

**KENTUCKY-AMERICAN WATER COMPANY
CASE NO. 2008-00427
FORECASTED TEST PERIOD FILING REQUIREMENTS
EXHIBIT NO. 36**

Description of Filing Requirement:

Cost of Service Study

Response:

Please see attached.

For electronic version, refer to KAW_APP_EX36_103108.pdf.

Supplemental Response:

Please see the revised Cost of Service Study.

For electronic version, refer to KAW_SAPP_EX36_030909.pdf.

Exhibit No. 36-REVISED
Witness: P. R. Herbert

KENTUCKY AMERICAN WATER COMPANY
Lexington, Kentucky

REVISED
COST OF SERVICE
ALLOCATION STUDY
AS OF MAY 31, 2010
AND
PROPOSED CUSTOMER RATES

MARCH 3, 2009

GANNETT FLEMING, INC. - VALUATION AND RATE DIVISION
Harrisburg, Pennsylvania

KENTUCKY-AMERICAN WATER COMPANY

COMPARISON OF COST OF SERVICE WITH REVENUES UNDER PRESENT AND PROPOSED RATES
FOR THE TWELVE MONTHS ENDING MAY 31, 2010

Customer Classification (1)	Cost of Service		Revenues, Present Rates		Revenues, Proposed Rates		Proposed Increase	
	Amount (2)	Percent (3)	Amount (4)	Percent (5)	Amount (6)	Percent (7)	Amount (8)	Percent Increase (9)
Residential	\$ 39,541,202	52.2%	\$ 30,609,961 (a)	53.7%	\$ 39,844,720 (a)	52.8%	\$ 9,234,759	30.2%
Commercial	20,385,654	26.9%	15,056,532	26.5%	20,285,729	26.9%	5,229,197	34.7%
Industrial	2,718,748	3.6%	1,623,443	2.9%	2,271,313	3.0%	647,870	39.9%
Public Authority	6,235,453	8.2%	4,508,892	7.9%	6,205,880	8.2%	1,696,988	37.6%
Sales for Resale	1,941,531	2.6%	1,388,967	2.4%	1,929,638	2.6%	540,671	38.9%
Private Fire Service	1,835,908	2.4%	1,283,769	2.3%	1,784,526	2.4%	500,757	39.0%
Public Fire Service	3,113,541	4.1%	2,428,896	4.3%	3,073,261	4.1%	644,365	26.5%
Total Sales	75,772,037	100.0%	56,900,460	100.0%	75,395,067	100.0%	18,494,607	32.5%
Other Revenues	5,620,686		\$5,620,686		5,620,686		-	0.0%
Total	\$ 81,392,723		\$ 62,521,146		\$ 81,015,753		\$ 18,494,607	29.6%

(a) Includes miscellaneous water sales.

**COST OF SERVICE BY
CUSTOMER CLASSIFICATION AND COST FUNCTION**

KENTUCKY-AMERICAN WATER COMPANY

ALLOCATION OF COST OF SERVICE BY COST FUNCTION TO CUSTOMER CLASSIFICATIONS

Cost Function (1)	Factor Ref.* (2)	Cost of Service (Schedule D) (3)	Cost of Service				Fire Service		
			Residential (4)	Commercial (5)	Industrial (6)	Public Authorities (7)	Sales for Resale (8)	Private Fire (9)	Public Fire (10)
Base	A	\$34,782,256	\$16,292,009	\$11,311,190	\$1,763,460	\$3,913,004	\$1,297,378	\$86,956	\$118,260
Extra Capacity - Maximum Day	B	13,976,454	6,981,239	4,577,289	588,409	1,397,645	431,872		
Extra Capacity - Maximum Hour	C	9,056,296	4,705,651	3,075,518	345,045	731,749	198,333		
Customer Facilities - Meters	D	3,854,288	3,039,106	629,020	16,573	120,254	11,177	38,157	
Customer Facilities - Services	E	2,822,283	2,371,565	294,364	2,540	32,456	1,411	119,947	
Billing and Collecting	F	4,644,210	4,192,329	339,492	1,858	27,401	929	80,809	1,393
Meter Reading	G	2,157,349	1,959,303	158,781	863	12,944	431	25,025	
Private Fire	H	1,485,014						1,485,014	
Public Fire	I	2,993,888							2,993,888
Total		\$75,772,038	\$39,541,202	\$20,385,654	\$2,718,748	\$6,235,453	\$1,941,531	\$1,835,908	\$3,113,541

* Schedule C.

Schedule C

KENTUCKY-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COSTS BY FUNCTION TO CUSTOMER CLASSIFICATIONS

FACTOR A. ALLOCATION OF BASE COSTS.

Factors are based on the pro forma test year average daily consumption for each customer classification.

Classification (1)	Average Daily Consumption, CCF (2)	Allocation Factor (3)
Residential	23,032	0.4684
Commercial	15,993	0.3252
Industrial	2,495	0.0507
Other Public Authority	5,533	0.1125
Sales for Resale	1,833	0.0373
Private Fire Protection	121	0.0025
Public Fire Protection	166	0.0034
Total	49,173	1.0000

FACTOR B. ALLOCATION OF MAXIMUM DAY EXTRA CAPACITY COSTS.

Factors are based on the maximum day extra capacity demand for each customer classification.

Customer Classification (1)	Average Daily Consumption, CCF (2)	Factor* (3)	Rate of Flow, CCF Per Day (4)=(2)x(3)	Allocation Factor (5)
Residential	23,032	0.90	20,729	0.4995
Commercial	15,993	0.85	13,594	0.3275
Industrial	2,495	0.70	1,747	0.0421
Other Public Authority	5,533	0.75	4,150	0.1000
Sales for Resale	1,833	0.70	1,283	0.0309
Total	48,886		41,503	1.0000

* Ratio of Maximum Day To Average Day Minus 1.0.

KENTUCKY-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COSTS BY FUNCTION TO CUSTOMER CLASSIFICATIONS.

FACTOR C. ALLOCATION OF MAXIMUM HOUR EXTRA CAPACITY COSTS.

Factors are based on the maximum hour extra capacity demand for each customer classification.

Customer Classification (1)	Average Hourly Consumption, CCF (2)	Factor* (3)	Rate of Flow, CCF Per Hour (4)=(2)x(3)	Allocation Factor (5)
Residential	959.7	1.70	1,631.5	0.5196
Commercial	666.4	1.60	1,066.2	0.3396
Industrial	104.0	1.15	119.6	0.0381
Other Public Authority	230.5	1.10	253.6	0.0808
Sales for Resale	76.4	0.90	68.8	0.0219
Total	2,037.0		3,139.7	1.0000

* Ratio of Maximum Hour To Average Hour Minus 1.0.

FACTOR D. ALLOCATION OF COSTS ASSOCIATED WITH METERS.

Factors are based on the relative cost of meters by size and customer classification, as developed on the following page and summarized below.

Customer Classification (1)	5/8" Dollar Equivalents (2)	Allocation Factor (3)
Residential	113,279	0.7885
Commercial	23,441	0.1632
Industrial	623	0.0043
Other Public Authority	4,477	0.0312
Sales for Resale	414	0.0029
Private Fire Protection	1,415	0.0099
Total	143,649	1.0000

KENTUCKY-AMERICAN WATER COMPANY

BASIS FOR ALLOCATING METER COSTS TO CUSTOMER CLASSIFICATIONS

Meter Size (1)	5/8" Dollar Equivalent (2)	Residential		Commercial		Industrial		Other Public Authority		Sales for Resale		Private Fire Protection		Total	
		Number of Meters (3)	Weighting (4)=(2)X(3)	Number of Meters (5)	Weighting (6)=(2)X(5)	Number of Meters (7)	Weighting (8)=(2)X(7)	Number of Meters (9)	Weighting (10)=(2)X(9)	Number of Meters (11)	Weighting (12)=(2)X(11)	Number of Meters (13)	Weighting (14)=(2)X(11)	Number of Meters (15)	Weighting (16)
5/8	1.0	109,326	109,326	4,795	4,795	2	2	133	133	0	0	1,415	1,415	115,671	115,671
1	1.8	1,779	3,202	2,289	4,120	2	4	176	317	0	0	0	0	4,246	7,643
1-1/2	5.4	14	76	170	918	1	5	27	146	3	16	0	0	215	1,161
2	7.0	85	595	1,704	11,928	24	168	346	2,422	7	49	0	0	2,166	15,162
3	14.0	0	0	6	84	0	0	0	0	0	0	0	0	6	84
4	27.0	0	0	28	756	12	324	37	999	7	189	0	0	84	2,268
6	40.0	2	80	11	440	3	120	9	360	4	160	0	0	29	1,160
8	50.0	0	0	8	400	0	0	2	100	0	0	0	0	10	500
Total		111,206	113,279	9,011	23,441	44	623	730	4,477	21	414	1,415	1,415	122,427	143,649

KENTUCKY-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COSTS BY FUNCTION TO CUSTOMER CLASSIFICATIONS

FACTOR E. ALLOCATION OF COSTS ASSOCIATED WITH SERVICES.

