTS
Item 52 of 54

Witness: Michael Miller

52. Provide a schedule for each of the past five years that shows:
- a. The companies with whom Kentucky-American filed a consolidated income tax return for the tax year.
 - b. The taxable income or tax losses of each company in the tax year.
 - c. Whether a state utility regulatory commission regulates the listed company.

Response:

- a. See attached schedule.
- b. See the response to part a. above.
- c. See the response to part a. above.

For electronic version, refer to KAW_R_PSCDR3#52_071607.pdf

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AMERICAN WATER WORKS COMPANY
CONSOLIDATED TAX SAVINGS CALCULATION

	2001	2002	2003	2004	2005
<u>NON OPERATING COMPANIES</u>					
AMER WATER WORKS CO , INC	(\$25,623,391)	\$45,372,482	(\$117,530,020)	(\$40,478,053)	(\$30,559,831)
GREENWICH	(690)				
THAMES WATER AQUA US HOLDINGS, INC			(60,519,073)	(106,961,914)	(106,933,653)
AWW SERVICE CO	(1,632,593)	(171,974)	(2,305,282)	6,924,158	(3,336,560)
AMERICAN WATER SERVICES CAPITAL CORP			6,139,085	(2,637,491)	11,921,347
E'TOWN CORPOATION			(19,601,116)	(17,250,214)	(18,630,728)
THAMES WATER HOLDINGS, INC			1,554,959	(126,253)	(1,435,003)
THAMES WATER NORTH AMERICAN, INC			(12,534,224)	374,873	(2,054,600)
ELIMINATION ENTRY	252,816	321,168	242,014	172,663	
ADJUSTMENTS			(11,550,322)	(3,554,944)	(8,384,131)
<u>NON REGULATED COMPANIES</u>					
AWS CORP			(93,473)	(104,345)	495,511
APPLIED WASTEWATER MANAGEMENT, INC			(728,138)	(556,024)	(404,061)
APPLIED WASTEWATER SERVICES, INC			18,902	(562,706)	(304,213)
AMERICAN ANGLIAN ENVIRONMENTAL	(14,889)	(29,703)	(75,429)	(34,169)	
AMERICAN WATER SERVICES ODM, INC		(20,932)	(37,316)	(50,725)	(80,161)
AMERICAN WATER RESOURCES	2,956,710	6,248,007	4,710,409	7,880,225	19,454,451
AMERICAN WATER SERVICES, INC	(1,850,233)	(16,366,994)	(21,442,518)	(18,940,041)	(29,557,184)
AMERICAN WATER SERVICES (USA), INC		(2,608,118)	(1,270,763)	(46,540)	4,888
AMERICAN WATER SERVICES ENG, INC	(59,190)	(167,158)	(128,456)	(145,954)	(117,290)
AMERICAN WATER SERVICES INDUSTRIAL OPERATIONS	(187,301)	(932,497)	189,519	(895,936)	(213,910)
AMERICAN WATER SERVICES OPERATIONS &	305,671	(6,025,851)	(6,647,139)	(4,452,689)	(4,653,014)
AMERICAN WATER SERVICES RESIDUALS	(38,681)	(4,353,548)	(4,343,718)	(1,993,528)	(1,533,373)
AMERICAN WATER SERVICES UNDERGROUND INFRASTRUC	607,211	2,317,753	1,922,456	1,763,294	2,621,694
AZURIX CMD, INC	22,124				
AZURIX INDUSTRIALS CORP	34,333				
AZURIX NORTH AMERICA (USA), INC	(948,751)				
AZURIX NORTH AMERICA CORP	(16,620)	(96,573)			
AWS INDUSTRIALS CORP		(39,004)	(3,896)	(6,045)	(6,045)
DITTMAN-MERKA ENTERPRISES, INC	(5,778)	(34,666)	(33,734)	(34,666)	(18,535)
MAGNOLIA CONSTRUCTION COMPANY, INC	(17,476)	(75,833)	(4,186)	(10,024)	(3,548)
APPLIED WATER MANAGEMENT OF DELAWARE, INC				(48,428)	72,681
MASSACHUSSETTS RESORCE CO (applied water mgmt)	327,182	85,712	1,433,896	2,478,084	2,220,524
PHILIP AUTOMATED MANAGEMENT CONTROLS, INC	(111,029)	(633,779)	(1,104,205)	(609,226)	(423,606)
TRIMAX RESIDUALS MANAGEMENT (USA) INC	240,154	1,684,853	128,302	(1,200,474)	(1,840,912)
ASHBROOK CORPORATION			1,637,395	639,948	4,441,126
E'TOWN PROPERTIES, INC			32,681	(135,979)	(139,297)
F B LEOPOLD COMPANY, INC			1,704,833	3,478,011	
HYDRO-AEROBICS, INC			(354,560)	75,490	750,000
USEG HOLDINGS, INC			(15,600,000)		
U-LINER MID AMERICA, INC		(521,586)			
UTILITY MANAGEMENT & ENGINEERING, INC	(881)	(6,085)	(5,943)	(6,674)	(6,524)
Laurel Oak Properties					1,222,103
<u>REGULATED OPERATING COMPANIES</u>					
ELIZABETHTOWN WATER COMPANY			38,947,391	35,369,689	12,735,276
THE MOUNT HOLLY WATER COMPANY			636,395	(18,756)	(410,593)
HAMPTON	768,177	(358,124)			
CONNECTICUT- AMERICAN	3,968,037	(688,132)			
MASSACHUSSETTS AMERICAN - 1	320,537	(706,134)			
SALISBURY	585,852	58,511			
AMERICAN LAKE WATER COMPANY		1,013,557	1,687,532	502,250	2,930,768
PENNSYLVANIA - AMERICAN - 1	51,108,699	40,851,346	30,170,102	36,266,349	73,738,289
NEW YORK AMERICAN	988,200	(354,848)			
LONG ISLAND WATER	4,420,092	1,512,238	(2,232,500)	(4,369,262)	356,766
NEW JERSEY-AMERICAN	48,792,387	31,835,102	8,283,663	19,544,332	37,456,743
IOWA - AMERICAN	2,745,483	3,668,313	1,682,860	(607,619)	1,592,967
ILLINOIS - AMERICAN	19,553,270	10,124,499	6,752,828	20,484,856	15,540,324
INDIANA - AMERICAN	21,203,339	11,524,369	7,878,387	16,024,866	14,720,925
MISSOURI - AMERICAN	5,521,838	22,171,706	7,276,080	(14,187,108)	22,085,024
JEFFERSON CITY WATER WORKS CO	1,330,133				

