COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

IN THE MATTER OF:	**)**	
	)	
NOTICE OF ADJUSTMENT OF THE RATES OF	**)**	**CASE NO. 2008-00427**
KENTUCKY-AMERICAN WATER COMPANY	**)**	
EFFECTIVE ON AND AFTER NOVEMBER 30, 2008	**)**	

DIRECT TESTIMONY OF MICHAEL A. MILLER

October 31, 2008

KENTUCKY AMERICAN WATER COMPANY
CASE NO. 2008-00427
DIRECT TESTIMONY
MICHAEL A. MILLER

1. Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Michael A. Miller, 1600 Pennsylvania Avenue, Charleston, West Virginia.

2. Q. BY WHOM ARE YOU EMPLOYED AND WHAT POSITION DO YOU HOLD WITH KENTUCKY AMERICAN WATER?

A. I am employed by American Water Works Service Company, assigned to the Eastern Region, and in that role I am also the Assistant Treasurer of Kentucky American Water Company ("KAWC" or "Company").

3. Q. PLEASE DESCRIBE YOUR PROFESSIONAL EDUCATION AND EXPERIENCE.

A. My resume is attached to this testimony in Appendix A.

4. Q. WHAT ARE YOUR RESPONSIBILITIES AS ASSISTANT TREASURER?

A. I am responsible for the rates and revenue functions for the Company, including the filing of rate cases and other matters before the Commission. I also assist in the preparation and review of financial statements, financing plans, budget preparation, and cash management functions. I perform the

same duties for West Virginia American and Tennessee American.

5. Q. HAVE YOU TESTIFIED BEFORE IN REGULATORY PROCEEDINGS?

A. Yes. I have testified previously on numerous occasions before the utility regulatory agencies in West Virginia, Tennessee, Virginia and the Kentucky Public Service Commission.

6. Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will address (i) drivers of the need to increase rates of KAWC, (ii) capital structure and the overall cost of capital that includes the return on equity (ROE), which will be addressed by Dr. Vander Weide, (iii) revenues for the base and forecast periods, that include the increase in the number of customers for the periods and also reflects Dr. Edward Spitznagel's weather normalization for residential and commercial customers, (iv) American Water Works Service Company ("AWWSC") costs, (v) rate base treatment for the KRS II Project, (vi) pension expense, (vii) other post employment benefit ("OPEB") costs, (viii) income taxes, and (ix) cost allocations.

GENERAL

7. Q. WHAT FACTORS ARE DRIVING THE NEED TO INCREASE RATES AT THIS TIME?

A. The Company's ability to attract capital at reasonable rates is a critical factor in meeting its public service obligation. The Company must replace

and construct facilities necessary to meet water quality regulations and maintain its service capabilities, maintain its facilities in order to maximize their useful life, and provide the employees necessary to carry out those public service obligations. Rates should be set to provide revenue to the utility to cover all prudently incurred operating and capital costs, including the opportunity to achieve a fair and reasonable return on the investment by the stockholders. It is essential that the Company's rates be set at levels to cover its <u>cost of service</u> if it is to continue to maintain service levels, meet its public service obligations and attract capital at reasonable rates.

The Company's last rate increase was effective December 1, 2007. The rates approved in this filing are not likely to become effective prior to June 1, 2009, a period of nineteen months between rate increases. During that time KAWC has continued to make significant investments in utility plant, including commencement of the major construction project related to the KRS II treatment plant and transmission mains. As can be seen on Exhibit MAM-1 attached to this testimony, the Company's achieved ROE has been under the level authorized by the Commission for 2007, and is forecasted to be below authorized levels for 2008. Without rate relief, the achieved ROE for 2009 is currently forecasted to be 4.20%, and in 2010, achieved ROE is expected to be 1.88%. The Company does not believe that a 4.20% or 1.88% ROE is sufficient to attract the capital necessary to carry out its public service obligations, particularly given the extensive capital needed to

complete the KRS II Project. The only reasonable alternative is to seek an increase in rates at this time.

8. Q. WHAT ARE THE COMPONENTS OF THE COST OF SERVICE DRIVING THE INCREASE IN RATES?

A. I have provided Exhibit MAM-2 which addresses the rate increase amount by the major categories of the cost of service that have increased over the levels currently authorized by the Commission: i) Rate Base, ii) Operating Expenses, iii) Cost of Capital, and iv) declining usage per customer. As indicated on Exhibit MAM-2, (in both text and graphically), rate base has increased by $104.643 million since the Company's last rate case. In fact, through May 2010, the end of the forecasted test-year in this case, the Company will have invested over $170 million in utility plant improvements since December 1, 2007, the effective date of the rates approved in case number 2007-00143. This significant investment level also includes the investment through May 2010 for the KRS II Project which will be addressed in detail later in this testimony. Increased rate base accounts for 65% of the rate increase requested in this case.

Operations and Maintenance expense has increased by $4.715 million from the level currently authorized by the Commission. O&M expense represents 26% of the increased rates requested in this case, and is primarily driven by: i) labor and benefit costs at both the Company and AWWSC, ii) increased

production costs, iii) increased uncollectible expense (related to requested increase in rates), and iv) increases in several categories of Miscellaneous Expense. The O&M expense levels will be fully addressed in the testimony of several Company witnesses. In addition, the forecasted test-year expenses have been adjusted to eliminate several one-time non-recurring expenses related to the divestiture of American Water Works stock by RWE AG and the implementation of Sarbanes-Oxley compliance protocols. The cost of energy and petroleum products has had a major impact on the O&M expenses of the Company. Power costs included in this filing have increased $613,000 or 20.5% over the level currently recovered in rates primarily related to fuel adjustment increases from the electric providers. Many chemicals used to treat the source water are petroleum based, and the contract prices for those chemicals have risen significantly based on the 2009 contracts. Chemical expenses have increased $1.240 million or 82% over the level currently recovered in rates. The cost of gasoline has also impacted the service vehicle fleet costs and impacted the cost of all material and supplies through higher delivery costs.

Changes in the cost of capital and capital structure represent 8% of the increase requested revenue increase in this case. This area of the case will be covered by Dr. Vander Weide and later in this testimony.

Exhibit MAM-2 also reflects that revenues at present rates in this case (net of

AFUDC) have decreased by $214,000 due to decreased customer usage and account for 1% of the increase in rates in this case. While the Company did include customer growth through the forecasted test-year, those growth rates have declined from past years and are not expected to return to prior levels due to the current economic conditions.

In his testimony, Dr. Spitznagel will address the weather normalization factors used by the Company in arriving at present rate revenues for this filing. After applying the weather normalization factors recommended by Dr. Spitznagel, the forecasted test-year usage per customer for residential and commercial customers reflects a decline in usage per customer from the level currently approved in rates. This trend is a continuation of the trends seen in past KAWC rate cases and across the country as a result of low flow plumbing devices and smaller family sizes. The Company believes the customer communication information used by the Company to stress the importance of water and the value of conservation of water use is also impacting this trend.

COST OF SERVICE STUDY

9. Q. DID THE COMPANY PREPARE A COST OF SERVICE STUDY FOR THIS CASE?

A. Yes. The Company contracted with the firm of Gannett/Fleming to provide

the cost of service study. The cost of service study is covered in the testimony of Mr. Paul Herbert filed in this case.

10. Q. WHAT WERE THE RESULTS OF THE STUDY?

A. The Commission approved a "single", company-wide water tariff for KAW in the 2007 rate case. In that case, the Company recommended there be movement in all customer classifications towards the cost of service. The Company's approach to move all classes towards the cost of service on a gradual basis was included in the Settlement Agreement for case number 2007-00143, which was approved by the Commission. As described in more detail in Mr. Herbert's testimony, the Company is continuing to recommend movement towards cost of service. The overall increases recommended by customer classification in this case are: residential – 30.2%, commercial – 34.7%, industrial – 39.9%, public authority – 37.6%, sale for resale – 38.90%, private fire – 39.0%, and public fire – 26.4%. This approach, if approved, will have commercial, public authority, sale for resale, and public fire at the cost of service recommendation, and will continue to move residential, industrial and private fire towards the cost of service.

<u>CAPITAL STRUCTURE & OVERALL COST OF CAPITAL</u>

11. Q. WHAT CAPITAL STRUCTURE DID THE COMPANY USE IN CALCULATING THE COST OF SERVICE (REVENUE REQUIREMENT)

IN THIS CASE?

A. **The Company used the capital structure for the thirteen month average of the forecasted test-year ending May 30, 2010. The capital structure proposed by the Company is attached to this testimony as Exhibit MAM-3 and is also included in the filing documents on schedules J-1 thru J-4 of Exhibit 37. Exhibit MAM-3 indicates the thirteen month average capital structure on which the Company based its cost of service and revenue requirement in this case. The proposed capital structure is comprised of 10.337% Short-term debt, 45.408% Long-term Debt (55.745% Total Debt), 1.946% preferred stock, and 42.309% Common Equity.**

12. Q. IS THE CAPITAL STRUCTURE PROPOSED BY THE COMPANY IN LINE WITH THE CAPITAL STRUCTURES HISTORICALLY APPROVED BY THE COMMISSION FOR SETTING THE COMPANY'S RATES?

A. **Yes. The Company has historically maintained its debt capital in the 53-57% range and its common equity ratio between 40-45%. The Company believes this mix of debt and equity in the capital structure is in line with rating agency expectations, and in line with capital structures previously approved by the Commission. The Company believes a capital structure of 57.691% debt and preferred stock, and 42.309% common equity provides a capital structure that enables the Company to attract capital at reasonable costs and balances both the stockholder requirements and the rates paid by the**

customers as determined in the ratemaking process.

13. Q. IN WHAT MANNER DOES THE COMPANY CURRENTLY OBTAIN ITS LONG-TERM AND SHORT-TERM DEBT?

A. The Company utilizes the services of American Water Capital Corp. ("AWCC") to place its long-term ("LT") and short-term ("ST") debt requirements. AWCC is an American Water Company affiliate and was created to consolidate the financing activities of the operating subsidiaries, to effect economies of scale on debt issuance and legal costs, to attract lower debt interest rates through larger debt issues in the public/private market, and to use more cost effective means of obtaining ST debt (to bridge the gap between permanent debt financings) than the historical bank lines of credit previously used. The Company believes the use of AWCC has permitted the Company to attract capital at lower interest rates and resulted in lower issuance and transaction costs by utilizing the combined size and resources of the entire American Water System.

14. Q. HAS THE COMMISSION APPROVED THE COMPANY OBTAINING ITS DEBT THROUGH AWCC?

A. Yes. By Order entered July 21, 2000 in Case No. 2000-189, the Commission authorized the Company to enter into a Financial Services Agreement with AWCC to periodically issue debt securities in the form of notes or debentures for the purpose of placing debt issues to replace ST debt or refinance maturities of existing debt. The Commission reaffirmed in case 2006-00418

the Company's use of AWCC for the placement of the Company debt. As discussed below, the Company is confident the benefits of utilizing AWCC will remain just as strong in the future.

15. Q. HAS THE COMPANY BEEN PLEASED WITH THE RESULTS OF ITS RELATIONSHIP WITH AWCC THUS FAR?

A. Yes. The Company and its customers have benefited from the interest savings resulting from pooling the capital requirements of the American Water subsidiaries. On March 31, 2008, the Company filed with the Commission a "Statement of Best Practices" as required by Condition No. 19 in case number 2002-00317. That filing demonstrated the benefits derived from the affiliations with AWCC for the three LT Debt issues placed since 2001. Attached is Exhibit MAM-4 that recaps the identified benefits regarding the use of AWCC since 2001. The interest savings and issuance costs are shown for the $24.0 million issued on June 6, 2002, the $14.0 million issued on March 1, 2004, and the $47.0 million issued in October 2007 and those savings aggregate to $58,750 for 2007. The customers have realized cumulative savings of $591,250 through 2007 related to these three debt issues. In addition, the pooling and bidding of the ST debt requirements for all American Water subsidiaries through AWCC has lowered the cost for ST debt.

16. Q. WHAT FACTORS REQUIRE THE COMPANY TO SEEK ADDITIONAL

CAPITAL?

A. The Company has documented in past rate cases and in this filing that capital improvements to meet the new and changing regulations in the water industry, replace aged treatment and distribution facilities, and provide quality, reliable water service to its customers have driven and will continue to drive the need for new capital. The additional capital required by the Company over the next several years is significant due to the KRS II Project. In addition, the Company will be required to replace maturing debt series over the coming years. The Company has included three additional LT debt financings for 2009/2010 to replace short-term debt. It is important that the Company maintain a strong financial position in order to continue to attract this capital at the lowest possible price and to provide service improvements at the least possible cost to its customers.