Factors are based on the relative cost of services by size and customer classification, as developed on the following page and summarized below.

Customer Classification <u>(1)</u>	3/4" Dollar Equivalents <u>(2)</u>	Allocation Factor <u>(3)</u>
Residential	113,127	0.8403
Commercial	14,041	0.1043
Industrial	120	0.0009
Other Public Authority	1,550	0.0115
Sales for Resale	65	0.0005
Private Fire Protection	5,719	0.0425
 Total	 <u>134,622</u>	 <u>1.0000</u>

FACTOR F. ALLOCATION OF BILLING AND COLLECTING COSTS.

Factors are based on the total number of customers.

Customer Classification <u>(1)</u>	Total Customers <u>(2)</u>	Allocation Factor <u>(3)</u>
Residential	111,206	0.9027
Commercial	9,011	0.0731
Industrial	44	0.0004
Other Public Authority	730	0.0059
Sales for Resale	21	0.0002
Private Fire Protection	2,147	0.0174
Public Fire Protection	38	0.0003
 Total	 <u>123,197</u>	 <u>1.0000</u>

KENTUCKY-AMERICAN WATER COMPANY

BASIS FOR ALLOCATING SERVICE COSTS TO CUSTOMER CLASSIFICATIONS

Service Size (1)	3/4" Dollar Equivalent (2)	Residential		Commercial		Industrial		Other Public Authority		Sales for Resale		Private Fire Protection		Total	
		Number of Services (3)	Weighting (4)=(2)X(3)	Number of Services (5)	Weighting (6)=(2)X(5)	Number of Services (7)	Weighting (8)=(2)X(7)	Number of Services (9)	Weighting (10)=(2)X(9)	Number of Services (11)	Weighting (12)=(2)X(11)	Number of Services (13)	Weighting (14)=(2)X(13)	Number of Services (15)	Weighting (16)
3/4	1.00	79,326 *	79,326	4,795	4,795	2	2	133	133	0	0	0	0	84,256	84,256
1	2.00	16,779 *	33,558	2,289	4,578	2	4	176	352	0	0	0	0	19,246	38,492
1-1/2	2.20	14	31	170	374	1	2	27	59	3	7	0	0	215	473
2	2.40	85	204	1,704	4,090	24	58	346	830	7	17	56	134	2,222	5,333
4	3.50	0	0	34	119	12	42	37	130	7	25	345	1,208	435	1,524
6	4.00	2	8	11	44	3	12	9	36	4	16	769	3,076	798	3,192
8	5.10	0	0	8	41	0	0	2	10	0	0	233	1,188	243	1,239
10	8.90	0	0	0	0	0	0	0	0	0	0	7	62	7	62
12	9.50	0	0	0	0	0	0	0	0	0	0	4	38	4	38
>12	12.70	0	0	0	0	0	0	0	0	0	0	1	13	1	13
Total		96,206	113,127	9,011	14,041	44	120	730	1,550	21	65	1,415	5,719	107,427	134,622

*Adjusted to reflect that approximately 30,000 residential customers are served by 1-inch service lines each serving two residences.

KENTUCKY-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COSTS BY FUNCTION TO CUSTOMER CLASSIFICATIONS

FACTOR G. ALLOCATION OF METER READING COSTS.

Factors are based on the number of metered customers.

<u>Customer Classification</u> (1)	<u>Total Metered Customers</u> (2)	<u>Allocation Factor</u> (2)
Residential	111,206	0.9082
Commercial	9,011	0.0736
Industrial	44	0.0004
Other Public Authority	730	0.0060
Sales for Resale	21	0.0002
Private Fire Protection	<u>1,415</u>	<u>0.0116</u>
Total	<u><u>122,427</u></u>	<u><u>1.0000</u></u>

FACTOR H. ALLOCATION OF PRIVATE FIRE PROTECTION COSTS.

These costs are assigned directly to Private Fire Protection.

<u>Cost Function</u> (1)	<u>Allocation Factor</u> (2)
Private Fire Protection	<u><u>1.0000</u></u>

FACTOR I. ALLOCATION OF PUBLIC FIRE PROTECTION COSTS.

These costs are assigned directly to Public Fire Protection.

<u>Cost Function</u> (1)	<u>Allocation Factor</u> (2)
Public Fire Protection	<u><u>1.0000</u></u>

KENTUCKY-AMERICAN WATER COMPANY
COST OF SERVICE FOR THE TWELVE MONTHS ENDING MAY 31, 2010, ALLOCATED TO COST FUNCTIONS

Account (1)	Factor Ref. (2)	Cost of Service (3)	Base (4)	Extra Capacity (5)		Max Hour (6)	Customer Facilities (7)		Customer Accounting (9)		Fire Service (11)		Public Fire (12)
				Max Day (5)	Max Hour (6)		Meters (7)	Services (8)	Billing & Collecting (9)	Meter Reading (10)	Private Fire (11)		
OPERATION AND MAINTENANCE EXPENSES													
SOURCE OF SUPPLY EXPENSES													
-OPERATION-													
600 Supervision & Engineering	2	0	0	0	0	0	0	0	0	0	0	0	0
601 Operation Expense and Labor Expenses	2	0	0	0	0	0	0	0	0	0	0	0	0
602 Purchased Water	1	114,586	114,586	0	0	0	0	0	0	0	0	0	0
603 Miscellaneous Expenses	2	41,523	25,167	16,356	0	0	0	0	0	0	0	0	0
604 Rents	2	0	0	0	0	0	0	0	0	0	0	0	0
Total Operation		156,109	139,753	16,356	0	0	0	0	0	0	0	0	0
-MAINTENANCE-													
610 Supervision & Engineering	2	0	0	0	0	0	0	0	0	0	0	0	0
612 Maint Coll & Impound Res	1	0	0	0	0	0	0	0	0	0	0	0	0
613.1 Maint Lakes, River & Intakes	2	0	0	0	0	0	0	0	0	0	0	0	0
613.2 Amort Lakes, River & Intakes	2	0	0	0	0	0	0	0	0	0	0	0	0
614 Wells and Springs Maint	2	0	0	0	0	0	0	0	0	0	0	0	0
616 Maint Supply Mains Mat	2	0	0	0	0	0	0	0	0	0	0	0	0
617 Maint Misc Water Source Expenses	2	169,450	102,704	66,746	0	0	0	0	0	0	0	0	0
617 Labor	2	0	0	0	0	0	0	0	0	0	0	0	0
Total Maintenance		169,450	102,704	66,746	0	0	0	0	0	0	0	0	0
Total Source of Supply		325,559	242,457	83,102	0	0	0	0	0	0	0	0	0
POWER AND PUMPING EXPENSES													
620 Pumping Supervision & Eng Electric	6	0	0	0	0	0	0	0	0	0	0	0	0
622 Pump Power Prod Labor & Exp Expenses	6	0	0	0	0	0	0	0	0	0	0	0	0
622 Labor	6	0	0	0	0	0	0	0	0	0	0	0	0
623 Pump Fuel and Power Purchase	1	3,600,382	3,600,382	0	0	0	0	0	0	0	0	0	0
624 Pump Labor and Expenses Expenses	6	0	0	0	0	0	0	0	0	0	0	0	0
624 Labor	6	0	0	0	0	0	0	0	0	0	0	0	0
626 Misc Pumping Expenses Electric	6	3,060	1,677	976	264	0	0	0	0	0	60	0	83
627 Rents	6	0	0	0	0	0	0	0	0	0	0	0	0
Total Operation		3,603,442	3,602,059	976	264	0	0	0	0	0	60	0	83