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ST. LOUIS COUNTY	26,705,375				
OHIO - AMERICAN	505,609	192,528	(1,707,304)	(4,359,015)	(3,668,505)
MICHIGAN - AMERICAN	190,068	187,599	236,187	(141,741)	57,117
CALIFORNIA AMERICAN	7,505,015	2,823,799	(4,340,682)	2,866,559	(1,405,734)
ARIZONA - AMERICAN	18,928	(1,860,920)	(6,351,952)	(6,535,608)	(3,147,875)
NEW MEXICO - AMERICAN	1,077,920	1,578,661	1,565,133	(228,549)	1,387,782
SOUTHWEST UTILITIES, INC	9,585	167,065	(12,777)	(373,423)	(60,573)
HAWAII - AMERICAN	1,021,369	686,327	(62,335)	(335,798)	1,144,621
WALKER WATER WORKS, INC	7,651	119,573	(49,281)	(233,447)	(127,812)
EDISON WATER COMPANY			(507,096)	(596,549)	(31,472)
LIBERTY WATER COMPANY			1,835,276	785,967	717,958
VIRGINIA - AMERICAN	3,025,831	3,100,291	1,353,477	571,271	4,913,310
UNITED WATER VIRGINIA	179,207	176,161	221,430	133,725	145,591
WEST VIRGINIA - AMERICAN	3,042,521	234,863	(936,411)	(4,322,760)	7,476,993
BLUEFIELD VALLEY	(35,332)	(53,064)	(73,646)	(75,987)	30,060
MARYLAND - AMERICAN	676,275	164,924	649,846	743,575	247,498
KENTUCKY - AMERICAN	6,072,890	4,337,965	2,123,369	(1,297,080)	3,896,807
TENNESSEE - AMERICAN	3,858,291	2,158,771	3,124,181	906,630	3,086,542

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

AG Adjustment No. 4

Eliminate Excess Management Fees

<u>Line</u>	<u>Description</u>	<u>Amount</u>
1	Excess Management Fees 1/	\$ 1,002,236
2	Less: Business Development 2/	<u>(79,365)</u>
3	Total To Be Removed (L. 1 + L. 2)	922,871
4	Adjustment - Pre Tax	\$ (922,871)
5	Tax Rate	38.90%
6	Tax Effect (L. 4 * L. 5)	<u>\$ 358,997</u>
7	Adjustment - Post Tax (L. 4 + L. 6)	<u><u>\$ (563,874)</u></u>
8	Revenue Conversion Factor	1.65249
9	Revenue Requirement (L. 7 * L. 8)	<u><u>\$ (931,798)</u></u>

Sources:

1/ Response to Staff 3-13

2/ See Schedule 6.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143
COMMISSION STAFF'S THIRD
SET OF INFORMATION REQUESTS
Item 13 of 54

Witness: Michael Miller

13. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 22, page 3 of 4.
- a. Management Fees in the current filing are stated as \$6,246,717. Note 1 references Exhibit MAM-7 where, at page 1 of 2, Management Fees are stated as \$4,064,421. Reconcile these differences and explain why the \$6,246,717 should not replace the \$4,064,421 on Exhibit MAM-7, which results in a negative savings or cost of \$1,343,504 ($\$9,296,847 + \$6,246,717 - \$14,200,060$).
 - b. Note 2 explains that a portion of the increase in Management Fees requested in this case over the amount allowed by the Commission in Case No. 2004-00103 is attributable to 4 percent pay raises, medical cost increases of 8 to 10 percent, and pension cost increases of up to 150 percent.
 - (1) Quantify the increase in management fees that is attributable to each factor stated in Note 2.
 - (2) Quantify the increase in management fees requested in this case over those allowed in Case No. 2004-00103 that is attributable to the increased work-hours of Service Company personnel assigned or allocated to Kentucky-American. This response shall include the number of work-hours allocated or assigned to Kentucky-American by each Service Company in the forecast period of this case as compared to that of the forecast in Case No. 2004-00103, with explanations of all increases.
 - c. List all duties that the Service Companies will perform on Kentucky-American's behalf in the forecasted period of this case for which the proposed management fees will be charged that Kentucky-American employees performed during the forecasted period of Case No. 2004-00103.
 - d. At Exhibit MAM-7, page 1 of 2, of his written testimony, Mr. Miller refers to \$1,321,183 of management fees approved in Case No. 2000-00120. In Case No. 2000-00120,¹ Kentucky-American requested service company fees of \$1,021,021 and the Commission allowed a recovery of only \$988,522. State how Mr. Miller determined the allowed level to be \$1,321,183.

Response:

- a. The 4,064,421 shown on Exhibit MAM-7 is incorrect. Attached to this response is a revised Exhibit MAM-7 which includes the correction to reflect forecasted test-year AWWSC charges of \$6,246,717. Mr. Miller will be providing a correction to his Direct Testimony to reflect the changes made to the Exhibit. The revised

¹ Case No. 2000-00120, Application of Kentucky-American Water Company to Increase Its Rates (Ky. PSC Nov. 28, 2000) at 49.

Exhibit also corrects several cell calculations that were discovered in reviewing the Exhibit. The original Exhibit MAM-7 used a blended inflation factor for AWWSC charges of 4.5%. Based on the information requested in part b. below regarding the actual increases for AWWSC pensions, OPEB's and group insurance, the 2001 AWWSC charges have been separated into those components and have been inflated to reflect the cost increase for those components. The footnote added to the Exhibit explains the calculations and the basis for the calculations, and page 2 of the Revised Exhibit provides the calculations of those cost increase factors. The Revised Exhibit also includes adjustments necessary to make a meaningful comparison of 2001 to forecasted test-year costs along with explanations of those necessary adjustments.