17. Q. WHY IS THE LEVEL OF SHORT-TERM DEBT INCLUDED IN THE COMPANY'S FILING APPROPRIATE FOR SETTING RATES IN THIS CASE?

A. The Company uses ST debt to finance capital improvements. This type of financing is used to bridge the gap between permanent financings. This permits the Company to time permanent financings in a cost-effective manner and to take advantage of the optimum permanent debt market conditions as they occur. The Company believes the capital structure used to set rates should reflect the capital components that will be in place to

finance the rate base on which rates will be set in this case. The Company has based the level of ST debt used in its proposed capital structure in this case on the thirteen month average capital structure for the forecasted test-year ending May 2010. That level of ST debt is reflective of the level that will be utilized to fund the significant construction and other cash peaking requirements during the forecasted test-year.

18. Q. WHAT PERMANENT DEBT FINANCINGS ARE INCLUDED IN THIS FILING AND DESCRIBE THOSE PROPOSED FINANCINGS AND THE INTEREST RATES EXPECTED?

A. The Company's proposed capital structure includes $45.5 million of new LT debt to be placed in May 2009, $26.0 million of new LT debt to be placed in October 2009, and $14.0 million of new LT debt to be placed in May 2010. The Company used an expected interest rate of 6.601% for each of the three new LT bonds to be placed during the forecasted test-year in this case.

19. Q. PLEASE EXPLAIN WHY YOU USED A 30-YEAR TERM AND HOW DID YOU ARRIVE AT THE INTEREST RATE OF 6.601%?

A. Obviously there is a high level of uncertainty in the corporate bond markets at this time. The Company continually monitors the market spreads for 10-year and 30-year Utility and Corporate Bonds rates in comparison with the Treasury Bonds on which permanent debt rates are bid. At the present time we see the unusual situation where 10-year bonds are selling at higher

interest rates than 30-year bonds in some instances. Assuming the current market conditions persist into 2009 it would be preferable to lock in the lower 30-year bond rates. Attached to this testimony as Exhibit MAM-5 is a schedule that provides a range of interest rate calculations based on the most recent one, two and four quarter spreads between both "A" and "BBB" rated Utility bonds and 30-year Treasury Bonds, and 10-year A-rated Corporate Bonds to 10-year Treasury Bonds. Those spreads are then applied to the most recent Value Line Forecast for both 30-year and 10-year Treasury Bonds in 2009. I believe the estimate of an interest rate on those issues of 6.601% for 30-year bonds is reasonable based on the information contained in Exhibit MAM-5. However, the bond rates and spreads to T-bond rates have increased dramatically in the rates published by Value Line in October. The latest Value Line available to me, published on October 24, 2008, indicates 30-year, BBB rate utility bond prices of 7.03% at a spread of 284 basis points over 30-year T-bonds. Given the volatility and uncertainty of the current bond markets, the Company will continue to monitor available information concerning 2009 interest rates as this case progresses, and will update the interest projections once more current data is available.

20. Q. HOW WAS THE COST RATE FOR SHORT-TERM DEBT DETERMINED?

A. The Company reviewed market forecasts to determine a cost rate for ST debt that will likely be in place during the forecasted rate year. Exhibit MAM-5

indicates that the average ST debt interest rate for the five months ended June 2008 created an average spread over the fed fund rates of 105 basis points. That average spread was then applied to the forecasted fed funds rate for 2009 per the Value Line Publication of May 23, 2008. This produced a ST interest rate of 3.85% which was used by the Company in its proposed capital structure. More recent data indicates considerable volatility in the ST debt markets, and while recent drops in the fed funds rates have occurred, the commercial paper market rates have increased. The Company will continue to monitor ST debt rates as the case progresses and will update the ST interest rates as more up to date information becomes available.

21. Q. HOW WAS THE WEIGHTED COST OF LONG-TERM DEBT AND PREFERRED STOCK DETERMINED?

A. The face value of each issue was reduced by the unamortized issuance cost and the result was divided by the interest or dividends to arrive at the effective interest rate that will include recovery of the amortization of the issuance costs. This result was then multiplied by the percentage of each issue to the total capital to arrive at the weighted cost for each series. The weighted cost for each series of LT Debt and Preferred Stock was totaled to arrive at the overall weighted cost of LT Debt and Preferred Stock.

22. Q. HAS THE COMMISSION PREVIOUSLY ADDRESSED THE METHOD BY WHICH THE WEIGHTED COST OF LONG-TERM DEBT AND

PREFERRED STOCK IS DETERMINED?

A. Yes. The method used to determine the weighted cost of LT Debt and Preferred Stock was an issue in the Company's case number 2000-00120. The Commission Order indicates the methodology described in the previous answer (and used historically by the Commission) for setting rates of the Company was appropriate and was approved. This Company has continued to utilize this method in subsequent rate filings.

23. Q. WHAT IS THE OVERALL COST OF CAPITAL REQUESTED IN THIS CASE AND HOW DOES IT COMPARE TO THAT CURRENTLY APPROVED IN RATES?

A. The overall weighted cost of capital being requested is 8.54%, compared to the overall cost of capital of 8.03% that was approved in case 2007-00143. The Company is requesting the ROE be increased to 11.5%, which is within the range of ROE recommended in the testimony of Dr. Vander Weide.

<u>REVENUES</u>

24. Q. WHAT IS THE BASE PERIOD USED FOR THIS CASE?

A. The base period used in this case is the twelve months ended January 31, 2009. The base period information was derived utilizing actual billing determinants or bill analysis for the six months ended July 31, 2008 and the

Company's budgeted billing determinants for the six months ended January 31, 2009.

25. Q. WHAT IS THE FORECASTED PERIOD FOR THIS FILING?

A. The forecast period for this filing is the twelve months ended May 31, 2010. This period reflects the first year that the approved rates in this case will be in effect.

26. Q. HOW DID THE COMPANY ARRIVE AT THE LEVEL OF REVENUES REFLECTED AT PRESENT RATES IN THE FORECASTED PERIOD?

A. Exhibit 37, Schedule M of the Company's filing contains the bill analysis utilized to determine the level of revenues for the base year and the bill analysis containing the adjustments for customer growth to reflect a 365 day billing period and to normalize the forecasted test year for the impacts of weather and usage trends. These adjustments to the forecasted test-year develop the billing determinants used to determine the billed revenue at present and proposed rates for the forecasted test-year period.

<u>Residential</u>

As stated previously, a bill analysis based upon the twelve months ended January 31, 2009 was utilized as a basis to project forward. The base period was adjusted to reflect 2,763 customers for normal growth through the end of the forecast period. The consumption in the residential class has been

adjusted to reflect the recommendations included in the study prepared by Dr. Edward Spitznagel. Dr. Spitznagel is recommending a weather normalized level of residential usage per customer of 157.71 gallons per customer per day for the forecast period. This level of usage per customer per day was applied to the level of customer bills that were reflected in the forecasted period to arrive at gross sales. Current tariffs were then applied to the net billing determinants to arrive at revenues at present rates.

<u>Commercial</u>

The base period was increased by 155 customers for normal growth through the end of the forecast period. The consumption in the commercial class has been adjusted to reflect the recommendations included in the study prepared by Dr. Edward Spitznagel. Dr. Spitznagel is recommending a weather normalized level of commercial usage per customer of 1,348.34 gallons per customer per day for the forecast period. This level of usage per customer per day was applied to the level of customer bills that were reflected in the forecasted period to arrive at gross sales. Current tariffs were then applied to the associated net billing determinants to arrive at revenue at present rates.

<u>Industrial</u>

The Company used a bill analysis based upon the twelve months ending January 31, 2009. Using the most current billing information available, the Company believes that there would be no significant changes in the

consumption for these customers during the forecast period. Current tariffs were then applied to the billing determinants to arrive at revenues at present rates.

Other Public Authority

The Company used a bill analysis based upon the twelve months ended January 31, 2009. The Company reviewed the base period data and does not believe there will be any significant changes in the consumption for these customers during the forecast period. Current tariffs were then applied to the billing determinants to arrive at revenues at present rates.

Sale For Resale

The Company used a bill analysis based upon the twelve months ended January 31, 2009. The Company reviewed the base period data and does not believe there will be any significant changes in the consumption for these customers during the forecast period. Current tariffs were then applied to the billing determinants to arrive at revenues at present rates.

Fire Service

Fire service billing determinants at January 31, 2009 were utilized for the base period and budgeted billing determinants at May 31, 2010 were used for the forecast period.

AMERICAN WATER WORKS SERVICE COMPANY COSTS

27. Q. DESCRIBE THE AMERICAN WATER WORKS SERVICE COMPANY COSTS INCLUDED IN THE COMPANY'S FILING.

A. The Company has included in its forecasted test-year American Water Works Service Company ("AWWSC") costs as determined from the Business Plan. The Company eliminated $55,941 of costs related to Sarbanes Oxley compliance costs as directed in the Commission Order in case number 2006-00197 which are non-recurring and should not be included in the rate request. The Company is requesting AWWSC costs of $7.612 million in its filing. The AWWSC costs in this case represent an increase of $1.510 million over the current level included in rates. I will address the increase in AWWSC costs, and offsets that have occurred between fully loaded Company labor and AWWSC costs later in this testimony.

28. Q. HAS AWW UNDERGONE REORGANIZATIONS OVER THE LAST SEVERAL YEARS THAT IMPACT THE COMPANY?

A. American Water Works ("AWW") has undertaken reorganizations in several areas since 2002, including the move to the National Call Center and the Shared Services Center. These two change processes were discussed at length by the Company in Case No. 2004-00103. As described in the Company's 2004 rate case, AWW consolidated the seven regional offices into

four regional offices located in Chula Vista, CA; St. Louis, MO; Hershey, PA; and Haddon Heights, NJ. The Company has been part of the SE Region of AWW since early 2004, and changes continued to occur into 2005 and early 2006 in order to align the operations at the Company and the SE Region Office. The Company, as would any responsible company, continues to modify alignments of the subsidiaries and functions as conditions change in order to provide the best possible service in the most cost effective manner. In 2007, the SE Region and NE regions of AWW were realigned into the Eastern Region under the leadership of Walter Lynch. Recently there were changes within the alignments of the subsidiaries of AWW regarding the position to which the presidents of each subsidiary report. The President of Kentucky American will continue to report to the Senior VP of the Eastern Region.

29. Q. WHAT BENFITS TO THE CUSTOMERS OF THE COMPANY HAVE BEEN ACHIEVED FROM THE REALIGNMENT OF THE REGIONAL OFFICES?

A. These initiatives were and continue to be undertaken to operate as efficiently and cost effectively as possible, while at the same time providing enhanced service to our customers. This realignment is similar to several that took place during the 1990's, and we believe these realignments have and will continue to permit service improvements through standardization of processes, increased efficiencies, and improvements to the service provided to

the customers of the Company. Later is this testimony I will discuss the overall financial benefits that have resulted from the various reorganizations and flow to the benefit of the customers of the Company in this case.

30. Q. THE COMPANY'S CUSTOMER SERVICE AND BILLING FUNCTIONS WERE MOVED TO ALTON, ILLINOIS AS PART OF AWWSC'S CONSOLIDATED CUSTOMER CALL CENTER IN OCTOBER 2003. PLEASE DESCRIBE THIS MOVE AND ITS BENEFITS.

A. The Company and the other AWW operating companies strive to provide customer service that is more responsive, provides increased customer service options, improves customer satisfaction, and at the same time generates cost savings wherever possible.

AWW and the Company have as one of its primary goals to provide customer service unsurpassed in the water industry. At the same time, we hope to provide that service at the lowest reasonable cost. The Customer Call Center has helped us meet both of these important goals.

The Customer Call Center and the Company's local customer service operations are operated using the ORCOM customer service and billing software. The ORCOM software has been continually monitored and modified since its introduction at AWW and KAWC to provide enhanced features such as Service First. Service First was a software modification that

provides on-line computers in each service vehicle used to provide service to the customers of the Company. Service First has benefited the customers by permitting real time update for field work which enhances responsiveness and the ability to update customers on service issues. The entire ORCOM software program is uniform for all subsidiaries and this has made required software modifications easier to accomplish and less costly.

The Customer Call Center provides full customer service on a twenty-four hour, seven days a week basis. There are also enhancements for automated call answering, automated payment options, communications with field operations, and bill editing processes through significant improvements in the various technologies employed. The individual operating companies could not provide this enhanced service on a cost-effective basis. The Customer Call Center has increased the availability of full service to the customers on an around-the-clock basis, and provides the additional services that our customers demand in today's environment.

31. Q. HAVE THERE BEEN OTHER CHANGES IN THE NATIONAL CALL CENTER?

A. Yes. In 2006 AWWSC added a second national call center in Pensacola, Florida. The second call center was installed to provide redundancy to the critical customer service functions if a natural disaster or other emergency should occur. The additional cost of the second call center had little impact

on the cost to the customers due to the additional customer base added by the integration of the Elizabethtown Water Company that was eventually merged into New Jersey American Water.