KENTUCKY-AMERICAN WATER COMPANY
COST OF SERVICE FOR THE TWELVE MONTHS ENDING MAY 31, 2010, ALLOCATED TO COST FUNCTIONS

Account (1)	Factor Ref (2)	Cost of Service (3)	Base (4)	Extra Capacity		Customer Facilities		Customer Accounting		Fire Service	
				Max Day (5)	Max Hour (6)	Meters (7)	Services (8)	Billing & Collecting (9)	Meter Reading (10)	Private Fire (11)	Public Fire (12)
-MAINTENANCE-											
630 Supervision & Engineering	6	197,097	108,029	62,854	16,990	0	0	0	0	3,883	5,341
631 Pump Struc & Imp Maint	6	0	0	0	0	0	0	0	0	0	0
Expenses	6	0	0	0	0	0	0	0	0	0	0
Labor	6	0	0	0	0	0	0	0	0	0	0
632 Pump Maint Power Prod Equipment	6	0	0	0	0	0	0	0	0	0	0
Expenses	6	0	0	0	0	0	0	0	0	0	0
Labor	6	0	0	0	0	0	0	0	0	0	0
633 Pump Maint Pumping Equipment	6	0	0	0	0	0	0	0	0	0	0
Expenses	6	0	0	0	0	0	0	0	0	0	0
Labor	6	0	0	0	0	0	0	0	0	0	0
Total Maintenance		197,097	108,029	62,854	16,990	0	0	0	0	3,883	5,341
Total Power and Pumping		3,800,539	3,710,088	63,830	17,254	0	0	0	0	3,943	5,424
WATER TREATMENT											
-OPERATION-											
640 Supervision and Engineering	2	815,083	494,022	321,061	0	0	0	0	0	0	0
641 Chemicals	1	2,746,805	2,746,805	0	0	0	0	0	0	0	0
642 Labor and Expenses	2	156,329	94,751	61,578	0	0	0	0	0	0	0
Expenses	2	1,096,699	664,709	431,990	0	0	0	0	0	0	0
Labor	2	78,127	47,353	30,774	0	0	0	0	0	0	0
643 Misc Water Treatment Exp-Current	1	297,231	297,231	0	0	0	0	0	0	0	0
Expenses - Other	1	0	0	0	0	0	0	0	0	0	0
Expenses - Waste Disposal	1	0	0	0	0	0	0	0	0	0	0
Labor	2	0	0	0	0	0	0	0	0	0	0
Rents	2	0	0	0	0	0	0	0	0	0	0
Total Operation		5,190,274	4,344,871	845,403	0	0	0	0	0	0	0
-MAINTENANCE-											
650 Supervision and Engineering	2	0	0	0	0	0	0	0	0	0	0
651 Structures and Improvements	2	280,782	170,182	110,600	0	0	0	0	0	0	0
Expenses	2	0	0	0	0	0	0	0	0	0	0
Labor	2	13,365	8,101	5,264	0	0	0	0	0	0	0
652 General Water Equip	2	0	0	0	0	0	0	0	0	0	0
Expenses	2	294,147	178,282	115,864	0	0	0	0	0	0	0
Labor	2	5,484,421	4,523,153	961,268	0	0	0	0	0	0	0
Total Maintenance		294,147	178,282	115,864	0	0	0	0	0	0	0
Total Water Treatment Expenses		5,484,421	4,523,153	961,268	0	0	0	0	0	0	0

KENTUCKY-AMERICAN WATER COMPANY
COST OF SERVICE FOR THE TWELVE MONTHS ENDING MAY 31, 2010, ALLOCATED TO COST FUNCTIONS

Account (1)	Factor Ref. (2)	Cost of Service (3)	Base (4)	Extra Capacity (5)		Max Hour (6)	Customer Facilities (7)		Billing & Collecting (9)	Meter Reading (10)	Fire Service (11)		Public Fire (12)
				Max Day (5)	Max Hour (6)		Meters (7)	Services (8)			Private Fire (11)	Public Fire (12)	
TRANSMISSION AND DISTRIBUTION EXPENSES													
-OPERATION-													
660 Supervision and Engineering	8	483,175	190,516	35,368	204,238	0	0	0	0	0	22,371	30,682	
661 Storage Facilities Expense	5	0	0	0	0	0	0	0	0	0	0	0	
662 Lines Expense													
Expenses	7	17,950	7,078	1,314	7,587	0	0	0	0	0	831	1,140	
Labor	7	831,766	327,976	60,866	351,577	0	0	0	0	0	38,507	52,840	
663 Meter Expense													
Expenses	9	0	0	0	0	0	0	0	0	0	0	0	
Labor	9	0	0	0	0	0	0	0	0	0	0	0	
664 Customer Installation Expenses													
Expenses	9	0	0	0	0	0	0	0	0	0	0	0	
Labor	9	0	0	0	0	0	0	0	0	0	0	0	
665 Maps and Records													
Expenses	8	0	0	0	0	0	0	0	0	0	0	0	
Labor	8	35,818	14,123	2,622	15,140	0	0	0	0	0	1,658	2,274	
665 Miscellaneous Expenses													
Expenses - Other	8	338,479	133,462	24,777	143,075	0	0	0	0	0	15,672	21,493	
Expenses - Distribution Reservoirs	5	0	0	0	0	0	0	0	0	0	0	0	
Labor	8	0	0	0	0	0	0	0	0	0	0	0	
666 Rents	8	4,464	1,760	327	1,887	0	0	0	0	0	207	283	
Total Operation		1,711,652	674,915	125,273	723,505	0	0	0	0	0	79,246	108,713	
-MAINTENANCE-													
670 Supervision and Engineering	14	0	0	0	0	0	0	0	0	0	0	0	
671 T & D Structures & Improve Maint													
Expenses	14	0	0	0	0	0	0	0	0	0	0	0	
Labor	14	0	0	0	0	0	0	0	0	0	0	0	
672 Reservoirs and Standpipes													
Expenses	5	225,277	68,349	0	102,546	0	0	0	0	0	22,911	31,471	
Labor	5	0	0	0	0	0	0	0	0	0	0	0	
673 T & D Mains													
Expenses	7	0	0	0	0	0	0	0	0	0	0	0	
Labor	7	882,969	348,166	64,612	373,220	0	0	0	0	0	40,878	56,092	
675 Services													
Expenses	10	0	0	0	0	0	0	0	0	0	0	0	
Labor	10	395,195	0	0	0	0	0	0	0	0	0	0	
676 Meters													
Expenses	9	0	0	0	0	0	0	0	0	0	0	0	
Labor	9	85,398	0	0	0	85,398	0	0	0	0	0	0	