- b. (1) Please see the attached schedule and the information added to Page 2 of the Revised Exhibit MAM-7 referenced in part a. above.
- (2) Please see the attached schedule.
- c. Please see the schedule attached to part b (2) above. As identified on that schedule the following functions are included in the AWWSC charges for this filing that were included in the duties of KAWC employees in the previous rate case:
 - Employee Benefit Administration
 - Customer Accounting Services (Service Order Scheduling & Completion)
 - Engineering Management
 - Human Resource Management
 - Operations Management
 - Risk Management
 - Water Quality Management
- d. As stated in the title to column on page 1 of Exhibit MAM-7, the \$1,321,183 was the actual AWWSC charges for 2001. The AWWSC charges authorized for the forecasted test-year in Case No. 2000-00120 were not reflective of the actual charges for 2001.

For electronic version, refer to KAW_R_PSCDR2#13_071607.pdf

Exhibit MAM-7
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KAWC Actual Loaded Labor Costs

	2001	2002	2003	2004	2005	2006	Budget 2007	Budget 2008
AVG. # Employees	145	143,25	128,42	118,58	117,92	124,75	137,00	137,00
Group Insurance	1,303,786	1,488,185	1,580,403	1,559,089	1,608,346	1,644,303	1,653,852	1,726,792
Pensions	356,713	424,938	800,534	713,561	782,335	748,274	554,137	488,193
Payroll Taxes	443,276	441,053	429,325	386,469	378,891	403,803	525,874	546,911
401(K)	85,232	92,973	92,388	72,126	78,071	109,606	94,980	99,828
Fully Loaded Cost	2,103,920	1,893,123	2,380,937	2,272,650	2,390,681	2,392,577	2,207,988	2,227,885

Cost per Employee

	2001	2002	2003	2004	2005	2006	Budget 2007	Budget 2008
Group Insurance	8,987	10,249	12,211	13,148	13,639	13,181	12,072	12,619
Pensions	2,469	2,966	6,186	6,018	6,634	5,998	4,045	3,644
Payroll Taxes	3,055	3,079	3,317	3,259	3,220	3,237	3,838	3,992
401(K)	587	648	637	608	662	879	683	729
Fully Loaded Cost per employee	14,501	16,294	21,714	22,425	23,484	22,416	19,955	20,255



**Group Insurance
 Pensions
 Payroll Taxes
 401(K)
 Fully Loaded Cost per customer**

	2001	2002	2003	2004	2005	2006	Budget 2007	Budget 2008
Group Insurance	9,17	16,36	22,12	37,10	42,25	47,75	45,75	45,75
Pensions	0	18,708	35,560	27,364	81,108	304,651	385,761	356,548
Payroll Taxes	35,871	78,215	137,719	245,194	326,832	378,891	361,107	361,107
401(K)	63,053	124,794	182,977	316,352	383,380	471,866	502,615	562,829

Cost per Employee

	2001	2002	2003	2004	2005	2006	Budget 2007	Budget 2008
Pension	0	1,144	1,588	738	1,920	6,380	8,650	7,783
OPERS	3,890	4,842	8,226	6,809	7,712	7,883	7,883	7,883
Group Insurance	6,876	7,628	8,272	8,527	9,311	9,892	10,988	12,304

**Pensions
 OPEB's
 Group Insurance**



**Kentucky American Water
 Response to PSCDR3#13 b (1)**

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Budget 2007</u>	<u>Fore. Test-yr. 2008</u>
Labor	871,980	1,638,096	2,091,188	2,787,120	2,732,410	2,996,259	3,116,109	3,240,753
Pension	0	18,708	35,350	27,364	81,108	304,651	396,751	356,548
OPEB's	35,671	79,215	137,719	245,194	325,832	376,891	361,107	361,107
Group Insurance	63,053	124,794	182,977	316,352	393,390	471,866	502,615	562,929
Other Expense	350,479	1,325,492	674,451	2,401,475	2,361,694	2,462,748	2,094,374	1,725,380
Total AAWWS Charges to KAWC	1,321,183	3,186,305	3,121,685	5,777,505	5,894,434	6,612,415	6,469,956	6,246,717
AAWWS Charges Recognized for Rates	932,968				3,800,677			6,246,717
<u>Cost per Employee</u>								
Pension	0	1,144	1,598	738	1,920	6,380	8,650	7,793
OPEB's	3,890	4,842	6,226	6,609	7,712	7,893	7,893	7,893
Group Insurance	6,876	7,628	8,272	8,627	9,311	9,882	10,986	12,304
<u>Cost Increase factors:</u>		<u>% Increase</u>	<u>% Increase</u>	<u>% Increase</u>	<u>% Increase</u>	<u>% Increase</u>	<u>% Increase</u>	<u>% Increase</u>
Pensions		#DIV/0!	1.398	0.462	2.603	3.323	1.356	0.901
OPEB's		1.245	1.286	1.062	1.167	1.023	1.000	1.000
Group Insurance		1.109	1.084	1.031	1.092	1.061	1.112	1.120
Total AAWWS Hours Charged	19,067.01	34,026.40	46,017.33	81,619.23	92,942.34	105,060.13	100,900.00	100,900.00
	9.17	16.36	22.12	37.10	42.25	47.75	45.75	45.75

Note 1: 2008 level requested in current case

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

AG Adjustment No. 5

Reflect AG Recommended Depreciation Rates

<u>Line</u>	<u>Description</u>	<u>Amount</u>	
1	Company Depreciation Expense	\$ 8,038,653	1/
2	Snavelly King Depreciation Expense	<u>7,622,190</u>	2/
3	Adjustment - Pre Tax (L. 2 - L. 1)	\$ (416,463)	
4	Tax Rate	38.90%	
5	Tax Effect (L. 3 * L. 4)	<u>\$ 162,004</u>	
6	Adjustment - Post Tax (L. 3 + L. 5)	<u><u>\$ (254,459)</u></u>	
7	Revenue Conversion Factor	1.65249	
8	Revenue Requirement (L. 6 * L. 7)	<u><u>\$ (420,492)</u></u>	

Sources:

- 1/ KAWC Schedule C-2, p. 1.
- 2/ Rates calculated on pages 2-3. Expense amount as calculated by "KAW_R_AGDR2#6_RB07_071607.xls" when AG recommended depreciation rates are used.