32. Q. DOES THIS MEAN THAT THE COMPANY HAS NO LOCAL PRESENCE FOR CUSTOMER SERVICE?

A. No. The Company continues to maintain its Corporate Office in Lexington. There remains a clerical staff to coordinate billing and collections for the entities for which we perform those functions. We continue to provide customer contact as required, resolve customer issues relayed from Alton, and respond to Commission inquiries. In addition, the field personnel continue to be available to address the needs of our customers. The local payment locations remain unchanged.

33. Q. THE COMPANY MOVED ITS TRANSACTIONAL ACCOUNTING FUNCTIONS TO THE NATIONAL SHARED SERVICES CENTER LOCATED IN MARLTON, NEW JERSEY EFFECTIVE JANUARY, 2002. PLEASE DESCRIBE THIS MOVE AND ITS BENEFITS.

A. As described in case number 2004-00103, AWW and the Company determined it could improve its transactional accounting functions, take advantage of economies of scale where possible, and improve the uniformity of its software applications at the various operating subsidiaries though the use of a Shared Services Center to perform these functions. The Company

had previously installed JD Edwards accounting software, but like the customer accounting and billing software, local and regional programming had in essence created several different versions of the software. This created difficulties with consolidated accounting and multi-jurisdictional acquisition integrations. AWW determined there were economies of scale savings and operational efficiencies to be derived from providing transactional accounting functions on a national level and decided to move these functions to a Shared Services Center. Prior to this transition, the accounting, budgets, and finance functions were being performed by Kentucky American Water employees and the Regional Service Company located in Charleston, WV.

34. Q. DID THE COMPANY DEMONSTRATE THE FINANCIAL SAVINGS FROM THE REORGANIZATION INITIATIVES MENTIONED ABOVE IN THE 2004 RATE CASE?

A. Yes. The financial savings were demonstrated in the 2004 rate case as shown on Exhibit MAM-5 attached to my Direct Testimony in that case. The savings from the move to the SE Region office in Hershey, PA, the move to the National Customer Call Center and the Shared Service Center resulted in savings of $232, 268 which were passed to the customers of the Company in the 2004 rate case.

35. Q. YOU INDICATED EARLIER YOU WOULD DISCUSS THE INCREASE IN SERVICE COMPANY COSTS REQUESTED IN THIS CASE. WOULD YOU PLEASE ADDRESS THAT?

A. As discussed above, there have been a number of reorganization initiatives by the Company since 2002 and there have also been the acquisitions of the Elk Lake, Tri-Village and Owenton systems. Because of the significant changes brought on by these activities, it is easy to lose focus on what has driven the costs. In order to determine the overall impact of the reorganizations that have occurred, I believe we must start with a base period prior to the reorganizations and acquisitions. We should then bring those costs forward to the forecasted test year in this case and compare those costs to the expense levels in this case to determine the impact and savings resulting from the reorganization activities. I have performed this analysis as shown on the schedules attached to this testimony and identified as Exhibit MAM-6.

36. Q. PLEASE DESCRIBE THE INFORMATION ON EXHIBIT MAM-6.

A. Exhibit MAM-6 consists of three pages and the purpose of the Exhibit is to capture the effect of the reorganizations of AWW and the impact on KAWC operations and costs. I believe the schedules clearly demonstrate there has been an offsetting shift between fully loaded KAWC labor and AWWSC costs.

In order to properly determine the benefits of the shift in Full Time Equivalents ("FTES") between KAWC and AWWSC costs, the analysis must compare fully loaded costs at KAWC to AWWSC costs because, as described in the "1989 Service Company Agreement" between KAWC and AWWSC, AWWSC costs include labor and all overheads. I started my analysis with the level of fully loaded labor costs included in KAWC case 2000-00120, because that period reflects the costs KAWC experienced prior to the reorganizations mentioned earlier in this testimony. The costs for KAWC's fully loaded labor costs plus AWWSC costs from case number 2000-00120 are shown on page one of Exhibit MAM-6, page 1 of 3, <u>under the column identified as (1)</u>. Column 2 shows adjustments for the labor and benefits at 2001 costs per employee for the 6 employees hired by KAWC in the acquisitions of Elk Lake and Tri-Village. Column 3 establishes the 2001 base period costs prior to any reorganizations.

To determine a reasonable expectation of what the total of fully loaded KAWC labor costs plus AWWSC costs would be for the forecasted test-year ended May 2010 if no reorganizations had occurred, I determined actual cost increase ratios for KAWC in each of the categories of expense. The inflation factors for KAWC labor are shown next to the Labor line on page 1 and reflect the average wage increases granted to salary positions and increases for union employees per the union contracts from 2001 to 2010. The inflation

factor for AWWSC costs were determined by using a salary increase ratio of 4% and a calculated increase ratio for benefit costs which are embedded in the AWWSC costs. The calculations of the cost adjustment factors for KAWC and AWWSC group insurance, pensions, payroll taxes and 401(k) are shown on page 2 of the Exhibit MAM-6. Exhibit MAM-6 used an inflation factor of 2.5% for the other category of AWWSC costs.

The next step in my analysis was to inflate (or deflate as the case may be) the costs shown on page 1, column (3) for each year through the end of the forecasted test-year in this case for the cost increase ratios applicable to each category of fully loaded KAWC labor costs and AWWSC costs. The result of this analysis produces $16,829,319 for the combination of KAWC fully loaded labor costs plus AWWSC costs as shown in column (13) on page 1 of the Exhibit.

In column (14) I show the various categories of expenses that KAWC included in the forecasted test-year of this filing. Those expenses total $18,012,969. As shown on Exhibit MAM-6, page 1, there are reductions of KAWC fully loaded labor costs of $4.540 million to offset the increase in AWWSC costs.

37. Q. ARE THERE ELEMENTS OF COSTS EMBEDDED IN THE SHIFT FROM KAWC COSTS SHIFTED TO AWWSC COSTS NOT CONSIDERED AT THIS POINT IN THE ANALYSIS?

A. Yes. I identified three other areas of cost shifts that are not captured by inflating the costs approved in the KAW case number 2000-000120. Those three areas and the cost savings or shifts are identified in the following table:

1.	**In 2003 the a National Procurement function was established at the Shared Services Center and the savings from that function have been annually reported to the Commission in compliance with Condition No. 19 in case number 2002-00317. Those savings are also set forth at Exhibit MAM-6, page 3 of 3.**	**$ 294,192**
2.	**Since 2001 Kentucky American has increased its customer base by 18,845. The analysis on Exhibit MAM-6 does not capture add'l employees that would have been added if KAWC continued to provide customer service and billing locally.**	**$ 280,743**
3.	**AWWSC capitalized several software programs that are billed through AWWSC as interest and depreciation expense. Those costs would have been captured as capital costs if KAWC had paid for them locally, and, thus, are not accounted for in the analysis.**	**$ 670,541**
	Total offsetting adjustments in shift to AWWSC costs	**$1,245,476**

When the three adjustments included in the table above are considered, the net savings to KAWC and its customers embedded in this case equal $61,825 as shown on Exhibit MAM-6, page 1 of 3.

38. Q. WHAT CONCLUSION DO YOU REACH FROM THE INFORMATION PROVIDED ON EXHIBIT MAM-6?

A. I believe that the information demonstrates that there has been a savings of at least $61,825 from the reorganizations of AWW and KAWC. It is important to note that not only is the Company providing service at a cost lower than it was providing when those services were provided locally, but the level of service has been improved significantly as well. KAWC through AWWSC has access to highly qualified professionals in many areas critical to providing quality water service, including expertise in areas such as: (i) water quality professionals through a nationally recognized central laboratory facility, (ii) engineering design and construction, (ii) accounting and finance, (iv) income taxes, (v) legal, (vi) employee benefits administration, (vii) procurement through national contracts, (viii) uniform ITS hardware, software and programming support, (ix) operation expertise, (x) access to low cost capital, (xi) regulatory expertise, and many other important functions.

KAWC obtains access to this expertise though the "1989 Service Company Agreement" which provides that KAWC receives those services by direct

charges on an as needed basis, or through allocations of costs from the customer based formulas applicable to each type of function provided on an AWW system-wide basis. I do not believe KAWC could obtain the same level of expertise available through AWWSC cost effectively at the local level. Such services as regulatory and rate cases, highly specialized water quality testing, national procurement, financings, taxes, engineering, and employee benefits administration require specific expertise. KAWC currently has access to that expertise on an allocated basis. To duplicate those services and expertise locally, KAWC would likely have to obtain employees that had expertise in more than one of those functions to equal the FTES obtained through AWWSC. That is not practical because employees with expertise and training in multiple disciplines are not common and likely not available at all.

Also as explained in the testimony and study provided by Mr. Pat Baryenbruch filed in this case, KAWC could not obtain these services provided by AWWSC from third party providers at a lower cost.

In case 2004-00103, the Commission requested the Company to provide an explanation of why it was appropriate to pre-pay for AWWSC charges at the middle of each month based on one-half of the prior month expense. The Company believes the prepayment of AWWSC bills provides benefits and leads to lower costs. The AWWSC is primarily comprised of labor and labor

related expenses. To improve the efficiencies of the payroll process AWW and all of its subsidiary companies moved to a uniform bi-weekly payroll process several years ago. AWWSC's only source of cash is the reimbursement of services <u>at cost</u> provided to the operating companies. This procedure has proven to be beneficial and properly matches the cost recovery associated with the major bi-weekly labor expense of AWWSC.

KAWC could not cost effectively duplicate the level of service provided by the Call Center. As demonstrated in case number 2004-00103, KAWC obtained the services from the Call Center for a cost less than KAWC was able to provide when those services were performed locally. In addition, the Call Center is available to customers on a 24/7, 365 days per year basis. When major service problems or natural disasters occur there is a much larger base of employees available at the Call Center to deal with those emergencies. KAWC was not equipped to handle those types of issues and call volumes with the staffing locally prior to moving to the Call Center. When KAWC provided customer service and billing locally, the office was open from 8:00 AM to 4:30 PM Monday through Friday only and calls were accepted from 8:00 AM to 8:30 PM Monday through Friday only. Customer calls outside the normal working hours were forwarded to an independent call service and service was limited to emergencies only.

RATE BASE – KRS II PROJECT

38. Q. DOES THE COMMISSION NORMALLY INCLUDE CWIP IN THEIR DETERMINATION OF RATE BASE?

A. Yes. The Commission has historically included CWIP as rate base, but normally calculates a non-cash AFUDC amount related to that CWIP which is included in going-level revenues at present rates as a non-cash offset to the revenue requirement associated with CWIP.

39. Q. DID THE COMPANY INCLUDE THE CWIP FOR THE KRS II PROJECT IN ITS THIRTEEN-MONTH AVERAGE CWIP FOR THE FORECASTED TEST-YEAR IN THIS CASE?

A. Yes. The total 13-month average CWIP expenditure for KRS II through May 2010 equals $98.203 million which is included in the determination of the 13-month average CWIP included in rate base in this case.

40. Q. DID THE COMPANY CALCULATE THE AFUDC OFFSET ON THE ENTIRE CWIP BALANCE FOR THE KRS II PROJECT INCLUDED IN THE RATE BASE REQUESTED IN THIS CASE?

A. No. Through May 2009 the Company is forecasting to have expended $66.570 million for CWIP on the KRS II Project. The Company eliminated that amount of CWIP from the AFUDC calculated for the forecasted test-year. The Company did include AFUDC on the remaining CWIP included in

the case related to the other CWIP projects and the expenditures for the KRS II Project from June 1, 2009 through May 31, 2010 in the amount of $3.095 million.

41. Q. WHY DID THE COMPANY NOT CALCULATE AFUDC ON THE $66.570 MILLION OF CWIP?

A. The KRS II project is expected to cost $162.741 million which will increase the Company's rate base by approximately 80% over the level of rate base approved in case number 2007-00143. If no rate increase associated with the $162.741million KRS II cost is embedded in rates (cash revenue) until completion of the KRS II Project in 2010, a significant rate increase will occur at that time. The Company believes the better approach for its customers would be to phase-in a portion of the cost of the KRS II Project in this case, thus avoiding the rate shock that would occur if the full cost of the KRS II Project were passed to the customers in one rate case.

42. Q. WHY DO YOU BELIEVE THE APPROACH PROPOSED BY THE COMPANY REGARDING THE KRS II PROJECT BENEFITS THE CUSTOMERS?

A. In addition to the rate shock issues addressed in the previous answer, if the Company's approach in this case is not accepted, additional AFUDC will be capitalized to the KRS II Project. That additional AFUDC would add approximately $7.263 million to the KRS II Project cost. The additional

KRS II Project cost for AFUDC will then have to be recovered from the customers over the book life of the KRS II Project. The Company believes the phase-in of the $66.570 million of CWIP in the rate increase in this case will be less costly to the customers than recovering the additional AFUDC over the book life of the assets constructed in the KRS II Project.