KENTUCKY-AMERICAN WATER COMPANY
COST OF SERVICE FOR THE TWELVE MONTHS ENDING MAY 31, 2010, ALLOCATED TO COST FUNCTIONS

Account (1)	Factor Ref (2)	Cost of Service (3)	Base (4)	Extra Capacity		Customer Facilities		Customer Accounting		Fire Service	
				Max Day (5)	Max Hour (6)	Meters (7)	Services (8)	Billing & Collecting (9)	Meter Reading (10)	Private Fire (11)	Public Fire (12)
677 Hydrants	13	0	0	0	0	0	0	0	0	0	0
Expenses	13	0	0	0	0	0	0	0	0	0	0
Labor	13	0	0	0	0	0	0	0	0	0	0
678 Miscellaneous Plant	14	361,487	94,818	14,713	108,229	19,412	89,902	0	0	14,496	19,918
Expenses	14	0	0	0	0	0	0	0	0	0	0
Labor	14	0	0	0	0	0	0	0	0	0	0
Total Maintenance		1,950,326	511,333	79,325	583,996	104,810	485,097	0	0	78,284	107,482
Total Transmission and Distribution		3,661,978	1,186,249	204,598	1,307,501	104,810	485,097	0	0	157,530	216,194
CUSTOMER ACCOUNTS											
901 Supervision	11	49,412	0	0	0	0	0	49,412	0	0	0
Expenses	12	0	0	0	0	0	0	0	0	0	0
Labor	12	670,096	0	0	0	0	0	0	670,096	0	0
903 Recording and Collecting Expenses											
Expenses	11	1,160,913	0	0	0	0	0	1,160,913	0	0	0
Labor	11	178,102	0	0	0	0	0	178,102	0	0	0
Uncollectible Accounts	11	575,787	0	0	0	0	0	575,787	0	0	0
Misc Customer Accounting Expenses	11	6,430	0	0	0	0	0	6,430	0	0	0
Customer Service Expenses	11	0	0	0	0	0	0	0	0	0	0
Labor	11	0	0	0	0	0	0	0	0	0	0
Total Customers' Accounting and Collecting Expenses		2,640,740	0	0	0	0	0	1,970,644	670,096	0	0
ADMINISTRATIVE AND GENERAL EXPENSES											
-OPERATION-											
920 Administrative & General Salaries	15	0	0	0	0	0	0	0	0	0	0
Expenses	15	1,225,904	388,857	175,795	177,388	13,975	64,973	263,937	89,736	21,576	29,667
Labor	15	550,508	174,621	78,943	79,659	6,276	29,177	118,524	40,297	9,689	13,322
Miscellaneous Office Expenses	15	1,839,044	0	0	0	0	0	1,839,044	0	0	0
Outside Services	11	189,753	189,753	0	0	0	0	0	0	0	0
Customer Related	1	6,615,014	2,096,282	948,593	957,192	75,411	350,596	1,424,212	484,219	116,424	160,083
Water Quality	15	155,642	49,370	22,319	22,521	1,774	8,249	33,510	11,393	2,739	3,767
Other	15	165,258	60,336	27,482	27,086	2,363	10,940	11,684	18,079	3,074	4,214
Property Insurance	16	386,126	122,479	55,370	55,872	4,402	20,465	83,133	28,264	6,796	9,344
Workers Compensation	15	3,749,440	1,368,921	623,532	614,533	53,617	248,213	265,085	410,189	69,740	95,611
General Liability	16	355,582	158,447	64,467	41,141	17,850	12,623	30,936	9,458	6,827	13,832
Employee Pensions and Benefits	19	1,190,104	377,501	170,661	172,208	13,567	63,076	256,229	87,116	20,946	28,801
Regulatory Expenses	15	27,504	8,724	3,944	3,980	314	1,458	5,922	2,013	484	666
Miscellaneous General Expense	15	16,449,879	4,997,291	2,171,106	2,151,581	189,550	809,769	4,332,216	1,180,765	258,295	359,306
Administrative and General Rents	15	0	0	0	0	0	0	0	0	0	0
Total Operation		16,449,879	4,997,291	2,171,106	2,151,581	189,550	809,769	4,332,216	1,180,765	258,295	359,306

KENTUCKY-AMERICAN WATER COMPANY
COST OF SERVICE FOR THE TWELVE MONTHS ENDING MAY 31, 2010, ALLOCATED TO COST FUNCTIONS

Account (1)	Factor Ref (2)	Cost of Service (3)	Extra Capacity		Customer Facilities		Customer Accounting		Fire Service		
			Base (4)	Max Day (5)	Max Hour (6)	Meters (7)	Services (8)	Billing & Collecting (9)	Meter Reading (10)	Private Fire (11)	Public Fire (12)
-MAINTENANCE-											
932 Maintenance of General Plant	15	141,244	44,803	20,254	20,438	1,610	7,486	30,410	10,339	2,486	3,418
Total Maintenance											
Total Administrative and General Expenses		16,591,123	5,042,094	2,191,361	2,172,019	191,160	817,255	4,362,626	1,191,104	260,781	362,724
Total Operation and Maintenance Expenses		32,504,361	14,704,040	3,504,158	3,496,773	295,970	1,302,351	6,333,270	1,861,200	422,254	584,343
503 DEPRECIATION EXPENSE											
301 Organization	17	0	0	0	0	0	0	0	0	0	0
302 Franchise and Consents	15	0	0	0	0	0	0	0	0	0	0
303 Other P/E Intangibles	17	110,411	43,690	20,404	17,975	12,222	3,666	1,215	409	3,036	7,795
310 Land and Land Rights	2	0	0	0	0	0	0	0	0	0	0
311 Source of Supply Struct & Improv	2	94,880	57,507	37,373	0	0	0	0	0	0	0
312 Collecting & Impounding Reservoirs	1	15,187	15,187	0	0	0	0	0	0	0	0
313 Lake, River and Other Intakes	2	12,300	7,455	4,845	0	0	0	0	0	0	0
314 Wells and Springs	2	0	0	0	0	0	0	0	0	0	0
316 Supply Mains	2	93,528	56,687	36,841	0	0	0	0	0	0	0
321 Pumping Structures & Improvements	6	106,264	58,243	33,888	9,160	0	0	0	0	2,093	2,880
322 Boiler Plant Equipment	6	0	0	0	0	0	0	0	0	0	0
323 Other Power Production Equipment	6	25,021	13,714	7,979	2,157	0	0	0	0	493	678
325 Electric Pumping Equipment	6	382,418	209,603	121,953	32,964	0	0	0	0	7,534	10,364
326 Diesel Pumping Equipment	6	17,894	9,808	5,706	1,542	0	0	0	0	353	485
328 Other Pumping Equipment	6	20,106	11,020	6,412	1,733	0	0	0	0	396	545
331 Water Treat Structures & Improv	2	166,570	100,958	65,612	0	0	0	0	0	0	0
332 Water Treat and Equipment	2	689,985	418,200	271,785	0	0	0	0	0	0	0
334 GAC	2	0	0	0	0	0	0	0	0	0	0
341 T & D Structures & Improvements	14	36,098	9,469	1,469	10,808	1,938	8,978	0	0	1,448	1,989
342 Distrib. Reservoirs & Standpipes	5	287,033	87,086	0	130,657	0	0	0	0	29,191	40,099
343 Transmission & Distribution Mains											
Distribution	4	1,507,677	531,908	0	798,013	0	0	0	0	74,932	102,824
Transmission	3	946,523	529,012	343,872	0	0	0	0	0	31,046	42,594
345 Services	10	565,209	0	0	0	0	565,209	0	0	0	0
346 Meters	9	432,436	0	0	0	432,436	0	0	0	0	0
347 Meter Installations	9	466,552	0	0	0	466,552	0	0	0	0	0
348 Fire Hydrants	13	174,898	0	0	0	0	0	0	0	0	174,898
349 Other T & D	14	0	0	0	0	0	0	0	0	0	0
389 Land and Land Rights	15	0	0	0	0	0	0	0	0	0	0
390 General Structures & Improvements	15	0	0	0	0	0	0	0	0	0	0
390.1 Office Structures	15	90,486	28,702	12,976	13,093	1,032	4,796	19,482	6,624	1,593	2,190
390.2 Stores Shop and Gar. Structures	15	23,737	7,529	3,404	3,435	271	1,258	5,111	1,738	418	574
390.3 Miscellaneous Structures & Improv	15	81,913	25,983	11,746	11,853	934	4,341	17,636	5,996	1,442	1,982
391 Office Furniture and Equipment	15	215,155	68,247	30,853	31,133	2,453	11,403	46,323	15,749	3,787	5,207
391.20 Computers & Peripheral Equipment	15	122,911	38,987	17,625	17,785	1,401	6,514	26,463	8,997	2,163	2,974