KENTUCKY AMERICAN WATER COMPANY

ESTIMATED SURVIVOR CURVE, ORIGINAL COST, BOOK DEPRECIATION RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO UTILITY PLANT AT DECEMBER 31, 2006
INCORPORATING COR RESERVE INTO BOOK RESERVE AND REFLECTING AG NET SALVAGE ADJUSTMENT

DEPRECIABLE GROUP (1)	ORIGINAL COST AT DECEMBER 31, 2006 (2)	SPANOS SURVIVOR CURVE 1/ (3)	SPANOS COMPOSITE REMAINING LIFE 2/ (4)	NET SALVAGE (5)	ALLOCATION OF COR RESERVE (6)		BOOK DEPRECIATION RESERVE (7)	TOTAL DEPRECIATION RESERVE (8)=(6)+(7)	FUTURE ACCRUALS (9)	CALCULATED ANNUAL ACCRUAL AMOUNT (10)=(9)/(6)	ANNUAL ACCRUAL RATE (11)=(10)/(2)
					12/31/06 COR RESERVE	DEPRECIATION RESERVE					
<u>STRUCTURES & IMPROVEMENTS</u>											
304.10 SOURCE OF SUPPLY	2,568,388	35-S2	32.3	(5)	-	158,923	158,923	2,537,884	78,572	3.06	
304.20 POWER & PUMPING STRUCTURES	4,800,062	65-R3	47.8	(20)	45,763	1,145,426	1,191,189	4,568,886	95,583	1.99	
304.30 WATER TREATMENT	8,962,557	65-R3	51.8	(20)	78,849	1,648,786	1,727,635	9,027,434	174,275	1.94	
304.40 TRANSMISSION & DISTRIBUTION	825,968	25-S2	14.7	0	-	263,010	263,010	562,958	38,296	4.64	
304.60 OFFICE BUILDINGS	3,991,282	55-R2.5	38.9	(6)	-	935,732	935,732	3,255,114	83,679	2.10	
304.70 STORE, SHOP & GARAGE STRUCTURES	1,018,771	45-R3	32.4	0	-	219,469	219,469	799,302	24,670	2.42	
304.80 MISCELLANEOUS STRUCTURES	1,563,838	25-R1.5	20.6	0	-	156,151	156,151	1,407,687	68,334	4.37	
TOTAL ACCOUNT 304	23,730,866				124,612	4,527,497	4,652,109	22,159,264	563,410	2.37	
<u>COLLECTING AND IMPOUNDING RESERVOIRS</u>											
305.00 LAKE, RIVER AND OTHER INTAKES	1,016,553	75-R4	44.1	0	-	269,139	269,139	747,414	16,948	1.67	
309.00 SUPPLY MAINS	561,430	50-R2.5	26.6	0	-	185,569	185,569	375,861	14,130	2.52	
310.10 OTHER POWER GENERATION EQUIPMENT	5,084,342	65-S2.5	42.1	(10)	27,518	1,457,145	1,484,663	4,108,113	97,580	1.92	
TOTAL ACCOUNT 311	572,454	35-S2.5	19.3	0	-	197,115	197,115	375,339	19,448	3.40	
<u>PUMPING EQUIPMENT</u>											
311.20 ELECTRIC	9,600,980	50-R3	33.9	(15)	103,252	2,650,989	2,754,241	8,286,886	244,451	2.55	
311.30 DIESEL	724,442	50-R3	32.7	(15)	8,077	213,189	221,266	611,842	18,711	2.58	
311.40 HYDRAULIC	61,582	50-R3	48.9	(15)	-	1,296	1,296	69,523	1,422	2.31	
TOTAL ACCOUNT 311	10,387,003				111,329	2,865,474	2,976,803	8,968,251	264,583	2.55	
<u>PURIFICATION SYSTEM - EQUIPMENT</u>											
320.10 DISTRIBUTION RESERVOIRS AND STANDPIPES	26,461,237	55-S2	37.6	(15)	641,426	7,405,542	8,046,968	22,383,454	595,305	2.25	
330.10 MAINS & ACCESSORIES	11,813,469	60-R4	48.4	(30)	111,231	2,110,694	2,221,925	13,135,585	271,396	2.30	
331.00 SERVICES	151,503,649	75-S2	59.1	(20)	467,294	29,466,254	29,933,548	151,870,831	2,569,726	1.70	
333.00 SERVICES	35,325,950	70-R3	56.9	(20)	3/ 4,498,557	10,998,914	15,497,471	26,893,669	472,648	1.34	
TOTAL ACCOUNT 334.1	8,450,936				-	1,195,820	1,195,820	8,100,209	242,342	2.87	
<u>METERS</u>											
334.10 METERS	90,962	40-R1.5	36.1	(10)	-	7,634	7,634	92,424	2,560	2.81	
334.11 BRONZE CASE	45,064	40-R1.5	32.1	(10)	-	6,992	6,992	42,578	1,326	2.94	
334.12 PLASTIC CASE	1,444,409	40-R1.5	29.3	(10)	-	335,934	335,934	1,252,916	42,762	2.96	
334.13 OTHER	6,870,501	40-R1.5	34.3	(10)	-	845,260	845,260	6,712,291	195,694	2.85	
TOTAL ACCOUNT 334.1	8,450,936				-	1,195,820	1,195,820	8,100,209	242,342	2.87	
<u>METER INSTALLATIONS</u>											
334.20 METER INSTALLATIONS	15,249,740	40-R1.5	27.9	(10)	1,320,166	3,730,238	5,050,404	11,724,310	420,226	2.76	
335.00 FIRE HYDRANTS	10,147,785	75-R3	59.7	(25)	278,865	1,978,660	2,257,525	10,427,206	174,660	1.72	
339.10 OTHER SOURCE OF SUPPLY PLANT	3,838	5-SQ	1.0	0	-	2,758	2,758	1,080	1,080	28.14	

KENTUCKY AMERICAN WATER COMPANY

ESTIMATED SURVIVOR CURVE, ORIGINAL COST, BOOK DEPRECIATION RESERVE AND CALCULATED ANNUAL DEPRECIATION ACCRUALS RELATED TO UTILITY PLANT AT DECEMBER 31, 2006 INCORPORATING COR RESERVE INTO BOOK RESERVE AND REFLECTING AG NET SALVAGE ADJUSTMENT