43. Q. DID THE COMPANY MAKE THE COMMISSION AND ALL PARTIES TO THE CERTIFICATE CASE NUMBER, 2007-00134 FOR THE KRS II PROJECT AWARE OF ITS INTENT TO SEEK FULL RATE BASE TREATMENT FOR A PORTION OF THE COST OF THE PROJECT OVER TWO RATE CASES?

A. Yes. In the certificate case (case number 2007-00134) I provided a number of rate impact schedules in response to discovery requests, as well as in my testimony in that case. The Company consistently indicated in the testimony in that case its intent to seek a phase-in of the rate impact of the KRS II Project over two general rate cases.

44.` Q. CAN YOU DEMONSTRATE THE BENEFIT OF INCLUDING THE $66.570 MILLION AS FULL RATE BASE IN THIS CASE?

A. Yes. Attached to this testimony is Exhibit MAM-7, which shows on a present value basis the cost to the customers is lower under the approach proposed by the Company in this case versus the full AFUDC approach over the book life of the Project.

On page 1 of 2 of Exhibit MAM-7 is an estimate of the revenue requirement calculation over the book life of the project using the traditional CWIP approach with full AFUDC capitalized to the project. Under this approach an additional $7.263 million of AFUDC would be capitalized above the level proposed in the Company approach and the original cost of the KRS II Project would be $170.024 million.

On page 2 of 2 of Exhibit MAM-7 is an estimate of the revenue requirement calculation over the book life of the project using the phased-in approach for the CWIP on the KRS II Project as proposed by the Company in this case. This approach will avoid the additional AFUDC on the $66.570 million of CWIP if approved for full base rate recovery in this case. The Company's phased-in approach to rate recovery of the KRS II Project will hold the estimated cost of the KRS II Project to $162.731 million.

The following table shows the differences in the cost of the KRS II Project under the two approaches, as well as the Net Present Value of the rate recovery over the life of the project.

(000) Omitted	Cost of Project	Net Present Value of Rate Impact
Traditional Rate Making Approach – Full AFUDC	**$170,024**	**$240,841**
Phased-in Approach for CWIP as Proposed by Company in this Case	**$162,741**	**$220,113**
Savings under Phased-in Approach	**$7,283**	**$20,728**

The table above demonstrates that the customers will benefit from lower rates over the life of the KRS II Project if the Company's phased-in approach is approved in the case.

<u>PENSIONS</u>

45. Q. WOULD YOU DESCRIBE THE COMPANY'S PENSIONS EXPENSE INCLUDED IN THE RATE FILING?

A. Yes. The Kentucky Commission has historically regulated the Company's pension expense under the accrual or FAS 87 basis. The Company has included the forecasted pension expense for the forecasted test-year using the FAS 87 expense. The Company included FAS 87 pension expense for the forecasted test-year of $581,701. The pre-capitalized FAS 87 pension expense was obtained from forecasts prepared by AWW's actuary, Towers Perrin, for the years 2009 and 2010. The Company adjusted the Towers Perrin forecasted number to reflect the percentage charged to O&M expense at 78.94%.

The defined pension benefit plan just described applies to all non-union employees hired prior to January 1, 2006 and union employees hired prior to January 1, 2001. For those employees not eligible for the defined benefit plan, AWW has established a defined contribution plan. The defined contribution pension plan costs are shown in account 508101.16. Those costs are determined at 5.25% of qualifying employee's salaries and wages.

<u>OTHER POST EMPLOYMENT BENFITS</u>

46. Q. WOULD YOU DESCRIBE THE COMPANY'S OTHER POST EMPLOYMENT BENEFITS EXPENSE INCLUDED IN THE RATE FILING?

A. Yes. The Kentucky Commission has historically regulated the Company's OPEB expense under the accrual or FAS 106 basis. The Company has included the OPEB expense for the forecasted test year using the FAS 106 expense. The Company included FAS 106 OPEB expense for the forecasted test-year of $560,278. The pre-capitalized FAS 106 OPEB expense was obtained from forecasts prepared by AWW's actuary, Towers Perrin, for the years 2009 and 2010. The Company adjusted the Towers Perrin forecasted numbers to reflect the percentage charged to O&M expense at 78.94%.

The defined OPEB benefit plan just described applies to all employees hired prior to January 1, 2006. For those employees not eligible for the defined

benefit plan, AWW and KAWC have established a defined contribution plan. The defined contribution OPEB plan costs are shown in account 508102.16. Those costs are determined at $500 per eligible employee per year.

<u>INCOME TAXES</u>

47. Q. PLEASE EXPLAIN THE COMPANY'S FORECASTED LEVEL OF INCOME TAXES?

A. The Company's filing is based on a calculation of current federal and state income taxes at the statutory income tax rates of 35% and 6%, respectively. The 6% state income tax rate was effective January 1, 2007. The Company has forecasted a level of income taxes for the forecasted test year in the amount of $3,435,520 at present rates. The current provision for federal and state income taxes of $1,793,057 and $327,001 is shown on pages 1 of 2 of Schedules E-1.3 and E-1.4 to Exhibit 37. Deferred federal and state income taxes of $1,129,991 and $185,471 are shown on page 2 of 2 of schedules E-1.3 and E-1.4 of Exhibit 37.

To arrive at the total current provision, forecasted expenses were deducted from operating revenues to arrive at income before income taxes. This was done for both the federal and state tax calculations. From this number statutory add backs and deductions were made to arrive at the taxable

income. These statutory adjustments are shown on pages 1 of 2 of Schedule E-1.3 and E-1.4 of Exhibit 37 and are labeled as reconciling items.

48. Q. IS THE CALCULATION OF DEFERRED INCOME TAXES THE SAME METHOD USED IN THE COMPANY'S LAST RATE CASE?

A. Yes. The company has continued to use SFAS 109 in recording deferred income taxes and that method has been recognized for rate recovery in prior Company rate cases.

49. Q. HOW DID THE COMPANY CALCULATE THE DEFERRED TAX LIABILITY THAT IS SHOWN ON EXHIBIT 37, SCHEDULE B-6, PAGE 2 OF 2 THAT IS A RATE BASE DEDUCTION?

A. The deferred tax liabilities for Deferred Debits, and Deferred Maintenance are calculated by applying the statutory federal and state income tax rates to the 13-month average balance included in rate base. This represents the proper method of calculating the deferred tax liability using SFAS 109.

The amount shown on Exhibit 37, Schedule B-6, page 2 of 2 for Deferred Taxes related to Utility Plant in Service entails analyzing and determining the net change in a number of balance sheet accounts both for book and tax basis. This analysis includes Utility Plan in Service ("UPIS"), accumulated depreciation reserve, regulatory assets and regulatory liabilities, and Customer Advances and CIAC's.

SFAS 109 is a balance sheet approach to deferred income taxes that requires the deferred income tax provision be shown in total, but also recognizes the regulatory assets and liabilities that will be recovered in rates in future years.

50. Q. HOW DID THE COMPANY ADJUST THE PER BOOKS DEFERRED TAX EXPENSE TO DETERMINE THE FORECASTED TEST-YEAR EXPENSE?

A. Beginning with the deferred tax expense at July 2008, adjustments were made to reflect calculations of deferred taxes associated with UPIS through the end of the forecasted test period. This was done for both book and tax basis accounts and incorporated all temporary timing differences through the forecasted test-year. The statutory tax rates were applied to these changes between book and tax basis property to calculate each individual month's deferred tax expense or benefit.

<u>COST ALLOCATIONS</u>

51. Q. NOW THAT SINGLE TARIFF PRICING HAS BEEN AUTHORIZED BY THE COMMISSION, WOULD YOU PLEASE EXPLAIN THE REASONING FOR DISTRIBUTING COSTS AMONG KAWC'S REGULATED AND NON-REGULATED BUSINESSES?

A. Certainly, the adoption of Single Tariff Pricing ("STP") has eliminated a considerable level of work required of KAWC to historically prepare water tariff rate cases. In past cases KAWC was required to allocate a number of corporate costs to sewer operations, non-regulated operations, and among the various divisions of water operations. Those allocations have been greatly simplified to now only allocate costs applicable to sewer operations and non-regulated activities. Those entities to which the cost allocations in this case have been applied include:

- **Rockwell Village Sewer – regulated and operating in Clark County under a separate tariff which is included in the Company's general tariffs.**
- **City of Owenton Sewer – regulated and operating in Owen County under a separate tariff, which is included in the Company's general tariffs.**
- **Bluegrass Station Division Operation and Maintenance Contract – non-regulated.**

KAWC's corporate business units, for which expenses are allocated, include Administration & General (includes Customer Accounting), Information Systems, Legal, Human Resources, Loss Control, Communications and Government Relations. Other corporate services including finance, audit, regulatory, lab, customer relations and various administrative services are provided by AWWSC and, as such, are included in the AWWSC costs

forecast included in this filing. Costs assigned to the above KAWC business units and AWWSC costs are some of the common costs of KAWC. In most cases, these costs are either not specifically identifiable with a particular business unit or are of joint benefit to two or more business units.

52. Q. HOW WERE THESE COSTS ALLOCATED?

A. Where applicable, corporate costs for the forecasted test year were distributed among the various business units within KAWC on the basis of the average number of customers within each business unit to the total average number of customers of all business units during the forecasted test year. This method of allocation is easily understandable and reasonable. A similar methodology is used by AWWSC to allocate its costs to the individual operating units that it serves, including KAWC. However, certain costs were not allocated to all business units.

Each cost or cost group to be allocated was analyzed and assigned to prevent, to the extent practicable, redundancy or overlap. As mentioned earlier, KAWC accounts for expenses using a series of business units. These business units are incorporated in the General Ledger account number. Most expenses are directly charged to these business units and generally need no further allocation. It is largely the KAWC Corporate business unit costs that are allocated.

The first step taken in preparing the allocation schedule was to conduct a review of Company employees and select for allocation those employees whose efforts benefit more than just the customers of the regulated water operations of KAWC.

Those employees selected for allocation include:

- **Nick Rowe – President**
- **Peggy Slone – Executive Assistant to the President**
- **John-Mark Hack – Manager of Governmental & Regulatory Affairs**
- **Pamela Mikaelian – Financial Analyst – Intermediate**
- **Rachel Cole – Supervisor /Business Processes**
- **David Shehee – Supervisor Water Quality**
- **Shana Carr – Lab Analyst**
- **Dillard Griffin – Superintendent Production**
- **Kenny Roney – Specialist Water Quality/Cross Connections**
- **Mary Ellen Pugh – Administrative Assistant**
- **Pamela Buehler – Specialist Human Resources**
- **Administrative Assistant/Cross Connections**
- **Keith Cartier – VP Operations**
- **Patrica Lee – Administrative Assistant**
- **Brian Wright – Manager of External Affairs**

Along with the labor forecasted to be charged to operations and maintenance by each of these employees, the cost of office space, and employee benefit payroll overheads were allocated.

Next, other operations and maintenance expenses were analyzed and those that benefit more than the water tariff customers were selected for allocation. These expenses include: customer accounting expenses, including postage, forms, collection expenses, AWWSC costs, and other operations and maintenance expenses including company dues and memberships, employee travel, telephone expense, software licensing, training, insurance other than group, customer education expense, customer confidence reports and other miscellaneous and general expenses. A detailed list of the expenses allocated can be found on attached Exhibit MAM-8.

53. Q. PLEASE EXPLAIN THE DESIGN OF THE SPREADSHEET THAT IS EXHIBIT MAM-8?

A. This schedule is designed to allocate a series of forecasted test year common expense totals among the individual business units within KAWC that derive a benefit from those expenses. These expense totals are contained in the column headed "Test Year Amount." These expenses are allocated among the appropriate business units. For example, Bluegrass Station Division does not derive a benefit from the Customer Service Center. We provide only operations and maintenance services for the water, wastewater and storm

water systems at Bluegrass Station Division. Bluegrass Station Division personnel handle all customer relationships within the development. Accordingly, these expenses are allocated to the water operations and sewer operations which derive a direct benefit from the Customer Service Center. An example of an expense that is allocated to all business units within KAWC is the payroll expense and related cost of Supervisor Business Process Rachel Cole who is involved in accounting and finance activities for all business units.

54. Q. AS A RESULT OF YOUR ANALYSIS REDARDING COST ALLOCATONS, HOW MUCH OF THE TOTAL COMMON COSTS WERE ALLOCATED TO EACH BUSINESS UNIT WITHIN KENTUCKY AMERICAN WATER?