KENTUCKY-AMERICAN WATER COMPANY
COST OF SERVICE FOR THE TWELVE MONTHS ENDING MAY 31, 2010, ALLOCATED TO COST FUNCTIONS

Account (1)	Factor Ref (2)	Cost of Service (3)	Base (4)	Extra Capacity (5)		Max Hour (6)	Customer Facilities (7)		Customer Accounting (8)		Fire Service (9)	
				Max Day	Meters		Billing & Collecting	Meter Reading	Private Fire	Public Fire		
391.25 Computer Software	15	312,827	99,229	44,859	3,566	45,266	3,566	16,580	67,352	22,899	5,506	7,570
391.28 Other software	15	114,635	36,362	16,439	1,307	16,588	1,307	6,076	24,681	8,391	2,018	2,774
391.30 Other Office Equipment	15	7,549	2,395	1,083	86	1,092	86	400	1,625	553	133	183
392.11 Transportation Equip-Light Trucks	15	129,235	40,993	18,532	1,473	18,700	1,473	6,849	27,824	9,460	2,275	3,127
392.12 Transportation Equip-Heavy Trucks	15	69,780	22,134	10,006	795	10,097	795	3,698	15,024	5,108	1,228	1,689
392.2 Transportation Equip-Cars	15	41,161	13,056	5,902	469	5,956	469	2,182	8,862	3,013	724	996
392.3 Transportation Equip-Other	15	27,231	8,638	3,905	310	3,940	310	1,443	5,863	1,993	479	659
393 Stores Equipment	15	1,757	557	252	20	254	20	93	378	129	31	43
394 Tools, Shop & Garage Equipment	15	142,751	45,281	20,470	1,627	20,656	1,627	7,566	30,734	10,449	2,512	3,455
395 Laboratory Equipment	2	84,417	51,165	33,252	0	0	0	0	0	0	0	0
396 Power Operated Equipment	15	70,863	22,478	10,162	808	10,254	808	3,756	15,257	5,187	1,247	1,715
397 Communication Equipment	15	139,811	44,348	20,049	1,594	20,231	1,594	7,410	30,101	10,234	2,461	3,383
398 Miscellaneous Equipment	15	66,766	21,178	9,574	761	9,661	761	3,539	14,375	4,887	1,175	1,616
399 Other Tangible Property	15	7,686	2,438	1,102	88	1,112	88	407	1,655	563	135	186
Total Depreciation Expense		7,901,661	2,739,248	1,230,332	932,144	1,246,117	932,144	666,164	359,959	122,378	179,847	425,472
404 AMORTIZATION EXPENSE												
AFUDC	18	71,346	32,719	17,416	5,073	8,183	5,073	1,584	642	221	1,691	3,817
Acquisition Adjustment	18	13,051	5,985	3,186	928	1,497	928	290	117	40	309	698
Property Losses	2	412,192	249,830	162,362	0	0	0	0	0	0	0	0
Total Amortizations		496,589	288,534	182,964	6,001	9,680	6,001	1,874	760	262	2,000	4,515
507.1 TAXES, OTHER THAN INCOME												
Federal and State Payroll Taxes	16	539,441	196,950	89,709	7,714	88,414	7,714	35,711	38,138	59,015	10,034	13,756
Property Taxes	18	3,112,966	1,427,606	759,875	221,332	357,057	221,332	69,108	28,017	9,650	73,777	166,544
Gross Receipts and surtax	19	129,269	57,602	23,436	6,489	14,956	6,489	4,589	11,246	3,439	2,482	5,029
Other General Taxes	18	0	0	0	0	0	0	0	0	0	0	0
Total Taxes, Other Than Income		3,781,676	1,682,158	873,021	235,535	460,428	235,535	109,408	77,402	72,104	86,293	185,328

KENTUCKY-AMERICAN WATER COMPANY
COST OF SERVICE FOR THE TWELVE MONTHS ENDING MAY 31, 2010, ALLOCATED TO COST FUNCTIONS

Account (1)	Factor Ref. (2)	Cost of Service (3)	Base (4)	Extra Capacity		Customer Facilities		Customer Accounting			Fire Service	
				Max Day (5)	Max Hour (6)	Meters (7)	Services (8)	Billing & Collecting (9)	Meter Reading (10)	Private Fire (11)	Public Fire (12)	
507.2 INCOME TAXES	18	10,481,001	4,806,587	2,558,412	1,202,171	745,199	232,678	94,329	32,491	248,400	560,734	
Utility Operating Income Available for Return	18	26,227,436	12,027,902	6,402,117	3,008,287	1,864,771	582,249	236,047	81,305	621,590	1,403,168	
Total Cost of Service		81,392,724	36,248,470	14,751,004	9,423,456	4,079,620	2,894,724	7,101,766	2,169,740	1,560,384	3,163,560	
Less: Other Water Revenues	19	105,143	46,852	19,062	12,165	5,278	3,733	9,147	2,797	2,019	4,090	
Customer Related	11	1,349,315	0	0	0	0	0	1,349,315	0	0	0	
AFUDC	18	3,094,989	1,419,362	755,487	354,995	220,054	68,709	27,855	9,594	73,351	165,582	
Billing and Collecting Services	11	1,071,239	0	0	0	0	0	1,071,239	0	0	0	
Total Other Water Revenues		5,620,686	1,466,214	774,549	367,160	225,332	72,441	2,457,556	12,391	75,370	169,672	
Total Cost of Service Related to Sales of Water		75,772,038	34,782,256	13,976,454	9,056,296	3,854,288	2,822,283	4,644,210	2,157,349	1,485,014	2,993,888	

Schedule E

KENTUCKY-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO COST FUNCTIONS

FACTOR 1. ALLOCATION OF COSTS WHICH VARY WITH THE AMOUNT OF WATER CONSUMED.

Costs are allocated directly to the Base Cost Function.

<u>Cost Function</u> (1)	<u>Allocation Factor</u> (2)
Base	<u><u>1.0000</u></u>

FACTOR 2. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE AND MAXIMUM DAY EXTRA

The weighting of the Factors is based on the maximum day ratio of 1.65, based on a review of maximum day ratios experienced by the Company. (see Schedule F).

<u>Cost Function</u> (1)	<u>Maximum Day Ratio</u> (2)	<u>Allocation Factor</u> (3)
Average Day	1.00	0.6061
Maximum Day Extra Capacity	<u>0.65</u>	<u>0.3939</u>
Total	<u><u>1.65</u></u>	<u><u>1.0000</u></u>

KENTUCKY-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO COST FUNCTIONS

FACTOR 3. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE, MAXIMUM DAY EXTRA

Factors are based on the potential demand of general and fire protection service. The bases for the potential demand of general service are the maximum day ratio of 1.65 and the average pumpage for the test year. The system demand for fire protection is 10,000 Gallons per minute for 10 hours, or 6 MGD. The Allocation of Fire Protection is based on the relative demand flows, as shown on the following page and summarized below.

Cost Function (1)	Ratio (2)	Rate of Flow, (GPD) (3)	Allocation Factor (4)	Allocation of Fire Protection (5)	Weighted Factor (6)
Average Day	1.00	43,108,090	0.5589		
Maximum Day Extra Capacity	0.65	28,020,259	0.3633		
Subtotal	1.65	71,128,349	0.9222		
Fire Protection		6,000,000	0.0778		
Private Fire				0.4212	0.0328
Public Fire				0.5788	0.0450
Total		77,128,349	1.0000	1.0000	0.0778

FACTOR 4. ALLOCATION OF COSTS ASSOCIATED WITH FACILITIES SERVING BASE AND MAXIMUM HOUR

The bases for the potential demand of general service are the maximum hour ratio of 2.5 and the average pumpage for the test year. The system demand for fire protection is 10,000 Gallons per minute for 10 hours. The Allocation of Fire Protection is based on the relative demand flows, as shown on the following page and summarized below.

Cost Function (1)	Ratio (2)	Rate of Flow, (GPM) (3)	Allocation Factor (4)	Allocation of Fire Protection (5)	Weighted Factor (6)
Average Hour	1.00	29,936	0.3528		
Maximum Hour Extra Capacity	1.50	44,904	0.5293		
Subtotal	2.50	74,840	0.8821		
Fire Protection		10,000	0.1179		
Private Fire				0.4212	0.0497
Public Fire				0.5788	0.0682
Total		84,840	1.0000	1.0000	0.1179

KENTUCKY-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO COST FUNCTIONS

BASIS FOR ALLOCATING DEMAND RELATED COSTS OF FIRE SERVICE
 TO PRIVATE AND PUBLIC FIRE PROTECTION CUSTOMER CLASSIFICATIONS

The demand for fire protection is assigned to private and public fire service based on the relative potential demands, as follows:

	Restrictive Diameter Squared (1)	Quantity (2)	Relative Demand* (3)	Allocation Factor (4)
<u>Private Fire Protection:</u>				
2 -inch Fire Line	4	56	336	
3 -inch Fire Line	9	0	0	
4 -inch Fire Line	16	345	8,280	
6 -inch Fire Line	36	769	41,526	
8 -inch Fire Line	64	233	22,368	
10 -inch Fire Line	100	7	1,050	
12 -inch Fire Line	144	4	864	
14 -inch Fire Line	196	0	0	
16 -inch Fire Line	256	1	384	
Private Hydrants	27.6	983	40,696	
Total Private Fire		<u>2,398</u>	<u>115,504</u>	<u>0.4212</u>
<u>Public Fire Protection:</u>				
4 -1/4 inch w/ 2-2 1/2, 1-4 1/2	20.3	6,458	131,096	
5 -1/4 inch w/ 2-2 1/2, 1-4 1/2	27.6	1,000	27,600	
Total Public Fire		<u>7,458</u>	<u>158,696</u>	<u>0.5788</u>
Total Fire Protection		<u>9,856</u>	<u>274,200</u>	<u>1.0000</u>

* Relative Demand for Private Fire lines and hydrants are calculated at 1.5 times the Public Fire Relative Demand.

