

**Kentucky American Water  
Labor & AWWSC Costs Analysis That Demonstrates the Shift From  
Fully Loaded Company Labor to AWWSC Costs**

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(15)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	Net Savings Variance Column 10 to Column 11
	Labor Cost As Approved in KAWC Case No. 2000-00120 Attrition Yr. 11/30/2001 plus actual 2001 overhead costs & AWWSC	Add emp. cost for 6 emp. EL, TV	2001 Base Cost	2002 Labor Cost Inflated	2003 Labor Cost Inflated	2004 Labor Cost Inflated	Add emp. cost for 8 emp. Owenton	2005 Labor Cost Inflated	2006 Labor Cost Inflated	2007 Labor Cost Inflated	2008 Labor Cost Inflated	2009 Labor Cost Inflated	Attrition Yr. May-10 Labor Cost Inflated	Current Case Attrition Year Request by Company	
<b>KAWC Costs:</b>															
Labor (Adj. 3.5% Avg. Pay Incr. 02-03 & 4% for 04-10)	6,004,624	250,193	6,254,827	6,514,837	6,742,856	7,012,571	473,103	7,766,176	8,284,074	8,743,248	9,790,017	10,181,618	10,385,250	7,062,548	(3,322,702)
Group Insurance	1,303,786	54,324	1,358,110	1,559,146	1,857,663	2,000,138	134,939	2,215,083	2,206,524	2,140,973	2,426,163	2,320,706	2,367,120	1,810,270	(556,850)
Pensions	356,713	14,863	371,576	451,264	940,976	915,419	61,759	1,013,794	946,558	694,725	720,605	705,077	719,179	581,701	(137,478)
Payroll Taxes	443,276	18,470	461,746	468,378	504,644	495,797	33,449	568,161	568,161	802,710	1,273,515	1,182,780	1,206,436	701,387	(505,049)
401(K) & Defined Contribution Plan beg. in 2006	85,232	3,651	88,783	98,733	96,842	92,530	6,243	106,960	156,301	161,029	255,046	257,759	262,915	244,471	(18,444)
Fully Loaded Labor Cost	8,193,641	341,402	8,535,043	9,092,359	10,142,982	10,516,454	709,493	11,651,091	12,161,617	12,542,884	14,465,347	14,647,941	14,940,899	10,400,377	(4,540,522)
<b>AWWSC costs:</b>															
Labor	871,980	0	871,980	906,859	943,134	980,859	0	1,020,093	1,060,897	1,103,333	1,147,466	1,193,365	1,217,232	4,245,651	3,028,419
Pensions	0	0	0	18,708	26,145	12,067	0	31,407	99,903	114,649	128,365	110,396	112,604	416,483	303,879
OPEB's	35,671	0	35,671	23,368	29,563	19,268	0	18,837	20,501	12,533	16,569	13,370	13,637	96,557	82,920
Group Insurance	63,053	0	63,053	69,949	75,854	78,193	0	85,382	85,358	84,465	87,794	103,070	106,131	693,728	568,597
Other Expenses	350,479	0	350,479	359,241	368,222	377,428	0	390,638	400,403	410,414	420,674	431,191	439,815	1,992,829	1,553,014
Service Company Costs	1,321,183	0	1,321,183	1,378,125	1,442,918	1,467,814	0	1,546,356	1,667,062	1,725,393	1,800,868	1,851,392	1,888,419	7,445,248	5,556,829
Total Labor & AWWSC Costs	9,514,824	341,402	9,856,226	10,470,484	11,585,900	11,984,268	709,493	13,197,447	13,828,679	14,268,077	16,266,215	16,499,332	16,829,319	17,845,625	1,016,306

**Adjustments:** 1. Initiation of Procurement Center in 2003 which has resulted in average savings to KAWC as demonstrated on the synergy statements filed at the PSC as part of the conditions in case no. 2002-00018  
2. Customer Growth at KAWC handled by the CCC & SCC is not accounted for in the analysis above. In 2001 KAWC had 26 employees serving 103,172 customers or 3,968 customer per employee.  
3. Deprec. & interest for equipment & software purchased by AWWSC for use by all subsidiaries of AWW that would have been capitalized if KAWC had purchased it directly or been allocated a portion of the asset.  
In addition, KAWC would have required a return on that rate base if it had been purchased locally, versus the at cost basis at which AWWSC makes the software available to KAWC.

Unexplained variance (comprised of items not easily identifiable such as: changes in allocation factors, additional services, changes in operations, additional regulation, etc.)

**FOOTNOTES RELATED TO KAWC COSTS:**

- Note 1:** The calculation of inflation factors used to determine the attrition-year costs shown in column 13 above are included on page 2 of this Exhibit.
- Note 2:** Added one meter reader in 2002 to handle increases in customers due to growth
- Note 3:** Added 8 employees from Owenton acquisition
- Note 4:** Added 4 utility field employees to handle additional hydrant and valve maintenance work related to customer growth and one Administrative employee to handle sewer billing in 2006
- Note 5:** Added 1 utility person and one Admin to handle additional requirements for cross connections and 1 production tech for additional water treatment processes
- Note 6:** Added 7 employees: a VP operations, a operations spec., a Dir. Eng., a Project Mgr., a Dir. Govt. Affairs, Mgr. Loss Control, and Mgr. Communications

**FOOTNOTES RELATED TO AWWSC COSTS:**

**Footnote 1:** Labor is inflated 4% per year. Other Expenses are inflated at 2.5% per year, and pensions, OPEB's, and group insurance are inflated by the factors on page 2 of this Exhibit.