DEPRECIABLE GROUP (1)	ORIGINAL COST AT DECEMBER 31, 2006 (2)	SPANOS SURVIVOR CURVE 1/ (3)	SPANOS COMPOSITE REMAINING LIFE 2/ (4)	NET SALVAGE (5)	ALLOCATION OF 12/31/06 COR RESERVE (6)			TOTAL DEPRECIATION RESERVE (8)=(6)+(7)	FUTURE ACCRUALS (9)	CALCULATED ANNUAL ACCRUAL AMOUNT (10)=(9)/(6)	ANNUAL ACCURUAL RATE (11)=(10)/(2)
					SPANOS SURVIVOR CURVE 1/ (3)	SPANOS COMPOSITE REMAINING LIFE 2/ (4)	NET SALVAGE (5)				
OFFICE FURNITURE & EQUIPMENT											
340.10 FURNITURE	701,103	20-SQ	4.1	0	-	404,660	404,660	296,443	72,303	10.31	
340.21 MAINFRAME	50,240	5-SQ	4.5	0	-	28,793	28,793	21,447	4,766	9.49	
340.22 PERSONAL COMPUTERS	1,509,961	5-SQ	1.9	0	-	1,088,965	1,088,965	420,996	221,577	14.67	
340.23 PERIPHERAL-OTHER	487,989	5-SQ	1.1	0	-	354,769	354,769	143,230	130,209	26.15	
340.30 COMPUTER SOFTWARE	4,551,310	5-SQ	2.5	0	-	3,386,491	3,386,491	1,164,819	465,927	10.24	
340.32 COMPUTER SOFTWARE-PERSONAL	638,669	5-SQ	-	0	-	638,669	638,669	0	-	-	
340.33 COMPUTER SOFTWARE-OTHER	528,220	5-SQ	1.0	0	-	388,859	388,859	139,361	139,361	26.38	
340.50 OTHER	178,703	15-SQ	4.4	0	-	101,898	101,898	76,805	17,456	9.77	
TOTAL ACCOUNT 340	8,656,205			0	-	6,393,104	6,393,104	2,263,101	1,051,599	12.15	
TRANSPORTATION EQUIPMENT											
341.10 LIGHT DUTY TRUCKS	1,718,377	13-S2.5	6.7	20	-	448,274	448,274	926,427	138,273	8.05	
341.20 HEAVY DUTY TRUCKS	783,376	15-S2.5	7.8	15	-	229,926	229,926	435,943	55,890	7.13	
341.30 AUTOS	180,202	10-R4	2.9	15	-	81,728	81,728	71,444	24,636	13.67	
341.40 OTHER	135,681	16-L2.5	13.7	0	-	15,127	15,127	120,554	8,800	6.49	
TOTAL ACCOUNT 341	2,817,635			0	-	775,055	775,055	1,554,368	227,598	8.08	
STORES EQUIPMENT											
342.00 STORES EQUIPMENT	35,547	25-SQ	5.6	0	-	22,656	22,656	12,891	2,302	6.48	
343.00 TOOLS, SHOP AND GARAGE EQUIPMENT	1,421,289	20-SQ	11.3	0	-	392,902	392,902	1,028,387	91,008	6.40	
344.00 LABORATORY EQUIPMENT	843,099	15-SQ	7.2	0	16,009	357,103	373,112	469,987	65,276	7.74	
345.00 POWER OPERATED EQUIPMENT	1,589,811	18-L2.5	12.3	25	-	274,367	274,367	917,991	74,633	4.69	
346.10 COMMUNICATION EQUIPMENT - NON-TELEPHONE	1,931,144	15-SQ	7.6	0	-	912,722	912,722	1,018,422	134,003	6.94	
347.00 MISCELLANEOUS EQUIPMENT	1,282,277	20-SQ	14.2	0	-	259,545	259,545	1,002,732	70,615	5.59	
348.00 OTHER TANGIBLE PROPERTY	138,485	20-SQ	10.6	0	-	50,116	50,116	88,369	8,337	6.02	
TOTAL DEPRECIABLE PLANT	\$ 319,004,743			0	\$ 7,597,007	75,828,389	83,425,396	\$289,626,834	\$7,448,854	2.34	
COMPANY PROPOSED											
DIFFERENCE FROM COMPANY											
1/ Spanos proposed lives and curves.											
2/ Straight-line, Broad Group, Remaining Life method, procedure and technique											
3/ AG change to NS ratio to reflect present value. See page 4 for reasonableness test											

Sources: Cols. (1) - (5) and (7) from Exhibit JJS-1, pages III-4 through III-5.
Col. (6) total 12/31/06 COR reserve from response to AG 1-228. Allocated to accounts based on current annual COR accruals (plant multiplied by current NS ratio divided by remaining life)
Allocated to accounts with negative (current) net salvage ratios only
Col. (9) = Col. (2) plus (Col. (2) * Col. (5)) less Col. (8).

\$ 8,234,461
\$ 785,607

KENTUCKY AMERICAN WATER COMPANY
ESTIMATED PRESENT VALUE - FUTURE NET SALVAGE RATIO
BASED ON AVERAGE COST FOR 2002 - 2006

<u>ACCOUNT</u>	<u>RECORDED GROSS PLANT AS OF 12/31/06</u> (a)	<u>AVG. NS</u> (b)	<u>ANNUAL NS FACTOR</u> (c)=(b)/(a)	<u>ARL</u> (d)	<u>PV FNS RATIO</u> (e)=(c)*(d)	<u>PV FNS AMOUNT</u> (f)=(e)*(a)
333.00 SERVICES	35,325,950	107,180	0.30%	56.9	-17.26%	6,098,542
	Majoros Recommendation				-20%	

Sources:
 Col. (b) from Exhibit JJS-1, page III-89.

Conclusion: Negative 20 percent is a reasonable approximation of the present value of the future net salvage ratio for this account.