KENTUCKY-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO COST FUNCTIONS

FACTOR 5. ALLOCATION OF COSTS ASSOCIATED WITH STORAGE FACILITIES.

Factors are based on the potential demand of general and fire protection service using the ratio of the capacity required for a 10-hour demand of fire flow as related to total storage capacity.

$$\begin{aligned} \text{fire Not updated - storage updated} \\ \text{Fire Protection Weight} &= \frac{10,000 \text{ gpm for 10 hours}}{24,860,000 \text{ Gallons Storage}} = 0.2414 \\ \text{General Service} &= 1.0000 - 0.2414 = 0.7586 \end{aligned}$$

The General Service weight is assigned to base and maximum hour extra capacity, based on the maximum hour ratio, as follows:

	Ratio	Percent	Weight
Base	1.00	0.4000	0.3034
Maximum Hour Extra Capacity	1.50	0.6000	0.4552
Total	2.50	1.0000	0.7586
Private Fire		0.4212	0.1017
Public Fire		0.5788	0.1397
Total Fire		1.0000	0.2414
Total			1.0000

KENTUCKY-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO COST FUNCTIONS

FACTOR 6. ALLOCATION OF PUMPS AND PUMPING EXPENSES.

Cost Function (1)	Factor 2 (2)	Weighted Factor (3)=(2)x 0.4824	Factor 3 (4)	Weighted Factor (5)=(4)x 0.3547	Factor 4 (6)	Weighted Factor (7)=(6)x 0.1629	Allocation Factor (8)=(3)+(5)+(7)
Base							
Maximum Day Extra Capacity	0.6061	0.2924	0.5589	0.1982	0.3528	0.0575	0.5481
Maximum Hour Extra Capacity	0.3939	0.1900	0.3633	0.1289			0.3189
Private Fire Service			0.0328	0.0116	0.5293	0.0862	0.0862
Public Fire Service			0.0450	0.0160	0.0497	0.0081	0.0197
					0.0682	0.0111	0.0271
Total	1.0000	0.4824	1.0000	0.3547	1.0000	0.1629	1.0000

The weighting of the factors is based on the horsepower of pumps associated with maximum day facilities, maximum day and fire facilities, and

	Horsepower of Pumps	Weight
Associated with Maximum Day	10,130	0.4824
Associated with Maximum Day and Fire	7,447	0.3547
Associated with Maximum Hour	3,421	0.1629
Total	20,998	1.0000

KENTUCKY-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO COST FUNCTIONS

FACTOR 7. ALLOCATION OF LINES EXPENSES.

Cost Function (1)	Transmission Mains		Distribution Mains		Allocation Factor (6)=(3)+(5)
	Factor 3 (2)	Weighted Factor (3)=(2)x 0.2014	Factor 4 (4)	Weighted Factor (5)=(4)x 0.7986	
Base	0.5589	0.1126	0.3528	0.2817	0.3943
Maximum Day Extra Capacity	0.3633	0.0732	0.0000	0.0000	0.0732
Maximum Hour Extra Capacity	0.0000	0.0000	0.5293	0.4227	0.4227
Private Fire Service	0.0328	0.0066	0.0497	0.0397	0.0463
Public Fire Service	0.0450	0.0091	0.0682	0.0545	0.0635
Total	1.0000	0.2014	1.0000	0.7986	1.0000

The weighting of the factors is based on the total footage of mains, designated as either transmission mains or distribution mains, as follows:

	Total Footage of Mains	Weight
Transmission Mains	2,042,783	0.2014
Distribution Mains	8,099,071	0.7986
Total	10,141,854	1.0000

FACTOR 8. ALLOCATION OF TRANSMISSION AND DISTRIBUTION OPERATION SUPERVISION SALARIES AND WAGES.

The factors are based on the allocation of other transmission and distribution operating expenses, as follows:

Cost Function (1)	Transmission & Distribution Operating Expenses (2)	Allocation Factor (3)
Base	\$335,054	0.3943
Maximum Day Extra Capacity	62,179	0.0732
Maximum Hour Extra Capacity	359,165	0.4227
Private Fire Service	39,338	0.0463
Public Fire Service	53,980	0.0635
Total	\$849,716	1.0000

KENTUCKY-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO COST FUNCTIONS

FACTOR 9. ALLOCATION OF COSTS ASSOCIATED WITH METERS.

These costs are assigned directly to the Customer Facilities Cost Function.

Cost Function <hr style="width: 200px; margin: 0 auto;"/> (1)	Allocation Factor <hr style="width: 200px; margin: 0 auto;"/> (2)
Meters	<u><u>1.0000</u></u>

FACTOR 10. ALLOCATION OF COSTS ASSOCIATED WITH SERVICES.

These costs are assigned directly to the Customer Facilities Cost Function.

Cost Function <hr style="width: 200px; margin: 0 auto;"/> (1)	Allocation Factor <hr style="width: 200px; margin: 0 auto;"/> (2)
Services	<u><u>1.0000</u></u>

FACTOR 11. ALLOCATION OF COSTS ASSOCIATED WITH BILLING AND COLLECTING.

These costs are assigned directly to the Customer Accounting Cost Function.

Cost Function <hr style="width: 200px; margin: 0 auto;"/> (1)	Allocation Factor <hr style="width: 200px; margin: 0 auto;"/> (2)
Billing and Collecting	<u><u>1.0000</u></u>

KENTUCKY-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO COST FUNCTIONS

FACTOR 12. ALLOCATION OF COSTS ASSOCIATED WITH METER READING.

These costs are assigned directly to the Customer Accounting Cost Function.

<u>Cost Function</u> (1)	<u>Allocation Factor</u> (2)
Meter Reading	<u>1.0000</u>

FACTOR 13. ALLOCATION OF COSTS ASSOCIATED WITH FIRE HYDRANTS.

These costs are assigned directly to Public Fire Protection.

<u>Cost Function</u> (1)	<u>Allocation Factor</u> (2)
Public Fire Protection	<u>1.0000</u>

FACTOR 14. ALLOCATION OF TRANSMISSION AND DISTRIBUTION MISCELLANEOUS MAINTENANCE EXPENSES.

The factors are based on the allocation of other transmission and distribution maintenance expenses.

<u>Cost Function</u> (1)	<u>Transmission & Distribution Maintenance Expenses</u> (2)	<u>Allocation Factor</u> (3)
Base	\$416,515	0.2623
Maximum Day Extra Capacity	64,612	0.0407
Maximum Hour Extra Capacity	475,766	0.2994
Meters	85,398	0.0537
Services	395,195	0.2487
Private Fire Service	63,789	0.0401
Public Fire Service	<u>87,564</u>	<u>0.0551</u>
Total	<u>\$1,588,839</u>	<u>1.0000</u>

KENTUCKY-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO COST FUNCTIONS

FACTOR 15. ALLOCATION OF ADMINISTRATIVE AND GENERAL EXPENSES.

The factors are based on the allocation of all other operation and maintenance expenses excluding power, chemicals, and purchased water, as follows:

Cost Function <u>(1)</u>	Other Operating Expenses <u>(2)</u>	Allocation Factor <u>(3)</u>
Base	\$2,902,943	0.3172
Maximum Day Extra Capacity	1,312,798	0.1434
Maximum Hour Extra Capacity	1,324,754	0.1447
Meters	104,810	0.0114
Services	485,097	0.0530
Billing and Collecting	1,970,644	0.2153
Meter Reading	670,096	0.0732
Private Fire Service	161,473	0.0176
Public Fire Service	221,619	0.0242
 Total	 <u>\$9,154,233</u>	 <u>1.0000</u>

FACTOR 16. ALLOCATION OF LABOR RELATED TAXES AND BENEFITS.

The factors are based on the allocation of operation and maintenance direct labor expense, as summarized below.

Cost Function <u>(1)</u>	Direct Labor Expense <u>(2)</u>	Allocation Factor <u>(3)</u>
Base	\$2,536,398	0.3651
Maximum Day Extra Capacity	1,155,168	0.1663
Maximum Hour Extra Capacity	1,138,554	0.1639
Meters	99,373	0.0143
Services	460,168	0.0662
Billing and Collecting	491,451	0.0707
Meter Reading	759,832	0.1094
Private Fire Service	128,873	0.0186
Public Fire Service	176,896	0.0255
 Total	 <u>\$6,946,714</u>	 <u>1.0000</u>

KENTUCKY-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO COST FUNCTIONS

FACTOR 17. ALLOCATION OF ORGANIZATION AND OTHER RATE BASE ELEMENTS.