A. The results are included on Exhibit MAM-8. Total costs allocated were $13,068,793 These costs have been allocated to the various business units within KAWC as follows:

- **Water operations - $12,988,876 or 99.4%**
- **Bluegrass Station Division - $1,508**
- **Owenton Sewer - $68,745 or .5%**
- **Rock Lake Village Sewer - $9,664**

<u>OTHER TARIFF ISSUES</u>

55. Q. OTHER THAN A CHANGE TO METERED TARIFFS, WHAT NEW TARIFFS OR ADJUSTMENT TO TARIFFS IS THE COMPANY PROPOSING?

A. The Company is proposing revisions to its tap fee tariff which is addressed by Mr. Cartier.

56. Q. DOES THIS CONCLUDE YOUR DIRECT TESTIMONY?

A. Yes.

Appendix A

Resume of Michael A. Miller

I received my B.S. degree in Accounting from West Virginia Tech in May of 1976, and my West Virginia Certified Public Accounting Certificate on February 2, 1987.

I joined the American Water Works Service Company - Southern Division ("Service Company") in July of 1976, and have held various positions in the American Water System ("AWS") for over 32 years. I served as a Junior Accountant in the rate department until August 1977, at which time I was transferred to the Huntington Water Corporation as Accounting Superintendent. I held this position until July 1978, when I was transferred to the Southern Division Service Company as the Director - Budget Procedures, the position I held until April 1981. At that time, I became Customer Service Superintendent at West Virginia-American Water Company. In December 1981, I became Assistant Director of Accounting for the Southern Region Service Company. I held this position until August 1991, when I became the Business Manager at West-Virginia American Water Company. On January 1, 1994, I was promoted to Vice President and Treasurer at West-Virginia American Water Company. On April 1, 2000, I became an employee of the Service Company as Vice-President and Treasurer for the Southeast Region Companies located in West Virginia, Kentucky, Tennessee, Virginia, and Maryland. In January 2002 I was also named the Comptroller for each of the five Southeast Region Companies. In January 2004 my title was changed to Manager of Rates and Regulation for the Southeast Region of American Water Works Service Company responsible for Tennessee-American, West Virginia-American, and Kentucky-American. In March 2008, I was promoted to Director of Rates and Revenue for the SE Region of AWWSC, and am now responsible for all Commission filings for KY, TN, and WV. I am also the Assistant Treasurer of Kentucky-American.

Kentucky American Water
Analysis of Earnings History

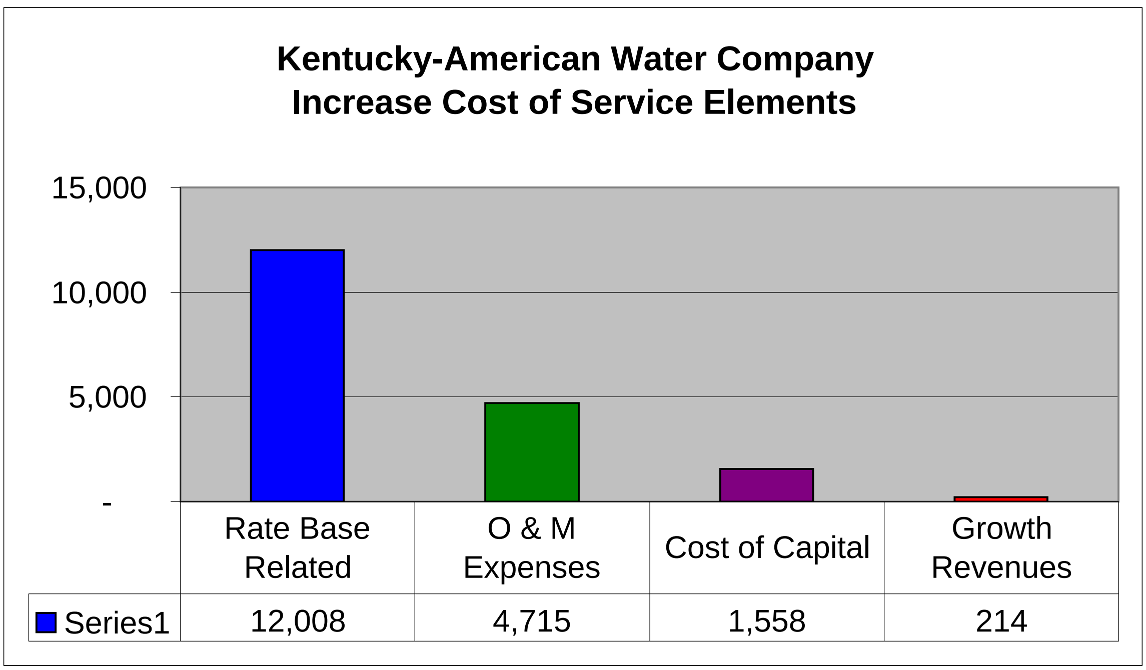
Exhibit MAM-1

(In Thousands)	2000	2001	2002	2003	2004	2005	2006	2007	Forcasted 2008	Forcasted 2009	Forcasted 2010
Net Income Available for Common Stock	5,119	6,473	5,488	4,528	(893)	5,133	3,271	5,679	7,712	5,417	2,733
Common Equity	59,320	60,997	61,768	62,904	60,271	63,706	72,972	74,484	92,994	128,829	145,512
ROE Achieved	8.63%	10.61%	8.88%	7.20%	-1.48%	8.06%	4.48%	7.62%	8.29%	4.20%	1.88%
Authorized ROE by KY PSC	11.00%	11.00%	11.00%	11.00%	10.00%	10.00%	10.00%	10.00%	10.00%		
% of Auth. ROE Achieved	78.45%	96.47%	80.77%	65.44%	-14.82%	80.57%	44.83%	76.24%	82.93%		

Note: Forecast for 2009/2010 does not include projection of current rate case result.

Kentucky-American Water Company
Increase In Cost of Service Elements

Rate Base and Related Items (in million dollars):			
Increase in rate base of $38.073 million (Normal Constr.)	$	3.241	
Increase in rate base of $66.570 million (KRSII Project)	$	7.886	
Property taxes on add'l rate base	$	0.388	
Depreciation expense on add'l rate base	$	0.493	
Total increase attibutable to rate base and related items	$	12.008	65% of total increase
O & M Expense	$	4.715	26% of total increase
Increase in cost of capital	$	1.558	8% of total increase
Items Offsetting Increased Cost of Service:			
Decreased revenue from customer usage	$	0.214	1% of total increase
TOTAL INCREASE	$	18.495	



Increase %	65%	26%	8%	1%	100%

KENTUCKY-AMERICAN WATER COMPANY
CASE NO: 2008-00427
COST OF CAPITAL SUMMARY AT CURRENT AND PROPOSED RATES
13 MONTH AVERAGE

DATA: ___ BASE PERIOD _X_ FORECASTED PERIOD
DATE OF CAPITAL STRUCTURE: AVERAGE FOR FORECASTED PERIOD
TYPE OF FILING: _X_ ORIGINAL ___ UPDATED __ REVISED
WORKPAPER REFERENCE NO(S).: W/P-7

EXHIBIT MAM-3
PAGE 1 of 1
Witness Responsible: M.A. Miller

Line No.	Class of Capital		13 Month Average Amount	% of Total	Add (1)	Adjusted Capital	Cost Rate	Average Weighted Cost
1								
2	Short-Term Debt		$31,520,883	10.337%	$ 100,076	$31,620,959	3.850%	0.40%
3								
4	Long-Term Debt		138,462,871	45.408%	439,611	138,902,482	6.870%	3.12%
5								
6	Preferred Stock		5,934,782	1.946%	18,840	5,953,622	7.750%	0.15%
7								
8	Common Equity		129,013,668	42.309%	409,609	129,423,277	11.500%	4.87%
9								
10	Total Capital		$304,932,205	100.000%	$ 968,136	$305,900,341		8.54%
11								
12								
13								
14								
15								
16	(1) JDITC:	$ 968,136						
17								
18								
19								
20								

KENTUCKY-AMERICAN WATER COMPANY
CONSTS/SAVINGS INFORMATION THRU US OF AWCC
SAVINGS ON THE COST OF LONG-TERM DEBT

Exhibit MAM-4

Debt Security	Date Issued	Interest Rate	Amount Issued	Term of the Loan	Basis Point Savings	Annual Interest Savings	Avoided Issuance Costs	Avoided Annual Issuance Costs	Net Annual Savings	Cumulative Saving	
2002	06/12/2002	5.65%	$24,000,000	5 Years	20	$48,000	$177,000	$35,400	$83,400		**Note 1**
Total Savings - 2002						$48,000		$35,400	$83,400	$83,400	
2003											
Total Savings - 2003						$48,000		$35,400	$83,400	$166,800	
2004	3/1/2004	4.75%	$14,000,000	10 Years	20	$28,000	$105,000	$10,500	$38,500		**Note 1**
Total Savings - 2004						$76,000		$45,900	$121,900	$288,700	
2005											
Total Savings - 2005						$76,000		$45,900	$121,900	$410,600	
2006											
Total Savings - 2006						$76,000		$45,900	$121,900	$532,500	
2007	10/15/2007	0.0659	$47,000,000	30 Years	10	$47,000	$352,500	$11,750	$58,750		**Note 1**
Total Savings - 2007						$47,000		$11,750	$58,750	$591,250	

Note 1: The $47.0 million LT Debt Notes issued on October 15, 2007 included the refinancing of the $24.0 & $14.0 AWCC notes issued in 2004 and 2002, respectively. Any savings associated with the $24.0 & $14.0 million refinanced Notes are now embedded in the 2007 LT Debt Note.