KENTUCKY AMERICAN WATER COMPANY

SUMMARY OF SPANOS NET SALVAGE ANALYSIS AND RECOMMENDATIONS
AVERAGE - 2002 to 2006

ACCOUNT	REGULAR RETIREMENTS		COST OF REMOVAL		GROSS SALVAGE		NET SALVAGE		SPANOS PROPOSAL	
	(a)	(b)	(c)=(b)/(a)	(d)	(e)=(d)/(a)	(f)=(d)-(b)	(g)=(f)/(a)	(h)		
<u>STRUCTURES & IMPROVEMENTS</u>										
304.10	12,874	40,557	315%	-	0%	(40,557)	-315%	(5)		
304.20 and 304.3	9,456	15,570	165%	-	0%	(15,570)	-165%	(20)		
304.40	6,735	-	0%	-	0%	-	0%	0		
304.60	25,692	3,571	14%	-	0%	(3,571)	-14%	(5)		
304.70								0		
304.80								0		
<u>COLLECTING AND IMPOUNDING RESERVOIRS</u>										
305.00								0		
306.00								0		
309.00			0%	-	0%	-	0%	(10)		
310.10								0		
311.00	18,642	7,839	42%	(350)	-2%	(8,189)	-44%	(15)		
320.10	39,508	3,599	9%	-	0%	(3,599)	-9%	(15)		
330.10	6,370	4,090	64%	-	0%	(4,090)	-64%	(30)		
331.00	176,763	46,965	27%	1,243	1%	(45,722)	-26%	(20)		
333.00	28,233	107,180	380%	-	0%	(107,180)	-380%	(20)		
334.00	214,349	57,065	27%	4,406	2%	(52,659)	-25%	(20)		
334.20								(10)		
335.00	13,086	767	6%	-	0%	(767)	-6%	(25)		
339.10								0		
<u>OFFICE FURNITURE & EQUIPMENT</u>										
340.10								0		
340.21								0		
340.22								0		
340.23								0		
340.30								0		
340.32								0		
340.33								0		
340.50								0		
<u>TRANSPORTATION EQUIPMENT</u>										
341.10	59,237	(639)	-1%	8,664	15%	9,303	16%	20		
341.20	9,532	456	5%	1,220	13%	764	8%	15		
341.30	3,003	140	5%	-	0%	(140)	-5%	15		
341.40								0		
342.00								0		
343.00								0		
344.00								0		
345.00			0%	-	0%	-	0%	25		
346.10								0		
347.00								0		
348.00								0		

Source:
Cols. (a), (b) and (d) from Exhibit JJS-1, pages III-71 through III-101
Col. (h) from Exhibit JJS-1, pages III-4 through III-5

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

AG Adjustment No. 6

Remove Incentive Pay

<u>Line</u>	<u>Description</u>	<u>Amount</u>
1	Company Incentive Pay	\$ 252,550 1/
2	Adjustment - Pre Tax	\$ (252,550)
3	Tax Rate	38.90%
4	Tax Effect (L. 2 * L. 3)	<u>98,242</u>
5	Adjustment - Post Tax (L. 2 + L. 4)	<u>\$ (154,308)</u>
6	Revenue Conversion Factor	1.65249
7	Revenue Requirement (L. 5 * L. 6)	<u>\$ (254,993)</u>

Sources:

1/ See PSC DRs 2-5 and 3-3.

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

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

Item 5 of 80

Witness: Michael Miller

5. Refer to Kentucky-American's Response to Commission Staff's First Set of Information Requests, W/P3, page 2 of 18. Incentive pay included in forecasted labor is \$252,550.
- a. Describe the incentive pay plan and explain why such a plan is necessary and reasonable.
 - b. (1) State whether the forecasted incentive pay is being awarded under the same long-term incentive compensation and annual incentive plan compensation pay plans whose costs the Commission disallowed in Case No. 2004-00103.¹

(2) If the incentive plan is the same, explain why Kentucky-American proposes to include its costs in the determination of rates in this proceeding.

(3) If the incentive plan differs from that reviewed in Case No. 2004-00103, describe how the plan differs from the plan previously reviewed.
 - c. List all Kentucky-American employees who are eligible to participate in the program.
 - d. State the level of incentive pay available to each participant in the forecasted period.
 - e. State the level of incentive pay awarded to all individuals participating in the program for the previous 5 years compared to the level of incentive pay available to each participant in the forecasted period.
 - f. Explain how incentive payment awards in previous years were determined.
 - g. State the amounts of incentive payment awards included in the forecasted test period and explain how the amounts were determined.

¹ Case No. 2004-00103, Adjustment of the Rates of Kentucky-American Water Company (Ky. PSC Feb. 28, 2005) at 47 – 49.

Response:

- a. Please see the attached copy of the 2007 Annual Incentive Plan ("AIP") which fully describes the AIP and its administration. The AIP is not, nor is it intended to be, an entitlement program. The AIP incorporates very stringent and specific financial, operational and individual goals that are an integral part of the overall performance review and compensation program for the Company. An AIP is a common part of the overall compensation package for most utilities. If KAWC is to continue to attract and retain top quality employees capable of carrying out the challenging task of effectively managing a major water utility, the overall compensation package must be competitive. The Company believes the best way to drive efficient and effective management of the operations is to make a portion of the compensation of its management subject to performance, and meeting challenging goals and objectives. Performance at or above those goals and objectives results in more efficient operations, greater customer satisfaction, greater reliability of service and lower costs to the customer. The absence of performance at or above those goals results in lower compensation to the employee and serves as an incentive to improve those performance deficiencies to the benefit of the customers. In order for the Company to be competitive in its overall compensation package absent the AIP, the Company believes base wages would have to be increased. The Company does not believe an overall compensation package absent AIP provides the level of incentive for high performance by management employees and therefore would not be in the best interest of its customers. The Company's customers benefit when financial targets are met. Financial goals are met through efficient use of human and capital resources to operate in the most efficient and cost effective manner possible. Meeting financial goals lowers costs and leads to lower rates for the customers when those efficiency gains and cost savings are returned to the customers in general rate filings. The operational goals are related to customer satisfaction, customer service quality, water quality, safety, and service levels. Meeting these important operational goals result in high levels of service, customer satisfaction, and lower costs which benefit the customers. Finally, meeting stringent and specific individual goals provides motivation for each employee in the plan to not only perform at a high level, but to continuously develop new skills and abilities that improve service to the customers. Meeting the personal development goals provides for a pipeline of highly motivated and skilled employees to fill succession planning needs and fill vacant management positions of increasing authority as they occur due to retirements or other reasons.
- b. (1) The Company does not currently have a Long-term Incentive Plan and the base period or forecasted test-period does not include cost for a LIP. The 2007 AIP has been modified to be more heavily weighted to the operational and individual goals than the AIP in place at the time of the Company's last rate filing. In 2004, 60% of the AIP was related to financial goals and 40% was related to operational and individual goals. The 2007 AIP establishes 30% of the target to financial goals and 70% to operational and individual goals. In addition,

the current AIP places more emphasis on the development of financial, operational and individual goals that drive performance of employees toward improved service, water quality and customer satisfaction. The AIP is more closely tied to employee performance reviews that are monitored on a regular basis during the year to assure better job performance or puts in place measures to improve job performance on a regular basis.