The factors are based on the allocation of utility plant in service, as follows:

Cost Function <u>(1)</u>	Utility Plant in Service <u>(2)</u>	Allocation Factor <u>(3)</u>
Base	\$90,072,578	0.3957
Maximum Day Extra Capacity	42,066,929	0.1848
Maximum Hour Extra Capacity	37,052,617	0.1628
Meters	25,201,816	0.1107
Services	7,558,021	0.0332
Billing and Collecting	2,508,311	0.0110
Meter Reading	852,802	0.0037
Private Fire Service	6,248,368	0.0275
Public Fire Service	16,061,935	0.0706
Total	<u>\$227,623,378</u>	<u>1.0000</u>

FACTOR 18. ALLOCATION OF TAXES AND UTILITY OPERATING INCOME.

The factors are based on the allocation of original cost rate base, as shown on the following pages and summarized below.

Cost Function <u>(1)</u>	Original Cost Rate Base <u>(2)</u>	Allocation Factor <u>(3)</u>
Base	\$139,694,477	0.4586
Maximum Day Extra Capacity	74,358,925	0.2441
Maximum Hour Extra Capacity	34,929,185	0.1147
Meters	21,661,516	0.0711
Services	6,755,874	0.0222
Billing and Collecting	2,743,730	0.0090
Meter Reading	934,259	0.0031
Private Fire Service	7,233,877	0.0237
Public Fire Service	16,304,144	0.0535
Total	<u>\$304,615,988</u>	<u>1.0000</u>

KENTUCKY-AMERICAN WATER COMPANY
COST OF SERVICE FOR THE TWELVE MONTHS ENDING MAY 31, 2010, ALLOCATED TO COST FUNCTIONS

Account (1)	Factor Ref (2)	Cost of Service (3)	Base (4)		Extra Capacity (5)		Customer Facilities (6)		Customer Accounting (7)		Fire Service (8)		Public Fire (12)
			Max Day	Max Hour	Meters	Services	Billing & Collecting	Meter Reading	Private Fire	Public Fire			
RATE BASE													
301 Organization	17	37,534	14,852	6,936	6,111	4,155	1,246	413	139	1,032	2,650		
302 Franchise and Consents	17	70,261	27,802	12,984	11,438	7,778	2,333	773	260	1,932	4,960		
303 Other P/E Intangibles	17	6,148	2,433	1,136	1,001	681	204	68	23	169	434		
303.6 Other P/E Comprehensive Studies	17	420,904	166,552	77,783	68,523	46,594	13,974	4,630	1,557	11,575	29,716		
310 Land and Land Rights	2	335,512	203,354	132,158	0	0	0	0	0	0	0		
311 Source of Supply Struct & Improv	2	3,012,645	1,825,964	1,186,681	0	0	0	0	0	0	0		
312 Collecting & Impounding Reservoirs	1	653,183	653,183	0	0	0	0	0	0	0	0		
313 Lake, River and Other Intakes	2	485,437	294,223	191,214	0	0	0	0	0	0	0		
314 Wells and Springs	2	0	0	0	0	0	0	0	0	0	0		
316 Supply Mains	2	3,985,807	2,415,798	1,570,009	0	0	0	0	0	0	0		
320 Pumping Land & Land Rights	6	91,827	50,330	29,284	7,915	0	0	0	0	1,809	2,489		
321 Pumping Structures & Improvements	6	3,651,657	2,001,473	1,164,513	314,773	0	0	0	0	71,938	98,960		
323 Other Power Production Equipment	6	455,120	145,138	249,451	39,231	0	0	0	0	8,966	12,334		
325 Electric Pumping Equipment	6	12,017,817	6,586,965	3,832,482	1,035,936	0	0	0	0	236,751	325,683		
326 Diesel Pumping Equipment	6	368,842	202,162	117,624	31,794	0	0	0	0	7,266	9,996		
328 Other Pumping Equipment	6	843,367	462,249	268,950	72,698	0	0	0	0	16,614	22,855		
330 Land and Land Rights	2	68,164	41,314	26,850	0	0	0	0	0	0	0		
331 Water Treat Structures & Improv	2	8,492,370	5,147,225	3,345,145	0	0	0	0	0	0	0		
332 Water Treat and Equipment	2	16,337,180	9,901,965	6,435,215	0	0	0	0	0	0	0		
334 GAC	2	0	0	0	0	0	0	0	0	0	0		
340 Land and Land Rights	7	4,053,825	1,588,475	296,644	1,713,503	0	0	0	0	0	0		
341 T & D Structures & Improvements	14	296,055	77,655	12,049	88,639	15,898	73,629	0	0	11,872	16,313		
342 Distrib. Reservoirs & Standpipes	5	9,322,911	2,828,571	0	4,243,789	0	0	0	0	948,140	1,302,411		
343 Transmission & Distribution Mains													
Distribution													
Transmission													
345 Services	4	52,557,226	18,542,189	0	27,818,540	0	0	0	0	2,612,094	3,584,403		
346 Meters	3	59,152,345	33,060,245	21,490,047	0	0	0	0	0	1,940,197	2,661,856		
347 Meter Installations	10	6,866,926	0	0	0	0	6,866,926	0	0	0	0		
348 Fire Hydrants	9	13,698,459	0	0	13,698,459	0	0	0	0	0	0		
390 1 Office Structures	13	7,485,173	0	0	11,354,645	0	0	0	0	0	0		
390 2 General Structures - HVAC	15	3,474,181	1,102,010	498,197	502,714	39,606	184,132	747,991	254,310	61,146	7,485,173		
390 3 Miscellaneous Structures & Improv	15	786,220	249,389	112,744	113,766	8,963	41,670	169,273	57,551	13,837	84,075		
391 Office Furniture and Equipment	15	1,508,707	478,562	216,349	218,310	17,199	79,961	324,825	110,437	26,553	19,027		
392 Transportation Equip	15	598,845	189,954	85,874	86,653	6,827	31,739	128,931	43,835	10,540	36,511		
393 Stores Equipment	15	948,896	300,990	136,072	137,305	10,817	50,291	204,297	69,459	16,701	22,963		
394 Tools, Shop & Garage Equipment	15	1,160	368	166	168	13	61	250	85	20	28		
395 Laboratory Equipment	15	1,692,722	536,931	242,736	244,937	19,297	89,714	364,443	123,907	29,792	40,964		
396 Power Operated Equipment	2	386,579	234,306	152,273	0	0	0	0	0	0	0		
397 Communication Equipment	15	637,537	202,227	91,423	92,252	7,268	33,789	137,262	46,668	11,221	15,428		
398 Miscellaneous Equipment	15	1,393,199	441,923	199,785	201,596	15,882	73,840	299,956	101,982	24,520	33,715		
399 Other Tangible Property	15	794,857	252,129	113,982	115,016	9,061	42,127	171,133	58,184	13,989	19,236		
	15	(186,018)	(59,005)	(26,675)	(26,917)	(2,121)	(9,859)	(40,050)	(13,617)	(3,274)	(4,502)		

Total Depreciable Plant Net of Accumulated Depreciation, Contributions and Advances 228,158,225 90,284,217 42,165,769 37,139,690 25,261,024 7,575,778 854,781 6,263,076 16,099,695