Analysis of Interest Rates - July 16, 2008
Prepared by Michael Miller

Exhibit MAM-5
Page 1 of 3

Value Line Publication Date	As of Market Date	"A" Rated Utility Bonds	30-year Treasury Bonds	Spread	"BBB" Rated Utility Bonds	30-year Treasury Bonds	Spread	10-year Corporate Bonds	10-year Treasury Bonds	Spread	13-Week Treasury Bills	Federal Reserve Rate
10/12/2007	10/3/2007	6.220%	4.800%	1.420%	6.310%	4.800%	1.510%	5.970%	4.560%	1.410%	3.940%	4.750%
10/19/2007	10/10/2007	6.270%	4.870%	1.400%	6.340%	4.870%	1.470%	5.970%	4.650%	1.320%	4.040%	4.750%
10/26/2007	10/17/2007	6.210%	4.830%	1.380%	6.270%	4.830%	1.440%	5.930%	4.550%	1.380%	3.990%	4.750%
11/2/2007	10/24/2007	6.030%	4.640%	1.390%	6.090%	4.640%	1.450%	5.680%	4.340%	1.340%	3.870%	4.750%
11/9/2007	10/31/2007	6.130%	4.750%	1.380%	6.220%	4.750%	1.470%	5.880%	4.470%	1.410%	3.910%	4.500%
11/16/2007	11/7/2007	6.070%	4.650%	1.420%	6.150%	4.650%	1.500%	5.810%	4.310%	1.500%	3.440%	4.500%
11/23/2007	11/14/2007	6.090%	4.600%	1.490%	6.180%	4.600%	1.580%	5.950%	4.250%	1.700%	3.390%	4.500%
11/30/2007	11/20/2007	6.040%	4.500%	1.540%	6.140%	4.500%	1.640%	6.010%	4.100%	1.910%	3.280%	4.500%
12/7/2007	11/27/2007	6.030%	4.420%	1.610%	6.110%	4.420%	1.690%	5.940%	4.040%	1.900%	3.030%	4.500%
12/14/2007	12/5/2007	6.070%	4.400%	1.670%	6.220%	4.400%	1.820%	5.920%	3.960%	1.960%	3.050%	4.500%
12/21/2007	12/12/2007	6.250%	4.540%	1.710%	6.350%	4.540%	1.810%	6.260%	4.090%	2.170%	2.860%	4.250%
12/28/2007	12/21/2007	6.140%	4.450%	1.690%	6.240%	4.450%	1.790%	6.010%	4.030%	1.980%	2.890%	4.250%
1/4/2008	12/26/2007	6.280%	4.670%	1.610%	6.420%	4.670%	1.750%	6.270%	4.280%	1.990%	3.310%	4.250%
Quarterly Average		6.141%	4.625%	1.516%	6.234%	4.625%	1.609%	5.969%	4.279%	1.690%	3.462%	4.519%
1/11/2008	1/2/2008	5.940%	4.350%	1.590%	6.110%	4.350%	1.760%	5.860%	3.900%	1.960%	3.250%	4.250%
1/18/2008	1/9/2008	5.990%	4.340%	1.650%	6.170%	4.340%	1.830%	5.790%	3.820%	1.970%	3.230%	4.250%
1/25/2008	1/16/2008	6.070%	4.340%	1.730%	6.220%	4.340%	1.880%	5.790%	3.740%	2.050%	3.130%	4.250%
2/1/2008	1/23/2008	6.130%	4.310%	1.820%	6.200%	4.310%	1.890%	5.860%	3.600%	2.260%	2.220%	3.500%
2/8/2008	1/30/2008	6.060%	4.380%	1.680%	6.150%	4.380%	1.770%	5.600%	3.670%	1.930%	2.150%	3.000%
2/15/2008	2/6/2008	6.020%	4.360%	1.660%	6.200%	4.360%	1.840%	5.540%	3.590%	1.950%	2.090%	3.000%
2/22/2008	2/13/2008	6.200%	4.540%	1.660%	6.350%	4.540%	1.810%	5.780%	3.730%	2.050%	2.260%	3.000%
2/29/2008	2/20/2008	6.150%	4.610%	1.540%	6.330%	4.610%	1.720%	5.820%	3.890%	1.930%	2.220%	3.000%
3/1/2008	2/27/2008	6.200%	4.650%	1.550%	6.480%	4.650%	1.830%	5.810%	3.850%	1.960%	1.960%	3.000%
3/14/2008	3/5/2008	6.260%	4.600%	1.660%	6.390%	4.600%	1.790%	5.960%	3.670%	2.290%	1.490%	3.000%
3/21/2008	3/12/2008	6.080%	4.410%	1.670%	6.270%	4.410%	1.860%	6.050%	3.460%	2.590%	1.410%	3.000%
3/28/2008	3/19/2008	5.960%	4.210%	1.750%	6.140%	4.210%	1.930%	5.890%	3.300%	2.590%	0.560%	2.250%
4/4/2008	3/26/2008	6.030%	4.310%	1.720%	6.240%	4.310%	1.930%	6.060%	3.460%	2.600%	1.270%	2.250%
Quarterly Average		6.084%	4.416%	1.668%	6.250%	4.416%	1.834%	5.832%	3.668%	2.164%	2.095%	3.212%
4/11/2008	4/2/2008	6.160%	4.410%	1.750%	6.250%	4.410%	1.840%	6.300%	3.600%	2.700%	1.370%	2.250%
4/18/2008	4/9/2008	6.140%	4.320%	1.820%	6.280%	4.320%	1.960%	6.060%	3.480%	2.580%	1.300%	2.250%
4/25/2008	4/16/2008	6.280%	4.490%	1.790%	6.400%	4.490%	1.910%	6.110%	3.690%	2.420%	1.120%	2.250%
5/2/2008	4/23/2008	6.150%	4.490%	1.660%	6.270%	4.490%	1.780%	6.030%	3.730%	2.300%	1.210%	2.250%
5/9/2008	4/30/2008	6.120%	4.470%	1.650%	6.310%	4.470%	1.840%	5.910%	3.730%	2.180%	1.380%	2.000%
5/16/2008	5/7/2008	6.390%	4.610%	1.780%	6.390%	4.610%	1.780%	5.740%	3.850%	1.890%	1.660%	2.000%
5/23/2008	5/14/2008	6.100%	4.610%	1.490%	6.410%	4.610%	1.800%	5.680%	3.910%	1.770%	1.820%	2.000%
5/30/2008	5/21/2008	6.040%	4.540%	1.500%	6.360%	4.540%	1.820%	5.540%	3.810%	1.730%	1.860%	2.000%
6/6/2008	5/28/2008	6.130%	4.690%	1.440%	6.470%	4.690%	1.780%	5.720%	4.000%	1.720%	1.880%	2.000%
6/13/2008	6/4/2008	6.230%	4.700%	1.530%	6.500%	4.700%	1.800%	5.740%	3.980%	1.760%	1.840%	2.000%
6/20/2008	6/11/2008	6.230%	4.690%	1.540%	6.500%	4.690%	1.810%	5.860%	4.070%	1.790%	1.940%	2.000%
6/27/2008	6/18/2008	6.270%	4.710%	1.560%	6.500%	4.710%	1.790%	6.100%	4.140%	1.960%	1.920%	2.000%
7/4/2008	6/25/2008	6.250%	4.640%	1.610%	6.480%	4.640%	1.840%	6.220%	4.100%	2.120%	1.790%	2.000%
Quarterly Average		6.192%	4.567%	1.625%	6.394%	4.567%	1.827%	5.924%	3.853%	2.071%	1.622%	2.077%

7/11/2008	7/1/2008	6.240%	4.550%	1.690%	6.430%	4.550%	1.880%	6.370%	4.000%	2.370%	1.860%	2.000%
7/18/2008	7/9/2008	6.250%	4.420%	1.830%	6.350%	4.420%	1.930%	6.080%	3.810%	2.270%	1.790%	2.000%
7/25/2008	7/16/2008	6.350%	4.590%	1.760%	6.560%	4.590%	1.970%	6.200%	3.930%	2.270%	1.350%	2.000%
8/1/2008	7/23/2008	6.350%	4.670%	1.680%	6.650%	4.670%	1.980%	6.400%	4.120%	2.280%	1.550%	2.000%
8/8/2008	7/30/2008	6.310%	4.650%	1.660%	6.780%	4.650%	2.130%	6.380%	4.040%	2.340%	1.680%	2.000%
8/15/2008	8/6/2008	6.370%	4.700%	1.670%	6.860%	4.700%	2.160%	6.340%	4.050%	2.290%	1.650%	2.000%
8/22/2008	8/13/2008	6.270%	4.560%	1.710%	6.750%	4.560%	2.190%	6.200%	3.930%	2.270%	1.830%	2.000%
8/29/2008	8/20/2009	6.170%	4.450%	1.720%	6.650%	4.450%	2.200%	6.460%	3.800%	2.660%	1.680%	2.000%
9/5/2008	8/27/2008	6.150%	4.380%	1.770%	6.570%	4.380%	2.190%	6.600%	3.760%	2.840%	1.670%	2.000%
9/12/2008	9/3/2008	6.130%	4.320%	1.810%	6.540%	4.320%	2.220%	6.690%	3.700%	2.990%	1.680%	2.000%
9/19/2008	9/10/2008	6.040%	4.230%	1.810%	6.490%	4.230%	2.260%	6.510%	3.630%	2.880%	1.640%	2.000%
Quarterly Average		6.239%	4.502%	1.737%	6.603%	4.502%	2.101%	6.385%	3.888%	2.496%	1.671%	2.000%

Current Bond Rates	**30 Yr. "A" Rated 2009 Bond Rate**	**August 22 Value Line 30 Yr. T-Bond Forecast For 2009**	**Avg. Spread**	**30 Yr. "BBB Rated 2009 Bond Rate**	**August 22 Value Line 30 Yr. T-Bond Forecast For 2009**	**Avg. Spread**	**10 Yr. "A" Rated 2009 Bond Rate**	**August 22 Value Line 10 Yr. T-Bond Forecast For 2009**	**Avg. Spread**
Lastest 4 qtr. Avg.	6.136%	4.500%	1.636%	6.343%	4.500%	1.843%	6.105%	4.000%	2.105%
Latest 2 Qtr. Avg.	6.181%	4.500%	1.681%	6.464%	4.500%	1.964%	6.284%	4.000%	2.284%
Latest Qtr.	6.237%	4.500%	1.737%	6.601%	4.500%	2.101%	6.496%	4.000%	2.496%

Exhibit MAM-5
Page 2 of 3

Kentucky American Water Company
Calculation of Short-term Interest Rate
Based on 5 Months ending June 2008

Exhibit MAM-5
Page 3 of 3

	Weighted Monthly Avg. ST Debt Interest Rate	Avg. Fed Funds Rate for the Month	Avg. Spread
June	3.04%	2.00%	1.04%
May	3.28%	2.00%	1.28%
April	3.22%	2.25%	0.97%
March	3.48%	2.63%	0.85%
February	4.12%	3.00%	1.12%
Quarterly Average Spread			1.05%
Forecast of 2009 Fed Funds Rate Per "Value Line" Publication of 5-23-08			2.80%
Forecasted ST Interest Rate For the 2009 Rate Year			**3.85%**

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

Exhibit MAM-6
Page 1 of 3

	(1) Labor Cost As Approved in KAWC Case No. 2000-00120 Attrition Yr. 11/30/2001 plus actual 2001 overhead costs & AWWSC	(2) Add emp. cost for 6 emp. EL, TV	(3) 2001 Base Cost	(4) 2002 Labor Cost Inflated	(5) 2003 Labor Cost Inflated	(6) 2004 Labor Cost Inflated	(7) Add emp. cost for 8 emp. Owenton	(8) 2005 Labor Cost Inflated	(9) 2006 Labor Cost Inflated	(10) 2007 Labor Cost Inflated	(11) 2008 Labor Cost Inflated	(12) 2009 Labor Cost Inflated	(13) Attrition Yr. May-10 Labor Cost Inflated	(14) Current Case Attrition Year Request by Company	(15) Net Savings Variance Column 10 to Column 11
				Note 2			Note 3		Note 4	Note 5	Note 6				
KAWC Costs:															
Labor (Adj.3.5% Avg. Pay Incr. 02-03 & 4% for 04-10	6,004,634	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	549,078	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	3,551	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	12,542,684	14,465,347	14,647,941	14,940,899	10,400,377	(4,540,522)
AWWSC costs:															
Labor	871,980		871,980	906,859	943,134	980,859		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	18,708	26,145	12,067		31,407	99,903	114,649	128,365	110,396	112,604	416,483	303,879
OPEB's	35,671		35,671	23,368	29,563	19,268		18,837	20,501	12,533	16,569	13,370	13,637	96,557	82,920
Group Insurance	63,053		63,053	69,949	75,854	78,193		85,382	85,358	84,465	87,794	103,070	105,131	693,728	588,597
Other Expenses	350,479		350,479	359,241	368,222	377,428		390,638	400,403	410,414	420,674	431,191	439,815	2,160,173	1,720,358
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	7,612,592	5,724,173
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	18,012,969	1,183,650

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 — (294,192)

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.
Based on the forecasted test-year customer base of 122,017 KAWC would have had to add 4.74 FTE's or 10,428 hours @ an average cost or $19.23 per hour * OH at 1.40 = — (280,743)

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. — (670,541)

Unexplained variance (comprised of items not easily identifiable such as: changes in allocation factors, additional services, changes in operations, additional regulation, etc.) — (61,825)

FOOTNOTES RELATED TO KAWC COSTS:

Note 1: The calculation of inflation factors used to determining the pro-forma 2008 costs shown in column 8 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.

	2001	2002	2003	2004	2005	2006	2007	Budget 2008	Budget 2009
KAWC Actual Benefit Labor Costs									
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	1,580,403	1,559,089	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	637	608	662	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	% Increase	% Increase	
Group Insurance		1.140	1.191	1.077	1.037	0.966	0.954	1.088	0.957
Pensions		1.206	2.085	0.973	1.103	0.904	0.721	0.994	0.978
Payroll Taxes		1.008	1.077	0.982	0.988	1.005	1.393	1.121	0.929
401(K)		1.105	0.981	0.955	1.088	1.907	0.910	1.315	1.011
Fully Loaded Cost per customer		1.124	1.333	1.033	1.048	0.954	0.955	1.076	0.955

	2001	2002	2003	2004	2005	2006	2007	Budget 2008	Budget 2009
AWWSC Benefit Costs:									
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
		% Increase	% Increase	% Increase	% Increase	% Increase	% Increase	% Increase	% Increase
Pensions		#DIV/0!	1.398	0.462	2.603	3.181	1.148	1.120	0.860
OPEB's		0.655	1.265	0.652	0.978	1.088	0.611	1.322	0.807
Group Insurance		1.109	1.084	1.031	1.092	1.000	0.990	1.039	1.174

Exhibit MAM-6
Page 2 of 3

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

Exhibit MAM-6
Page 3 of 3

	2003	2004	2005	2006	2007	TOTAL
Accounts Payable Audit Advertising		1,000			13,817	14,817
Bill inserts & CCR Chemicals		9,000		25,960	2,449	37,409
Field Op's Equipment Facility		30,000		38,338	6,196	74,534
Plumbing Supplies/ Plumbing Supplies		72,000	121,000	151,220	2,505	346,725
Courier Services		2,000	2,000			4,000
Fleet		1,000		984	1,275	3,259
Instrumentation 7 process Control						0
Information Technology (IT)		7,000	2,000	319	18,549	27,868
Laboratory supplies		12,000	20,000	9,859	35	41,894
Maintenance, Repair & Operations (MRO)	200	13,000	17,000	8,031	29,323	67,554
Equipment		3,000		874	2,236	6,110
Office Supplies	2,400	7,000	6,000	7,688	20,396	43,484
P-Card Rebate	7,000	3,000				10,000
Professional Services		7,000	6,000	272	353	13,625
Professional Services - Lock box		40,000	29,000		29,148	98,148
Tank Rehabilitation					3,092	3,092
Telecommunications		20,000	36,000	3,674	12,580	72,254
Temporary Labor		31,000	40,000	14,894	36,525	122,419
Tires	800	9,000	8,000	15,742		33,542
Travel		7,000	12,000			19,000
Uniforms		5,000	3,000	1,318	17,424	26,742
Chemicals				91,003	29,688	120,691
TOTAL	$10,400	$279,000	$302,000	$370,176	$225,591	$1,187,167
Average Annual Savings					$294,192	