- (2) See the response to part b. (1) above.
- (3) See the response to part b. (1) above.

- c. Please the attached schedule which provides the list of employees eligible for the AIP and the amount of AIP pay included in the forecasted test-year.

- d. Please see the response to part c. above.

- e. Please see the schedule attached that compares the AIP results for the previous five years to the level included in the forecasted test-year.

- f. The performance of each employee was measured by their performance regarding the financial, operational and individual goals established in the AIP effective for that period.

- g. Please see the response to part c. above.

For electronic version, refer to KAW_R_PSCDR2#5_061807.pdf

KENTUCKY-AMERICAN WATER COMPANY
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COMMISSION STAFF'S THIRD
SET OF INFORMATION REQUESTS
Item 3 of 54

Witness: Michael Miller

3. a. Provide all studies and analyses that Kentucky-American has performed or commissioned since January 1, 2005 that quantify the benefits that its incentive compensation pay plans provide to its ratepayers.
- b. Provide all studies and analyses that Kentucky-American has performed or commissioned that address how the cost of its incentive compensation pay plans should be allocated between Kentucky-American shareholders and ratepayers.
- c. Provide all studies and analyses that Kentucky-American has performed or commissioned that address how other utilities allocate the cost of their incentive compensation pay plans between utility shareholders and ratepayers.
- d. If no studies or analyses are submitted in response to Item 3(a)-(c), explain why, in light of the Commission's findings in Case No. 2004-00103,¹ recovery of these costs in Kentucky-American's rates is reasonable and appropriate.

Response:

- a. No such studies or analyses have been performed by the Company. However, an internet search performed by the Company located numerous studies performed by others that provide support for the utilization of an annual incentive plan as part of a total compensation plan which motivates better employees' performance. While the studies available to the Company indicate a positive effect on performance of incentive payments, there is disagreement on the precise effects and meaningfulness of the metrics. Please see attached study reports. The Company has not obtained reprint rights for several of the studies reviewed, and thus they are not attached to this response.
- b. No such studies or analyses have been performed by the Company. The Company performed a search for any such studies performed by other utilities, utility industry associations or regulatory associations, and was unable to locate any such studies by others.
- c. No such studies or analyses have been performed by the Company. The Company performed a search for any such studies by other utilities, utility industry associations or regulatory associations, and was unable to locate any

¹ Case No. 2004-00103, Adjustment of the Rates of Kentucky-American Water Company (Ky. PSC Feb. 28, 2005), at 47-49.

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such study. However, please see the attached memo from Towers Perrin regarding the prevalence of such plans in the utility industry, as well as general business enterprises.

- d. The Annual Incentive Plan ("AIP") plan payouts for employees of Kentucky American are part of a total package aimed at providing competitive market based compensation for employees. The portion of total compensation represented by the AIP is an at-risk portion intended to improve performance based on the elements measured in the plan. This motivates employees to improve performance based on plan parameters. The annual payout under the provisions of the plan are considered to be earned and a portion of total compensation.

In the prior case (Case No. 2004-00103) the majority of plan potential payout was based on the financial performance of the company. However, since that time the plan metrics have been changed significantly and the Company financial performance parameters make up only 30% of the total potential plan payout for the employees included in the requested cost of service in this case. The balance of the employee incentive awards are based on metrics related to customer satisfaction, customer service quality, environmental, health and safety, efficiency metrics, or other measures of the quality of performance of the employee. Please see the plan booklet provided in AG 1-246, and salary administration information provided in AG 1-248.

Therefore, since the issuance of the Commission's order in Case No. 2004-00103, the Company's AIP has been changed to reflect a greater customer service quality and efficiency focus on attaining annual payout from the plan. The company therefore believes that the balance thus achieved between plan customer service objectives, efficiency objectives and financial objectives in motivating improved performance from employees makes it appropriate to recover the costs of the AIP from ratepayers.

The Company continues to maintain that the financial element of the incentive plan is beneficial to ratepayers in that a financially healthy company is in a better position to meet its public service obligations. A financially healthy company will be able to raise capital at lower cost, will be able to better respond to changes in business conditions and water quality regulations, and will be in a better position to meet the challenges of emergencies that occur from time to time. Some of the possible actions employees can take on a day to day basis directed at improving financial performance would be reducing waste or increasing efficiencies, both of which in the long term will provide a customer benefit. It is hard to envision an action an employee could take in this category which would act only as a benefit to shareholders and not to customers. Therefore it is in the customer's interest to have a compensation plan that motivates employees to keep the company's financial performance in mind as they go about their duties.

The company's compensation plan targets base salaries at the 50th percentile of market based compensation, based on salary surveys it performs and which have been provided previously in AG 1-242 and AG 1-248. The AIP is intended to provide the possibility of compensation at the 65th percentile if all targets are met. It is widely recognized that such plans do have a positive impact on the performance of employees as referenced in the attached studies. The design of the company's AIP does not increase compensation to lavish levels, but provides employees the opportunity to obtain compensation above the market 50th percentile, based on plan metrics. This approach gives the Company an additional means by which to retain high performing employees for whom market based 50th percentile salaries may be inadequate, but only on the basis of exceptional performance.

The wide and growing acceptance in other utilities and business in general of total compensation plans which place a portion of an employee's compensation at risk to improve business performance demonstrates that such a plan is not speculative or improvised, but is a necessary component of a program to retain employees who are qualified and capable of performing the functions necessary to operate a complex business.