KENTUCKY-AMERICAN WATER COMPANY
COST OF SERVICE FOR THE TWELVE MONTHS ENDING MAY 31, 2010, ALLOCATED TO COST FUNCTIONS

Account (1)	Factor Ref. (2)	Cost of Service (3)	Base (4)	Extra Capacity		Customer Facilities		Customer Accounting		Fire Service		
				Max Day (5)	Max Hour (6)	Meters (7)	Services (8)	Billing & Collecting (9)	Meter Reading (10)	Private Fire (11)	Public Fire (12)	
OTHER RATE BASE ELEMENTS												
Utility Plant Acquisition Adjustments	17	18,488	7,316	3,417	3,010	2,047	614	203	68	508	1,305	
Accumulated Amortization	17	0	0	0	0	0	0	0	0	0	0	
CWIP - Water Treatment Plant and Supply Mains	2	57,737,073	34,994,440	22,742,633	0	0	0	0	0	0	0	
CWIP - Transmission Mains	3	39,414,556	22,028,795	14,319,308	0	0	0	0	0	1,292,797	1,773,655	
CWIP - Reservoirs and Standpipes	5	3,570,681	1,083,345	0	1,625,374	0	0	0	0	363,138	498,824	
CWIP - Distribution Mains	4	1,437,461	507,136	0	760,848	0	0	0	0	71,442	98,035	
CWIP - Meters and Meter Installations	9	269,212	0	0	0	269,212	0	0	0	0	0	
CWIP - Services	10	198,186	0	0	0	0	198,186	0	0	0	0	
CWIP - Hydrants	13	29,981	0	0	0	0	0	0	0	0	0	
CWIP - Other	15	160,194	50,814	22,972	23,160	1,826	8,490	34,490	11,726	2,819	29,981	
Working Capital Allowance	20	3,417,000	2,075,144	281,903	284,294	22,552	104,219	423,025	143,856	34,512	47,496	
Other Working Capital Allowance	15	575,573	182,572	82,537	83,285	6,562	30,505	123,921	42,132	10,130	13,929	
Deferred Income Taxes	17	(33,963,284)	(13,439,271)	(6,276,415)	(5,529,223)	(3,759,736)	(1,127,581)	(373,596)	(125,664)	(933,990)	(2,397,808)	
Deferred Investment Tax Credits	17	(87,154)	(34,487)	(16,106)	(14,189)	(9,648)	(2,894)	(959)	(322)	(2,397)	(6,153)	
Deferred Maintenance												
Treatment Plant	2	1,356,340	822,078	534,262	0	0	0	0	0	0	0	
Distribution Reservoir	5	1,595,446	484,058	0	726,247	0	0	0	0	162,257	222,884	
Deferred Debits												
Source of Supply	2	1,774,227	1,075,359	698,868	0	0	0	0	0	0	0	
General	15	166,230	52,728	23,837	24,053	1,895	8,810	35,789	12,168	2,926	4,023	
Other Rate Base Elements	17	(1,212,447)	(479,765)	(224,060)	(197,386)	(134,218)	(40,253)	(13,337)	(4,486)	(33,342)	(85,599)	
Community Education Costs	11	0	0	0	0	0	0	0	0	0	0	
Total Other Rate Base Elements		76,457,763	49,410,261	32,193,156	(2,210,505)	(3,599,508)	(819,904)	229,536	79,478	970,800	204,449	
Total Original Cost Measure of Value		304,615,988	139,694,477	74,358,925	34,929,185	21,661,516	6,755,874	2,743,730	934,259	7,233,877	16,304,144	

KENTUCKY-AMERICAN WATER COMPANY

FACTORS FOR ALLOCATING COST OF SERVICE TO COST FUNCTIONS

FACTOR 19. ALLOCATION OF OTHER REVENUES.

The factors are based on the allocation of total cost of service, as follows:

Cost Function	Total Cost of Service	Allocation Factor
(1)	(2)	(3)
Base	\$35,987,617	0.4456
Maximum Day Extra Capacity	14,642,846	0.1813
Maximum Hour Extra Capacity	9,346,921	0.1157
Meters	4,053,670	0.0502
Services	2,870,026	0.0355
Billing and Collecting	7,029,174	0.0870
Meter Reading	2,146,504	0.0266
Private Fire Service	1,548,589	0.0192
Public Fire Service	3,141,281	0.0389
Total	<u>\$80,766,629</u>	<u>1.0000</u>

FACTOR 20. ALLOCATION OF CASH WORKING CAPITAL.

The factors are based on the allocation of all other operation and maintenance expenses including power, chemicals, and purchased water, as follows:

Cost Function	Total Cost of Service	Allocation Factor
(1)	(2)	(3)
Base	\$9,661,947	0.6073
Maximum Day Extra Capacity	1,312,798	0.0825
Maximum Hour Extra Capacity	1,324,754	0.0832
Meters	104,810	0.0066
Services	485,097	0.0305
Billing and Collecting	1,970,644	0.1238
Meter Reading	670,096	0.0421
Private Fire Service	161,473	0.0101
Public Fire Service	221,619	0.0139
Total	<u>\$15,913,237</u>	<u>1.0000</u>

KENTUCKY-AMERICAN WATER COMPANY

SUMMARY OF AVERAGE DAY AND PEAK DAY DELIVERY FOR THE YEARS 1990-2007

<u>Year</u> (1)	<u>Annual Sendout (MG)</u> (2)	<u>Average Day (MGD)</u> (3)	<u>Peak Day (MGD)</u> (4)	<u>Date</u> (5)	<u>Ratio</u> (6)
2007	15,734	43.11	64.30	6/15	1.49
2006	15,619	42.79	67.22	8/7	1.57
2005	16,068	44.02	69.65	8/2	1.58
2004	14,931	40.91	56.89	6/29	1.39
2003	15,005	41.11	61.37	7/8	1.49
2002	15,956	43.72	71.82	8/5	1.64
2001	14,962	40.99	56.04	6/19	1.37
2000	14,565	39.90	66.37	6/13	1.66
1999	15,077	41.31	61.18	8/11	1.48
1998	14,799	40.55	64.67	9/14	1.60
1997	14,419	39.50	60.70	7/18	1.54
1996	14,265	39.08	53.70	6/30	1.37
1995	14,549	39.86	63.77	7/14	1.60
1994	14,471	39.65	58.36	6/16	1.47
1993	14,290	39.15	60.39	7/8	1.54
1992	13,303	36.45	47.22	7/13	1.30
1991	13,450	36.85	56.42	8/7	1.53
1990	12,557	34.40	58.05	7/9	1.69

PROPOSED CUSTOMER RATES

KENTUCKY-AMERICAN WATER COMPANY
COMPARISON OF PRESENT AND PROPOSED RATES

Meter Charges, Per Month:

<u>Meter Size</u>	<u>Present Rate</u>	<u>Proposed Rate</u>
5/8	\$ 7.95	\$ 8.60
3/4	11.94	12.90
1	19.89	21.50
1-1/2	39.77	43.00
2	63.64	68.80
3	119.32	129.00
4	198.86	215.00
6	397.73	430.00
8	636.36	688.00

<u>Consumption Charges:</u>	<u>Per Thousand Gallons</u>		<u>Per CCF</u>	
	<u>Present</u>	<u>Proposed</u>	<u>Present</u>	<u>Proposed</u>
Residential	\$ 3.11705	\$ 4.44000	\$ 2.33779	\$ 3.33000
Commercial	2.850693	3.99733	2.13802	2.99800
Industrial	2.285520	3.22667	1.71414	2.42000
Other Public Authority	2.660013	3.75467	1.99501	2.81600
Sales for Resale	2.683813	3.75467	2.01286	2.81600
Hidden Leak	0.779263	1.11000	0.58445	0.83250

Fire Protection:

<u>Private Fire Line Size</u>	<u>Present Rate</u>	<u>Proposed Rate</u>
	<u>Per Annum</u>	<u>Per Annum</u>
2	\$ 60.24	\$ 83.76
4	241.20	335.28
6	542.05	753.48
8	963.36	1,339.08
10	1,505.40	2,092.56
12	2,168.16	3,013.80
14	2,851.40	4,102.44
16	3,853.92	5,356.92
Private Fire Hydrant	542.04	753.48
Public Fire Hydrant	325.68	411.60

KENTUCKY-AMERICAN WATER COMPANY
CALCULATION OF MONTHLY SERVICE CHARGES

<u>Cost Function</u> (1)	<u>Cost of Service (Schedule D)</u> (2)	<u>Number of Units</u> (3)	<u>Description</u> (4)	<u>Cost Per Unit Per Month</u> (5)
Meters	\$ 3,854,288	143,649	5/8-inch meter equivalents	\$ 2.24
Services	2,822,283	134,622	3/4-inch service equivalents	1.75
Billing & Collecting	4,644,210	123,197	Number of customers	3.14
Meter Reading	<u>2,157,349</u>	122,427	No. of metered customers	<u>1.47</u>
Total	<u>\$ 13,478,130</u>			<u>\$ 8.60</u>

<u>Meter Size</u> (1)	<u>Capacity Ratio</u>	<u>Present Rate</u>	<u>Proposed Rate</u>
5/8-inch	1.0	\$ 7.95	\$ 8.60
3/4-inch	1.5	11.94	12.90
1-inch	2.5	19.89	21.50
1-1/2-inch	5.0	39.77	43.00
2-inch	8.0	63.64	68.80
3-inch	15.0	119.32	129.00
4-inch	25.0	198.86	215.00
6-inch	50.0	397.73	430.00
8-inch	80.0	636.36	688.00