Kentucky American Water Co.
Case Number 2008-00427

Rate Impact of KRS II - Traditional Rate Making with Full AFUDC

Input Information/Assumptions:	
Weighted Cost of Capital	8.03%
Rate Base Gross-up Factor	1.654077
Est. Avg. Depr.Rate for TP & Mains	1.79%
Deferred Income Tax Rate	2.21%
Original Investment per Certificate	170,024
Effective Income Tax Rate	40.00%

Add'l AFUDC under Trad. Rate Approach:	
KRS II CWIP @ 5-31-09	66,570
WACC tax-gross-up Equity	10.91%
Add'l AFUDC under Traditional Rate Making	7,263

Cost of Cap. In Case # - 2007-0143	**Per Order**	**Gross-up for TAX**
LT Debt	3.29%	3.29%
ST Debt	0.20%	0.20%
Pref. Stock	0.22%	0.22%
Common Equity	4.32%	7.20%
	8.03%	10.91%

Net Present Value of Revenue Requirement Over Depreciation Life of KRS II Project
Discount Rate - Current Cost of Capital **240,841**

	Depeciation Expense	Def. FIT Expense	Beginning Rate Base	Less: Accum Depr.	Less: Accum. Def. Fit	Yr. End Rate Base	Return on Rate Base Tax Gross-up	Add: Depr. & Def. Inc. Tax Exp	Revenue Requirement
Year 1	3,037	1,503	170,024	(3,037)	(1,503)	165,484	21,980	4,540	26,520
Year 2	3,037	1,503	170,024	(6,073)	(3,006)	160,945	21,377	4,540	25,917
Year 3	3,037	1,503	170,024	(9,110)	(4,509)	156,405	20,774	4,540	25,314
Year 4	3,037	1,503	170,024	(12,146)	(6,012)	151,865	20,171	4,540	24,711
Year 5	3,037	1,503	170,024	(15,183)	(7,515)	147,326	19,568	4,540	24,108
Year 6	3,037	1,503	170,024	(18,220)	(9,018)	142,786	18,965	4,540	23,505
Year 7	3,037	1,503	170,024	(21,256)	(10,521)	138,246	18,362	4,540	22,902
Year 8	3,037	1,503	170,024	(24,293)	(12,024)	133,707	17,759	4,540	22,299
Year 9	3,037	1,503	170,024	(27,330)	(13,527)	129,167	17,156	4,540	21,696
Year 10	3,037	1,503	170,024	(30,366)	(15,030)	124,627	16,553	4,540	21,093
Year 11	3,037	1,503	170,024	(33,403)	(16,533)	120,088	15,950	4,540	20,490
Year 12	3,037	1,503	170,024	(36,439)	(18,036)	115,548	15,347	4,540	19,887
Year 13	3,037	1,503	170,024	(39,476)	(19,539)	111,009	14,744	4,540	19,284
Year 14	3,037	1,503	170,024	(42,513)	(21,042)	106,469	14,141	4,540	18,681
Year 15	3,037	1,503	170,024	(45,549)	(22,545)	101,929	13,538	4,540	18,078
Year 16	3,037	1,503	170,024	(48,586)	(24,048)	97,390	12,936	4,540	17,475
Year 17	3,037	1,503	170,024	(51,623)	(25,551)	92,850	12,333	4,540	16,872
Year 18	3,037	1,503	170,024	(54,659)	(27,054)	88,310	11,730	4,540	16,269
Year 19	3,037	1,503	170,024	(57,696)	(28,557)	83,771	11,127	4,540	15,666
Year 20	3,037	1,503	170,024	(60,732)	(30,060)	79,231	10,524	4,540	15,063
Year 21	3,037	1,503	170,024	(63,769)	(31,563)	74,691	9,921	4,540	14,460
Year 22	3,037	1,503	170,024	(66,806)	(33,066)	70,152	9,318	4,540	13,857
Year 23	3,037	1,503	170,024	(69,842)	(34,569)	65,612	8,715	4,540	13,254
Year 24	3,037	1,503	170,024	(72,879)	(36,072)	61,073	8,112	4,540	12,651
Year 25	3,037	1,503	170,024	(75,916)	(37,575)	56,533	7,509	4,540	12,048
Year 26	3,037	(1,212)	170,024	(78,952)	(36,363)	54,708	7,266	1,825	9,091
Year 27	3,037	(1,212)	170,024	(81,989)	(35,151)	52,884	7,024	1,825	8,849
Year 28	3,037	(1,212)	170,024	(85,025)	(33,939)	51,059	6,782	1,825	8,606
Year 29	3,037	(1,212)	170,024	(88,062)	(32,727)	49,235	6,539	1,825	8,364
Year 30	3,037	(1,212)	170,024	(91,099)	(31,515)	47,410	6,297	1,825	8,122
Year 31	3,037	(1,212)	170,024	(94,135)	(30,303)	45,586	6,055	1,825	7,879
Year 32	3,037	(1,212)	170,024	(97,172)	(29,091)	43,761	5,812	1,825	7,637
Year 33	3,037	(1,212)	170,024	(100,209)	(27,878)	41,937	5,570	1,825	7,395
Year 34	3,037	(1,212)	170,024	(103,245)	(26,666)	40,112	5,328	1,825	7,152
Year 35	3,037	(1,212)	170,024	(106,282)	(25,454)	38,288	5,085	1,825	6,910
Year 36	3,037	(1,212)	170,024	(109,318)	(24,242)	36,463	4,843	1,825	6,668
Year 37	3,037	(1,212)	170,024	(112,355)	(23,030)	34,639	4,601	1,825	6,425
Year 38	3,037	(1,212)	170,024	(115,392)	(21,818)	32,814	4,358	1,825	6,183
Year 39	3,037	(1,212)	170,024	(118,428)	(20,606)	30,990	4,116	1,825	5,941
Year 40	3,037	(1,212)	170,024	(121,465)	(19,394)	29,165	3,874	1,825	5,698
Year 41	3,037	(1,212)	170,024	(124,502)	(18,182)	27,341	3,631	1,825	5,456
Year 42	3,037	(1,212)	170,024	(127,538)	(16,969)	25,516	3,389	1,825	5,214
Year 43	3,037	(1,212)	170,024	(130,575)	(15,757)	23,692	3,147	1,825	4,971
Year 44	3,037	(1,212)	170,024	(133,611)	(14,545)	21,867	2,904	1,825	4,729
Year 45	3,037	(1,212)	170,024	(136,648)	(13,333)	20,043	2,662	1,825	4,487
Year 46	3,037	(1,212)	170,024	(139,685)	(12,121)	18,218	2,420	1,825	4,244
Year 47	3,037	(1,212)	170,024	(142,721)	(10,909)	16,393	2,177	1,825	4,002
Year 48	3,037	(1,212)	170,024	(145,758)	(9,697)	14,569	1,935	1,825	3,760
Year 49	3,037	(1,212)	170,024	(148,795)	(8,485)	12,744	1,693	1,825	3,517
Year 50	3,037	(1,212)	170,024	(151,831)	(7,273)	10,920	1,450	1,825	3,275
Year 51	3,037	(1,212)	170,024	(154,868)	(6,061)	9,095	1,208	1,825	3,033
Year 52	3,037	(1,212)	170,024	(157,904)	(4,848)	7,271	966	1,825	2,790
Year 53	3,037	(1,212)	170,024	(160,941)	(3,636)	5,446	723	1,825	2,548
Year 54	3,037	(1,212)	170,024	(163,978)	(2,424)	3,622	481	1,825	2,306
Year 55	3,037	(1,212)	170,024	(167,014)	(1,212)	1,797	239	1,825	2,063
Year 56	3,010	(1,212)	170,024	(170,024)	0	0	0	1,798	1,797
Totals	170,024	(0)							651,213
Def Inc. Tax Amtz.		1,212							

Kentucky American Water Co.
Case Number 2008-00427

Rate Impact of KRS II - Phase - In of CWIP in Case Number 2008-00427

Input Information/Assumptions:	
Weighted Cost of Capital	8.03%
Rate Base Gross-up Factor	1.654077
Est. Avg. Depr.Rate for TP & Mains	1.79%
Deferred Income Tax Rate	2.21%
Original Investment per Certificate	162,741
Effective Income Tax Rate	40.00%

CWIP of KRS II in case number 2008-00427 at May 31 2009, on which KAWC is seeking full Rate Base Treatement:	
KRS II CWIP @ 5-31-09	66,570

Cost of Cap. In Case # - 2007-0143	**Per Order**	**Gross-up for TAX**
LT Debt	3.29%	3.29%
ST Debt	0.20%	0.20%
Pref. Stock	0.22%	0.22%
Common Equ	4.32%	7.20%
	8.03%	10.91%

Net Present Value of Revenue Requirement Over Depreciation Life of KRS II Project
Discount Rate - Current Cost of Capital **220,113**

	Depeciation Expense	Def. FIT Expense	Beginning Rate Base	Less: Accum Depr.	Less: Accum. Def. Fit	Yr. End Rate Base	Return on Rate Base Tax Gross-up	Add: Depr. & Def. Inc. Tax Exp	Revenue Requirement
Rev. Requirement on CWIP			66,570			66,570	7,263	0	7,263
Year 1	2,907	1,439	162,741	(2,907)	(1,439)	158,396	21,039	4,345	25,384
Year 2	2,907	1,439	162,741	(5,813)	(2,877)	154,051	20,461	4,345	24,807
Year 3	2,907	1,439	162,741	(8,720)	(4,316)	149,705	19,884	4,345	24,229
Year 4	2,907	1,439	162,741	(11,626)	(5,755)	145,360	19,307	4,345	23,652
Year 5	2,907	1,439	162,741	(14,533)	(7,193)	141,015	18,730	4,345	23,075
Year 6	2,907	1,439	162,741	(17,439)	(8,632)	136,670	18,153	4,345	22,498
Year 7	2,907	1,439	162,741	(20,346)	(10,070)	132,325	17,576	4,345	21,921
Year 8	2,907	1,439	162,741	(23,252)	(11,509)	127,980	16,999	4,345	21,344
Year 9	2,907	1,439	162,741	(26,159)	(12,948)	123,634	16,421	4,345	20,767
Year 10	2,907	1,439	162,741	(29,066)	(14,386)	119,289	15,844	4,345	20,189
Year 11	2,907	1,439	162,741	(31,972)	(15,825)	114,944	15,267	4,345	19,612
Year 12	2,907	1,439	162,741	(34,879)	(17,264)	110,599	14,690	4,345	19,035
Year 13	2,907	1,439	162,741	(37,785)	(18,702)	106,254	14,113	4,345	18,458
Year 14	2,907	1,439	162,741	(40,692)	(20,141)	101,908	13,536	4,345	17,881
Year 15	2,907	1,439	162,741	(43,598)	(21,579)	97,563	12,959	4,345	17,304
Year 16	2,907	1,439	162,741	(46,505)	(23,018)	93,218	12,381	4,345	16,727
Year 17	2,907	1,439	162,741	(49,411)	(24,457)	88,873	11,804	4,345	16,149
Year 18	2,907	1,439	162,741	(52,318)	(25,895)	84,528	11,227	4,345	15,572
Year 19	2,907	1,439	162,741	(55,225)	(27,334)	80,182	10,650	4,345	14,995
Year 20	2,907	1,439	162,741	(58,131)	(28,773)	75,837	10,073	4,345	14,418
Year 21	2,907	1,439	162,741	(61,038)	(30,211)	71,492	9,496	4,345	13,841
Year 22	2,907	1,439	162,741	(63,944)	(31,650)	67,147	8,919	4,345	13,264
Year 23	2,907	1,439	162,741	(66,851)	(33,089)	62,802	8,341	4,345	12,687
Year 24	2,907	1,439	162,741	(69,757)	(34,527)	58,457	7,764	4,345	12,110
Year 25	2,907	1,439	162,741	(72,664)	(35,966)	54,111	7,187	4,345	11,532
Year 26	2,907	(1,160)	162,741	(75,570)	(34,806)	52,365	6,955	1,746	8,702
Year 27	2,907	(1,160)	162,741	(78,477)	(33,645)	50,619	6,723	1,746	8,470
Year 28	2,907	(1,160)	162,741	(81,384)	(32,485)	48,872	6,491	1,746	8,238
Year 29	2,907	(1,160)	162,741	(84,290)	(31,325)	47,126	6,259	1,746	8,006
Year 30	2,907	(1,160)	162,741	(87,197)	(30,165)	45,380	6,027	1,746	7,774
Year 31	2,907	(1,160)	162,741	(90,103)	(29,005)	43,633	5,795	1,746	7,542
Year 32	2,907	(1,160)	162,741	(93,010)	(27,844)	41,887	5,564	1,746	7,310
Year 33	2,907	(1,160)	162,741	(95,916)	(26,684)	40,140	5,332	1,746	7,078
Year 34	2,907	(1,160)	162,741	(98,823)	(25,524)	38,394	5,100	1,746	6,846
Year 35	2,907	(1,160)	162,741	(101,729)	(24,364)	36,648	4,868	1,746	6,614
Year 36	2,907	(1,160)	162,741	(104,636)	(23,204)	34,901	4,636	1,746	6,382
Year 37	2,907	(1,160)	162,741	(107,543)	(22,044)	33,155	4,404	1,746	6,150
Year 38	2,907	(1,160)	162,741	(110,449)	(20,883)	31,409	4,172	1,746	5,918
Year 39	2,907	(1,160)	162,741	(113,356)	(19,723)	29,662	3,940	1,746	5,686
Year 40	2,907	(1,160)	162,741	(116,262)	(18,563)	27,916	3,708	1,746	5,454
Year 41	2,907	(1,160)	162,741	(119,169)	(17,403)	26,169	3,476	1,746	5,222
Year 42	2,907	(1,160)	162,741	(122,075)	(16,243)	24,423	3,244	1,746	4,990
Year 43	2,907	(1,160)	162,741	(124,982)	(15,082)	22,677	3,012	1,746	4,758
Year 44	2,907	(1,160)	162,741	(127,888)	(13,922)	20,930	2,780	1,746	4,526
Year 45	2,907	(1,160)	162,741	(130,795)	(12,762)	19,184	2,548	1,746	4,294
Year 46	2,907	(1,160)	162,741	(133,701)	(11,602)	17,438	2,316	1,746	4,062
Year 47	2,907	(1,160)	162,741	(136,608)	(10,442)	15,691	2,084	1,746	3,831
Year 48	2,907	(1,160)	162,741	(139,515)	(9,281)	13,945	1,852	1,746	3,599
Year 49	2,907	(1,160)	162,741	(142,421)	(8,121)	12,199	1,620	1,746	3,367
Year 50	2,907	(1,160)	162,741	(145,328)	(6,961)	10,452	1,388	1,746	3,135
Year 51	2,907	(1,160)	162,741	(148,234)	(5,801)	8,706	1,156	1,746	2,903
Year 52	2,907	(1,160)	162,741	(151,141)	(4,641)	6,959	924	1,746	2,671
Year 53	2,907	(1,160)	162,741	(154,047)	(3,481)	5,213	692	1,746	2,439
Year 54	2,907	(1,160)	162,741	(156,954)	(2,320)	3,467	460	1,746	2,207
Year 55	2,907	(1,160)	162,741	(159,860)	(1,160)	1,720	228	1,746	1,975
Year 56	2,880	(1,160)	162,741	(162,740)	(0)	1	0	1,719	1,719
Totals	162,740	0							630,581
Def Inc. Tax Amtz.		1,160							