For electronic version, refer to KAW_R_PSCDR3#3_071607.pdf

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

AG Adjustment No. 7

Disallow 8% Increase to Group Insurance

<u>Line</u>	<u>Description</u>	<u>Amount</u>	
1	Amount per Company	\$ 1,427,004	1/
2	Adjusted to remove 8% increase	<u>1,312,308</u>	2/
3	Adjustment - Pre Tax (L. 2 - L. 1)	\$ (114,696)	
4	Tax Rate	38.90%	
5	Tax Effect (L. 3 * L. 4)	<u>\$ 44,617</u>	
6	Adjustment - Post Tax (L. 3 + L. 5)	<u>\$ (70,079)</u>	
7	Revenue Conversion Factor	1.65249	
8	Revenue Requirement (L. 6 * L. 7)	<u>\$ (115,805)</u>	

Sources:

1/ See KAW_R-PSCDR1#1a_WP_REVISED_062507, p. 61 of 78.

2/ "KAW_R_AGDR1#46_insgroup_061807.xls" adjusted to remove 8% increase.

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

AG Adjustment No. 8

Remove Management Fees Related to Business Development

<u>Line</u>	<u>Description</u>	<u>Amount</u>
1	Amount per Company	\$ 79,365 1/
2	Adjustment - Pre Tax	\$ (79,365)
3	Tax Rate	38.90%
4	Tax Effect (L. 2 * L. 3)	<u>\$ 30,873</u>
5	Adjustment - Post Tax (L. 2 + L. 4)	<u>\$ (48,492)</u>
6	Revenue Conversion Factor	1.65249
7	Revenue Requirement (L. 5 * L. 6)	<u>\$ (80,133)</u>

Source:

1/ Response to PSC 2-22c.

KENTUCKY-AMERICAN WATER COMPANY
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COMMISSION STAFF'S SECOND SET
OF INFORMATION REQUESTS

Item 22 of 80

Witness: Michael A. Miller

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

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

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

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

Response:

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

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

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

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

AG Adjustment No. 9

Remove Wastewater Portion of Production Tech Position

<u>Line</u>	<u>Description</u>	<u>Amount</u>
1	Wastewater portion of position	\$ 12,497 1/
2	Adjustment - Pre Tax	\$ (12,497)
3	Tax Rate	38.90%
4	Tax Effect (L. 2 * L. 3)	<u>4,861</u>
5	Adjustment - Post Tax (L. 2 + L. 4)	<u>\$ (7,636)</u>
6	Revenue Conversion Factor	1.65249
7	Revenue Requirement (L. 5 * L. 6)	<u>\$ (12,618)</u>

Source:

1/ See PSC 3-1.

KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2007-00143
COMMISSION STAFF'S THIRD
SET OF INFORMATION REQUESTS
Item 1 of 54

Witness: Nick Rowe/Michael Miller

1. Refer to Kentucky-American's Response to Commission Staff's Second Set of Information Requests, Item 4(a).
 - a.
 - (1) State whether Kentucky-American has included the total cost of the Production Maintenance Tech – Northern Division position in the calculation of its water rates.
 - (2) If yes, state the amount of this cost that should be removed from water operations and allocated to wastewater operations since the position “is essential to aid in maintaining equipment at . . . [Kentucky-American's] water and wastewater facilities in . . . [its] Northern Division.”
 - b.
 - (1) Kentucky-American states that the vacant Treatment Plant Operator is currently being “covered” by overtime. State whether this overtime is budgeted in the forecasted test-period.
 - (2) If yes, state why it is reasonable to include in forecasted operations overtime to “cover” the vacant position and employee expenses to fill the vacant position.
 - c. Regarding the Administrative Assistant – Cross Connection position, state:
 - (1) The name of the part-time employee filling the clerical needs of this position.
 - (2) The costs of this part-time employee that are included in the forecasted test period.
 - (3) Whether this part-time employee will continue to be employed after the Administrative Assistant – Cross Connection position is filled.
 - d. In its Response to Commission Staff's First Set of Information Requests, Item 1(a), W/P 3, pages 20 through 27 of 118, Kentucky-American listed vacant positions in addition to those set forth in its Response to Commission Staff's Second Set of Information Requests, Item 4(a). Beside the term “vacant” was listed a name.
 - (1) Define the term “vacant” as used in that Response.
 - (2) For each position listed in W/P 3, pages 20 through 27, in which the term “vacant” appears followed by a name,
 - (i) State whether the position is currently unoccupied.
 - (ii) State whether the named employee is currently filling job duties of the position.
 - (iii) If the position is not occupied or filled, provide the information requested in Commission Staff's Second Set of Information Requests, Item 4(a).

Response:

- a. (1) Yes.
(2) The water plant and water distribution system for the Owenton District is fully automated through a SCADA system, while the wastewater system is not automated. Due to the complexity of the water system and the SCADA system, it is expected that 80% of the position will be charged to water and 20% to wastewater. The following is a recap of the expense applicable to the wastewater system.

Fully Loaded Labor- (per response to PSCDR2#4d)	\$62,484
Wastewater allocation factor	<u>20%</u>
Total	\$12,497

- b. (1) No.
(2) N/A.
- c. (1) The preliminary work is not being filled by a part-time employee, but the work is being performed by Lee Ann Osborne, operations clerk. These duties have been added to her normal work-load on a part-time basis until the vacant position is filled.
(2) Please see the response to part c. 1.
(3) Yes.
- d. (1) The term vacant as used in the response to PSCDR2#4a indicates that the position remains vacant and no replacement had been hired at that time.
(2) (i) The positions listed as vacant preceded with a name indicates that the position is now filled.
(ii) Yes.
(iii) N/A.

For electronic version, refer to KAW_R_PSCDR3#1_071607.pdf

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

AG Adjustment No. 10

Interest Synchronization

<u>Line</u>	<u>Description</u>	<u>Amount</u>	
1	Pro Forma Rate Base	\$ 202,245,239	1/
2	Weighted Cost of Debt	<u>3.47%</u>	2/
3	Pro Forma Interest Expense	7,017,910	
4	Company Claim	\$ 7,053,314	3/
5	Increase in Taxable Income	35,404	
6	Tax Rate	<u>38.90%</u>	
7	Income Taxes	<u>\$ 13,772</u>	

Sources:

- 1/ See Exhibit__(MJM-3), Schedule 1.
- 2/ See Exhibit__(MJM-2).
- 3/ KAWC Schedule E-1.3, page 1 of 2.