(193,376)  
(294,192)  
(280,743)  
(634,748)

**KAWC Actual Benefit Labor Costs**

	2001	2002	2003	2004	2005	2006	2007	Budget 2008	Budget 2009
AVG. # Employees	145	143.25	129.42	118.58	117.92	124.75	134.08	137.00	144.00
Group Insurance	1,303,786	1,468,185	1,680,403	1,659,089	1,608,346	1,644,303	1,685,771	1,874,858	1,884,996
Pensions	356,713	424,938	800,534	713,561	782,335	748,274	579,958	588,994	605,748
Payroll Taxes	443,276	441,053	429,325	386,469	379,691	403,803	604,374	692,126	675,658
401(K)	85,232	92,973	82,388	72,126	78,071	157,540	154,044	207,037	220,101
Fully Loaded Cost	2,103,920	1,893,123	2,380,937	2,272,650	2,390,681	2,392,577	2,265,729	2,463,852	2,490,744

**Cost per Employee**

Group Insurance	8,987	10,249	12,211	13,148	13,639	13,181	12,573	13,685	13,090
Pensions	2,459	2,966	6,186	6,018	6,634	5,998	4,325	4,299	4,207
Payroll Taxes	3,055	3,079	3,317	3,259	3,220	3,237	4,508	5,052	4,692
401(K)	587	649	537	508	562	1,263	1,149	1,511	1,528
Fully Loaded Cost per employee	14,501	16,294	21,714	22,425	23,494	22,416	21,406	23,036	21,989

**% Increase % Increase % Increase % Increase % Increase**

Group Insurance	1.140	1.191	1.077	1.077	1.037	0.966	0.954	1.088	0.957
Pensions	1.206	2.085	0.973	0.973	1.103	0.904	0.721	0.994	0.978
Payroll Taxes	1.008	1.077	0.982	0.982	0.988	1.005	1.393	1.121	0.929
401(K)	1.105	0.981	0.955	0.955	1.088	1.907	0.910	1.315	1.011
Fully Loaded Cost per customer	1.124	1.333	1.033	1.033	1.048	0.954	0.955	1.076	0.955

**AWWSC Benefit Costs:**

	2001	2002	2003	2004	2005	2006	2007	Budget 2008	Budget 2009
AVG. # Employees	9,17	16,36	22,12	37,10	42,25	47,75	55,45	52,88	61,72
Pension	0	18,708	35,350	27,364	81,108	291,587	388,586	414,910	416,483
OPEB's	38,276	44,735	76,521	83,647	93,126	114,547	81,319	102,523	96,557
Group Insurance	63,053	124,794	182,977	316,352	393,390	444,475	510,752	506,278	693,728

**Cost per Employee**

Pension	0	1,144	1,598	738	1,920	6,107	7,008	7,846	6,748
OPEB's	4,174	2,734	3,459	2,255	2,204	2,399	1,467	1,939	1,564
Group Insurance	6,876	7,628	8,272	8,527	9,311	9,308	9,211	9,574	11,240

Pensions	#DIV/0!	1,398	0,462	0,860	2,603	3,181	1,148	1,120	0,860
OPEB's	0,655	1,265	0,652	0,652	0,978	1,088	0,611	1,322	0,807
Group Insurance	1,109	1,084	1,031	1,031	1,092	1,000	0,990	1,039	1,174

**TABLE 1A OF 2007 REPORT KENTUCKY-AMERICAN WATER COMPANY  
OPERATING EXPENSE SAVINGS FROM RWE PROCUREMENT INITIATIVE**

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	2003	2004	2005	2006	2007 TOTAL
Accounts Payable Audit Advertising		1,000			13,817
Bill inserts & CCR Chemicals		9,000		25,960	2,449
Field Op's Equipment Facility		30,000		38,338	6,196
Plumbing Supplies/ Plumbing Supplies		72,000	121,000	151,220	2,505
Courier Services		2,000	2,000		
Fleet		1,000		984	1,275
Instrumentation 7 process Control					
Information Technology (IT)		7,000	2,000	319	18,549
Laboratory supplies		12,000	20,000	9,859	35
Maintenance, Repair & Operations (MRO)	200	13,000	17,000	8,031	29,323
Equipment		3,000		874	2,236
Office Supplies	2,400	7,000	6,000	7,688	20,396
P-Card Rebate	7,000	3,000			
Professional Services		7,000	6,000	272	353
Professional Services - Lock box		40,000	29,000		29,148
Tank Rehabilitation					3,092
Telecommunications		20,000	36,000	3,674	12,580
Temporary Labor		31,000	40,000	14,894	36,525
Tires	800	9,000	8,000	15,742	
Travel		7,000	12,000		
Uniforms		5,000	3,000	1,318	17,424
Chemicals				91,003	29,688
<b>TOTAL</b>	<b>\$10,400</b>	<b>\$279,000</b>	<b>\$302,000</b>	<b>\$370,176</b>	<b>\$225,591</b>

Average Annual Savings

\$294,192