Kentucky American Water
Distribution of Costs

	Water	Owenton Sewer	Rock Lake	BGS	Total
Number of Customers (average)	118,279	626	88	75	119,068

OPERATIONS AND MAINTENANCE LABOR:

Name/account	Title	Office Cost	O&M Labor	Pension Grp Insurance & Payroll taxes 47.15%	Incentive	Test Year Amount	AMOUNT ALLOCATED Water	Owenton Sewer	Rock Lake	BGS	Total
Nick Rowe - 120105.501200	President	8,073	178,649	84,233	57,168	328,123	325,949	1,725	243	207	328,123
Peggy Slone - 120105.501200	Executive Assistant to the President	3,442	51,988	24,512	-	79,942	79,412	420	59	50	79,942
Keith Cartier - 120205.501200	VP of Operations	3,606	92,037	43,395	18,407	157,445	156,402	828	116	99	157,445
Patricia Lee - 120121.501200	Administrative Assistant	1,209	39,681	18,710	-	59,600	59,242	314	44	-	59,600
Brian Wright - 120121.501200	Mgr External Affairs	2,151	65,803	31,026	9,870	108,850	108,129	572	80	69	108,850
John Mark Hack - 120122.501200	Manager of Governmental & Regulatory Affairs	3,012	107,107	50,501	21,421	182,041	180,835	957	135	115	182,041
Pamela Mikaelin - 120105.501200	Financial Analyst - Intermediate	2,582	68,011	32,067	6,801	109,461	108,804	576	81	-	109,461
Rachel Cole - 120105.501200	Supervisor Business Process	3,094	61,126	28,821	6,113	99,154	98,497	521	73	62	99,154
David Shehee - 120217.501200	Supervisor Water Quality	2,582	71,025	33,488	7,356	114,451	113,693	602	85	72	114,451
Shana Carr - 120217.501200	Lab Analyst	2,582	51,994	24,515	-	79,091	78,567	416	58	50	79,091
Dillard Griffin - 120201.501200	Superintendent Production	3,237	98,002	46,208	19,600	167,047	165,940	878	123	105	167,047
Kenny Roney - 120201.501200	Specialist Water Quality/Cross Connections	2,582	52,042	24,538	2,602	81,764	81,273	430	60	-	81,764
Mary Ellen Pugh - 120201.501200	Administrative Assistant	2,151	43,607	20,561	-	66,319	65,880	349	49	42	66,319
Pamela Buehler - 120118.501200	Specialist Human Resources	2,151	48,994	23,101	1,869	76,115	75,611	400	56	48	76,115
Vacant - 120201.501200	Administrative Assistant/Cross Connections	2,582	45,440	21,425	-	69,447	69,030	365	51	-	69,447
Total to be distributed		$ 45,036	$ 1,075,506	$ 507,101	$ 151,207	$ 1,778,850	1,767,263	9,353	1,315	919	1,778,850

OPERATIONS AND MAINTENANCE EXPENSE:

120105 CORP - Admin & Gen

	Account/Description	Test Year Amount	Water	Owenton Sewer	Rock Lake	BGS	Total
Customer Accounting:	570100.15 Uncollectib	434,037	431,433	2,283	321	-	434,037
	575100.15 Bank Servic	210,399	209,137	1,107	156	-	210,399
	575200.15 Collection	43,536	43,275	229	32	-	43,536
	575420.15 Forms CA	232,202	230,809	1,222	172	-	232,202
	575660.15 Postage CA	572,434	568,999	3,011	423	-	572,434
	Total	1,492,608	1,483,652	7,852	1,104	-	1,492,608

120105 CORP - Admin & Gen

	Account/Description	Test Year Amount	Water	Owenton Sewer	Rock Lake	BGS	Total
Management Fees:	Contract Svc-Mgmt Fe						
DETAIL	534600.16 Belleville Lab	189,753	188,496	998	140	120	189,753
	534600.16 Call Center	1,839,044	1,828,009	9,675	1,360	-	1,839,044
	534600.16 Corporate	1,727,804	1,717,437	9,090	1,278	-	1,727,804
	534600.16 ITS	1,296,110	1,288,333	6,819	959	-	1,296,110
	534600.16 Shared Services	702,395	697,741	3,693	519	442	702,395
	534700.16 Southeast Region	1,904,002	1,892,577	10,017	1,408	-	1,904,002
	Total	7,659,108	7,612,592	40,290	5,664	562	7,659,108
General Office:	520100.16 M&S Oper	9,384	9,322	49	7	6	9,384
	575620.16 Office & Admin Supp	16,381	16,272	86	12	10	16,381
	575741.16 Cell phone	7,290	7,242	38	5	5	7,290
	575350.16 Meals & Tra	6,188	6,147	33	5	4	6,188
	575351.16 Meals & Tra	4,188	4,160	22	3	3	4,188
	Total	43,431	43,143	228	32	27	43,431
Miscellaneous:							
	575240.16 Co Dues/Mem	21,260	21,132	112	16	-	21,260
	575242.16 Co Dues Ded	9,564	9,507	50	7	-	9,564
	575244.16 Co Dues Ded	28,325	28,155	149	21	-	28,325
	575270.16 Directors Fees	18,000	17,892	95	13	-	18,000
	Total	77,149	76,686	406	57	-	77,149

Customer Accounting:	575740.15	Telephone C	109,350	108,694	575	81	-	109,350
Miscellaneous:	535000.16	Contr Svc-O	7,200	7,157	38	5	-	7,200
	575715.16	Software Li	33,200	33,001	175	25	-	33,200
			40,400	40,158	213	30	-	40,400
Maintenance Expense:	620000.26	Mat and Sup	40,496	40,253	213	30	-	40,496
120115 CORP - Legal								
General Office:	575002.16	Misc Genera	520	517	3	0	-	520
	575342.16	Empl Exp Co	2,000	1,988	11	1	-	2,000
	575350.16	Meals & Tra	2,000	1,988	11	1	-	2,000
	575620.16	Office & Ad	3,600	3,578	19	3	-	3,600
			8,120	8,071	43	6	-	8,120
Miscellaneous:	533000.16	Contr Svc-L	78,600	78,128	413	58	-	78,600
	575240.16	Co Dues/Mem	800	795	4	1	-	800
	Total		79,400	78,924	418	59	-	79,400
120118 CORP-Human Resou								
General Office:	575280.16	Dues/Member	370	368	2	0	-	370
	575340.16	Employee Ex	5,700	5,666	30	4	-	5,700
	575242.16	Empl Exp Co	4,400	4,374	23	3	-	4,400
	575350.16	Meals & Tra	1,525	1,516	8	1	-	1,525
	575351.16	Meals & Tra	2,200	2,187	12	2	-	2,200
	Total		14,195	14,110	75	10	-	14,195
Miscellaneous:	504500.16	Other Welfare	26,700	26,540	140	20	-	26,700
	504610.16	Employee Aw	15,900	15,805	84	12	-	15,900
	504620.16	Employee Physicals	5,000	4,970	26	4	-	5,000
	504660.16	Tuition Aid	26,400	26,242	139	20	-	26,400
	504670.16	Training AG	8,500	8,449	45	6	-	8,500
	535000.16	Contr Svc-O	5,500	5,467	29	4	-	5,500
	575000.16	Misc Oper A	14,000	13,916	74	10	-	14,000
	575030.16	Advertising	6,000	5,964	32	4	-	6,000
	Total		108,000	107,352	568	80	-	108,000
120119 CORP-Loss Control								
Ins Other Than Group:	557000.16	Ins Gen Lia	388,457	386,126	2,044	287	-	388,457
	556000.16	Ins Vehicle	42,101	41,848	221	31	-	42,101
	559000.16	Ins Other O	156,582	155,642	824	116	-	156,582
	Total		587,140	583,617	3,089	434	-	587,140
General Office:	575280.16	Dues/Member	700	696	4	1	-	700
	575340.16	Employee Ex	-	-	-	-	-	-
	575342.16	Empl Exp Co	1,400	1,392	7	1	-	1,400
	575350.16	Meals & Tra	800	795	4	1	-	800
	575351.16	Meals & Tra	3,600	3,578	19	3	-	3,600
	Total		6,500	6,461	34	5	-	6,500
Miscellaneous:	504620.16	Employee Ph	1,300	1,292	7	1	-	1,300
	504640.16	Safety Ince	600	596	3	0	-	600
	575490.16	Injuries an	12,000	11,928	63	9	-	12,000
	Total		27,900	13,817	73	10	-	13,900

General Office:	575280.16	Dues/Member		18,630	18,518	98	14	-	18,630
	575340.16	Employee Ex		5,305	5,273	28	4	-	5,305
	575342.16	Empl Exp Co		1,272	1,264	7	1	-	1,272
	575350.16	Meals & Tra		1,232	1,225	6	1	-	1,232
	575351.16	Meals & Tra		608	604	3	0	-	608
	Total			27,047	26,885	142	20	-	27,047
Miscellaneous:	568010.16	Water Res C		160,632	159,668	845	119	-	160,632
	575000.16	Misc Oper A		12,461	12,386	66	9	-	12,461
	575030.16	Advertising		16,603	16,503	87	12	-	16,603
	575130.16	Brochures a		34,637	34,429	182	26	-	34,637
	575220.16	Community R		47,873	47,586	252	35	-	47,873
	Total			272,206	270,573	1,432	201	-	272,206
120122 CORP-Gov't Relat									
General Office:	575280.16	Dues/Member		300	298	2	0	-	300
	575340.16	Employee Ex		1,950	1,938	10	1	-	1,950
	575342.16	Empl Exp Co		3,209	3,190	17	2	-	3,209
	575350.16	Meals & Tra		2,430	2,415	13	2	-	2,430
	575351.16	Meals & Tra		2,430	2,415	13	2	-	2,430
	575741.16	Cell Phone		1,825	1,814	10	1	-	1,825
	Total			12,144	12,071	64	9	-	12,144
	550000	Transportation		684,749	680,640	3,602	506	-	684,749
Total Company			**Total**	**$ 13,068,793**	$ 12,988,876	$ 68,745	$ 9,664	$ 1,508	**$ 13,068,793**
					99.4%	0.5%	0.1%	0.0%	100.0%